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Web Proof Information Pack of



YINGDE GASES GROUP COMPANY LIMITED

盈德氣體集團有限公司

(Incorporated in the Cayman Islands with limited liability)

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YOU SHOULD READ THE WARNING ON THE COVER OF THIS INFORMATION PACK

SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you. You should read the entire document.

Some of the particular risks are set out in the section headed "Risk Factors" in this document. You should read that section carefully.

OVERVIEW

We are the largest domestic independent industrial gas supplier specializing in on-site gas supply in China in terms of total revenue as at the end of 2008, based on the research information in the SAI Report.

We produce, supply and distribute a variety of industrial gas products to our on-site and merchant customers from a number of locations in the PRC, with oxygen, nitrogen and argon being our main gas products. Our on-site customers are customers for whom we have our gas production facilities located on or in close proximity to their premises and to whom we supply industrial gases directly. We own 100% equity interest in all of our subsidiaries conducting on-site operations, except for one joint venture company with one of our on-site customers (namely, Hengyang Yingde). Our merchant customers are generally liquid gas distributors who purchase industrial gases from us on a spot market basis from time to time.

We primarily focus on on-site gas supply which generated 80.6% of our total revenue for the year ended December 31, 2008. Through our on-site gas distribution operations, which we generally own independently from our on-site customers, we design, construct, operate and maintain gas production facilities on or in close proximity to our on-site customers' production sites, and supply our on-site customers with industrial gas products, assuring the reliability and stability of our industrial gas supplies to our on-site customers. Our on-site customers are primarily iron and steel companies, which use our gas products as part of their production processes. We also supply gas products to the chemical and non-ferrous metals industries. We enter into long-term take-or-pay gas supply contracts generally with duration of 15 to 25 years with our on-site customers, which allows us to generate stable and long-term earnings. Pursuant to the terms of these take-or-pay gas supply contracts, our on-site customers undertake to purchase a specified minimum quantity of industrial gases from us throughout the contract term and they are required to pay for this minimum quantity even if their usage does not reach such minimum level.

In addition, we maintain a merchant gas distribution operation for which we have one dedicated production facility in operation located in Nanjing and two production facilities under development in Yangzhou and Zhangjiagang, all located in Jiangsu province, as at the Latest Practicable Date. Gases that are sold through our merchant operations can be applied in the electronics, glass, food, automotive and construction industries. Remaining available capacity from our on-site gas production facilities is also utilized to produce gases for selling to the merchant market, which allows us to take full advantage of our production capacity to maximize sales revenue.

We differentiate our on-site operation and merchant operation as well as the revenue generated from the respective operations in accordance with the type of customers to which we sell our gas products. In relation to the on-site operation, we generate revenue by selling our gas products to those customers with whom we have entered into long-term gas supply contracts. In relation to the merchant operation, we generally generate revenue by selling our gas products (which are produced from the remaining available capacity of our on-site production facilities as well as our dedicated merchant production facilities) to local distributors on the spot market. We also enter into gas supply contracts with a selected number of merchant customers who have a stable and regular demand for our gas products. Pursuant to such contracts, we supply gas products on a regular basis during the term of the relevant gas supply contracts. The on-site production facilities referred to in this document relate to

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those which we constructed after having entered into long-term gas supply contracts with industrial companies. The merchant production facilities referred to in this document relate to those which we generally operate without entering into long-term gas supply contracts with customers.

Our business is electricity-intensive. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, electricity expenses, being the largest component of our cost of sales, constituted approximately 83.3%, 80.1%, 86.7% and 87.5% of our total cost of sales, respectively.

We distinguish ourselves in our industry by providing customized solutions, high quality products and competitive prices to a variety of on-site customers based on their specific needs. We have successfully built our customer base to include a group of established and high quality companies consisting of several leading iron and steel companies across different regions in China. We are generally the major outsourcing on-site industrial gas supplier for the production facilities of on-site customers we serve, and our industrial gases are essential to our on-site customers' production processes. Accordingly, we enjoy entrenched relationship with our on-site customers, who we believe are reliant on us. We are frequently engaged by our on-site customers to expand existing production plants, or to construct new production facilities in order to supply additional industrial gases for their expansion needs.

Since the establishment of our first subsidiary, Hunan Yingde, in October 2001 which commenced gas supply in May 2003, we have expanded our operations across the PRC to include 20 industrial gas production facilities currently in operation and have another 12 industrial gas production facilities currently under development. Upon completion of these production facilities that are under development, we expect to increase our total installed capacity to approximately 848,800 Nm³/hr, in terms of installed oxygen capacity, representing a 135.1% increase from our total installed capacity of 361,000 Nm³/hr at the end of 2008.

We believe that our increasing production capacity, together with our proven track record, experienced management team, local market knowledge and focused geographic expansion, will place us in an advantageous position to capture the opportunities presented by the expected growth of the outsourcing on-site industrial gas market in China.

For the three years ended December 31, 2008, our total revenue and profit from operations grew by a CAGR of 70.6% and 65.0%, respectively. For the year ended December 31, 2008, we generated total revenue and profit from operations of approximately RMB1,411.7 million and RMB489.9 million, respectively. For the six months ended June 30, 2009, we generated total revenue and profit from operations of approximately RMB917.2 million and RMB278.0 million, respectively. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our (loss)/profit attributable to the equity holders of our Company were approximately RMB(6.7) million, RMB177.0 million, RMB430.1 million and RMB232.5 million, respectively. Our (loss)/profit attributable to the equity holders of our Company has taken into account finance costs in relation to fair value adjustments and termination gain/loss relating to certain financial instruments that we issued, which amounted to a loss of RMB135.1 million, RMB38.3 million and RMB11.0 million for the two years ended December 31, 2006 and 2007 and the six months ended June 30, 2009, respectively; and a gain of RMB21.3 million for the year end December 31, 2008. Please refer to the section headed "Financial Information — Factors Affecting Comparability" in this document for further details. In addition, we have in the past relied on bank borrowings as a source of funding for the operation of our Group and our total bank loans and other loans as at December 31, 2006, 2007, 2008 and June 30, 2009 were RMB287.3 million, RMB734.5 million, RMB900.6 million and RMB1,306.9 million, respectively. Please refer to the section headed "Financial Information — Cash flow from financing activities" in this document for more details.

Our Group was connected with Torch in terms of Torch's historical shareholding in Hunan Yingde, a subsidiary of our Group, when our Group commenced business in October 2001 and certain members of our board of directors and senior management team having held non-executive or

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executive positions in Torch or its subsidiaries. In 2004, the Shenzhen Stock Exchange issued a public sanction on Torch for its failure to make disclosures as required under the Shenzhen Stock Exchange Listing Rules in respect of a connected transaction involving the provision of financial assistance to a connected person. In 2006, the CSRC imposed public sanctions and fines on Torch for overstating profits for the financial years of 1997, 1998 and 1999, overstating the amount of proceeds from share placement used on certain projects in 2003, failure to disclose certain guarantees provided to its related companies and failure to account for the losses of an indirect non-wholly owned subsidiary in 2003. The CSRC imposed a fine of RMB600,000 on Torch. For further information on Torch’s historical investment in our Group, the connections between certain members of our board of directors and senior management team and Torch and its subsidiaries and the public sanctions and penalties imposed on Torch and its then management by the Shenzhen Stock Exchange or the CSRC, please refer to the section headed “Our History and Reorganization” in this document.

OUR COMPETITIVE STRENGTHS

We believe that our achievements to date and potential for future growth can be attributed to a combination of our competitive strengths, including:

- Market leader in the outsourcing on-site industrial gas market in China with a proven track record;
- Well positioned to capture future growth opportunities in the outsourcing on-site industrial gas market in China;
- Customized and efficient solutions resulting in short supply lead-time;
- Entrenched relationship with high quality customers;
- Strong and predictable earnings secured by long-term gas supply contracts;
- Optimized geographic coverage and self-supporting network; and
- Strong and experienced management and engineering teams with extensive operating experience and industry knowledge.

OUR STRATEGIES

We aim to consolidate and further strengthen our position as the leading domestic independent on-site industrial gas supplier in the PRC.

In order to achieve this, we intend to pursue the following strategies:

- Capitalize on the outsourcing trend and consolidate and further strengthen our leading position in the outsourcing on-site industrial gas market in China;
- Further enhance and expand our target market through industry diversification;
- Enhance our competitive strength in providing customized, unique and efficient solutions to our customers through continuous innovation and effort; and
- Continue to attract and retain highly skilled personnel.

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RISK FACTORS

There are certain risks involved in our operations. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to the industrial gas supply industry in China; and (iii) risks relating to the PRC. A detailed discussion of the risk factors is set forth in the section headed "Risk Factors" in this document. The following is a list of the risk factors:

Risks Relating to Our Business

- We rely on a limited number of customers and gas products to derive the majority of our revenue.
- We are exposed to the cyclical nature of our major customers' industries and the general economic conditions of the PRC.
- The global financial markets have experienced significant deterioration and volatility since early 2008, which have had negative repercussions on the global economy and, as a result, may adversely affect our business, liquidity, financial conditions, results of operations and prospects.
- We are exposed to various risks in relation to building new production plants.
- We are subject to risks relating to the operation of our production facilities.
- The implementation of our construction and production policies and the inclusion of certain conditions precedent in our future gas supply contracts may adversely affect our Group.
- We are exposed to risks that our on-site customers may prematurely terminate or default under our gas supply contracts, fail to take delivery of our gas products in connection with our long-term gas supply contracts or may not comply with the price adjustment provisions with respect to utility costs such as electricity in connection with our long-term gas supply contracts.
- We require substantial capital to expand our business and any failure to obtain sufficient capital on acceptable terms, or at all, may adversely affect our expansion plans and growth prospects.
- We purchase our equipment and components primarily from a limited number of suppliers.
- Any interruption or instability in utility supplies may prevent us from operating our production plants.
- Utility prices may fluctuate and may impact our cost of sales.
- We rely on certain key personnel and hiring and retaining other qualified personnel to maintain our continued success.
- We generally do not have fixed price gas supply contracts with the customers of our merchant operations and the merchant market demand for and the prices of our gas products may fluctuate.
- We require various licenses and permits to commence, operate or expand our business, and the loss of or failure to obtain or renew any or all of these licenses and permits could materially adversely affect our business and expansion plans.
- We are subject to various environmental, safety and health regulations in the PRC, compliance with which may be difficult or expensive and any failure to comply with such regulations may render us subject to penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business.
- We may not be able to manage future growth.

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- Our historical results were affected by the financial impact of certain financial instruments during the Track Record Period.
- We may not successfully protect our know-how.
- Some of the properties that we lease or occupy have defective or unclaimed title.
- There is no assurance that we will continue to receive the preferential tax treatment or other incentives currently enjoyed by us.
- We only have limited insurance coverage.
- We cannot assure you that any amount of dividends we declare in the future will be at a similar level to that declared and paid by us previously.
- We had net current liabilities as at December 31, 2006, 2007, 2008 and June 30, 2009.

Risks Relating to the Industrial Gas Supply Industry in China

- We face competition from both domestic and international companies, which may affect our market share and profit margins.
- Any regulatory change to the industrial gas supply industry in the PRC may affect our business and our results of operations.

Risks Relating to the PRC

- Political and economic policies of the PRC government may affect our business and results of operations and may result in our inability to sustain our growth and expansion plans.
- Government control of currency conversion and future movements in foreign exchange rates may adversely affect our financial condition and results of operations, and our ability to remit dividends.
- PRC regulations of investment and loans by offshore holding companies to PRC entities may delay or prevent our Company from making additional capital contributions or loans to members of our Group.
- The legal system of the PRC is not fully developed, and there are inherent uncertainties which may affect the protection afforded to our business and our shareholders.
- Failure to comply with the State Administration of Foreign Exchange regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.
- It may be difficult to effect service of process upon, or to enforce judgments against, us, our directors or our senior management members who reside in the PRC, in connection with judgments obtained in non-PRC courts.
- The outbreak of any severe contagious diseases in the PRC, if uncontrolled, could adversely affect our business and results of operations.
- We may be deemed to be a Chinese resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability or otherwise adversely affect the value of investment.
- We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

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SUMMARY OF HISTORICAL COMBINED FINANCIAL INFORMATION

The following tables set forth a summary data of our combined statements of comprehensive income, combined balance sheets and combined cash flow statements for the periods presented derived from the Accountants' Report in Appendix I to this document.

Summary Data of Combined Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Turnover	485,054	783,717	1,411,713	619,960	917,163
Cost of sales	(256,566)	(464,166)	(828,156)	(351,722)	(586,072)
Gross profit	228,488	319,551	583,557	268,238	331,091
Other revenue	1,037	987	1,352	499	208
Selling expenses	(8,909)	(9,933)	(15,088)	(7,727)	(7,834)
Administrative expenses	(40,718)	(58,603)	(79,946)	(25,739)	(45,448)
Profit from operations	179,898	252,002	489,875	235,271	278,017
Finance income	5,307	27,899	36,469	12,979	2,771
Finance costs	(161,201)	(95,963)	(58,492)	(26,563)	(44,030)
Profit before taxation	24,004	183,938	467,852	221,687	236,758
Income tax	—	(8,055)	(39,192)	(21,489)	(4,234)
Profit and total comprehensive income for the year/period	24,004	175,883	428,660	200,198	232,524
Attributable to:					
Equity holders of our Company	(6,729)	177,049	430,133	200,721	232,487
Minority interests	30,733	(1,166)	(1,473)	(523)	37

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Summary Data of Combined Balance Sheets

	As at December 31,			As at
	2006	2007	2008	June 30,
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Non-current assets				
Property, plant and equipment, net	611,025	1,123,091	1,751,968	2,176,570
Construction in progress	14,948	291,874	488,655	391,293
Other non-current assets	103,787	123,410	174,986	119,012
Total non-current assets	729,760	1,538,375	2,415,609	2,686,875
Current assets				
Trade and other receivables	82,089	167,786	126,676	284,463
Pledged bank deposits	37,652	154,530	227,422	231,546
Cash and cash equivalents	119,347	169,562	28,463	232,824
Other current assets	5,564	14,914	11,648	18,925
Total current assets	244,652	506,792	394,209	767,758
Current Liabilities				
Bank and other loans	157,334	316,754	500,262	560,115
Trade and other payables	117,031	317,092	572,710	515,064
Convertible Loans and Convertible Redeemable Preferred Shares	223,981	161,668	141,224	156,500
Dividends payable	26,930	—	—	—
Other current liabilities	4,740	5,822	10,020	15,307
Total current liabilities	530,016	801,336	1,224,216	1,246,986
Net current liabilities	(285,364)	(294,544)	(830,007)	(479,228)
Total assets less current liabilities	444,396	1,243,831	1,585,602	2,207,647
Non-current liabilities				
Bank and other loans	130,000	417,760	400,350	746,780
Obligations under finance lease	30,477	29,952	29,385	30,515
Deferred tax liabilities	—	—	10,991	16,952
Total non-current liabilities	160,477	447,712	440,726	794,247
Net assets	283,919	796,119	1,144,876	1,413,400
Total equity attributable to equity holders of the Company	269,533	782,899	1,133,129	1,365,616
Minority interests	14,386	13,220	11,747	47,784
Total equity	283,919	796,119	1,144,876	1,413,400

Summary Data of Combined Cash Flow Statements

	Year ended December 31,			Six months ended	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				unaudited	
Net cash generated from operating activities	182,182	214,503	513,801	264,546	185,813
Net cash used in investing activities	(416,868)	(815,043)	(741,011)	(370,475)	(384,968)
Net cash generated from financing activities	334,090	651,499	86,122	15,562	403,590
Net increase/(decrease) in cash and cash equivalents	99,404	50,959	(141,088)	(90,367)	204,435
Cash and cash equivalents at beginning of year/period	20,095	119,347	169,562	169,562	28,463
Effect of foreign exchange rate changes	(152)	(744)	(11)	(77)	(74)
Cash and cash equivalents at end of year/period	<u>119,347</u>	<u>169,562</u>	<u>28,463</u>	<u>79,118</u>	<u>232,824</u>

SUMMARY

DIVIDEND POLICY

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our shareholders. Our future declaration and payment of dividends may or may not reflect our historical declaration and payment of dividends and will be at the absolute discretion of the board of our Company.

During the year ended December 31, 2008, dividends were declared and paid by Yingde BVI to its then shareholders in the amount of RMB79.9 million which were fully settled in April 2008. You should note that our historical dividend distributions are not indicative of our future dividend policy.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

Forecast combined profit attributable
to the equity holders of our

Company⁽¹⁾ not less than RMB450 million (Approximately HK\$511 million)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2009 has been prepared are set out in Appendix III.

DEFINITIONS

In this document, unless the context otherwise requires, the following words and expressions have the following meanings.

“Ace Turbo”	Ace Turbo Group Limited, a company incorporated in the British Virgin Islands on July 1, 2008 and a wholly-owned subsidiary of our Company
“Baring”	Baring Private Equity Asia III Holding (7A) Limited, Baring Private Equity Asia III Holding (7) Limited and affiliated companies
“Baslow”	Baslow Technology Limited, an investment holding company incorporated in the British Virgin Islands, 100% interest of which is ultimately held by the trustee of Mr. Strutt’s family trust as at the date of this document
“BOC Gases”	BOC Group plc, an international gas company, which became a wholly-owned subsidiary of Linde AG on September 6, 2006 and an independent third party of our Group. Two of our Group’s founders, Mr. Zhongguo Sun and Mr. Trevor Strutt, were each previously employed by BOC Group plc or its subsidiaries
“Bubbly Brooke”	Bubbly Brooke Holdings Limited, an investment holding company incorporated in the British Virgin Islands, 100% interest of which is ultimately held by the trustee of Ms. Li Hongmei’s family trust as at the date of this document
“Business Day”	a day that is not a Saturday, Sunday or public holiday in Hong Kong
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“China” or “PRC”	the People’s Republic of China, but for the purpose of this document and for geographical reference only and except where the context requires, references in this document to “China” and the “PRC” do not include Taiwan, the Macau Special Administrative Region and Hong Kong
“Controlling Shareholders”	Ms. Li Hongmei, Mr. Trevor Raymond Strutt, Mr. Zhao Xiangti, Mr. Yang Yonggang, Mr. Nie Kuang, Baslow, Bubbly Brooke, Peace & Smooth and Rongton
“Convertible Loans”	consist of a US\$20.2 million loan facility from Proper Sonic Finance Limited to Yingde BVI dated June 20, 2006, which included a US\$6.0 million convertible loan facility; and a US\$2.0 million subscription agreement in respect of the subscription of ordinary shares in Yingde BVI by Baring
“Covenantors”	Mr. Trevor Raymond Strutt, Mr. Zhao Xiangti, Mr. Yang Yonggang, Mr. Nie Kuang, Mr. Zhongguo Sun, Baslow, Bubbly Brooke, Peace & Smooth and Rongton

DEFINITIONS

“CSRC”	the China Securities Regulatory Commission
“Deutsche Bank”	Deutsche Bank AG, acting through its Hong Kong Branch and/or London Branch. Deutsche Bank AG is a banking institution and a stock corporation incorporated under the law of Germany, the parent company of one of our shareholders Deutsche Securities Nominees Hong Kong Limited, and other than as a shareholder of our Company, is an independent third party of our Group
“Gold Stand Goal”	Gold Stand Goal Limited, an investment holding company incorporated in the British Virgin Islands and, other than as a Shareholder of our Company, an independent third party of our Group
“Guizhou Yingde”	Guizhou Yingde Gases Company Limited* (貴州盈德氣體有限公司), a company established in the PRC on September 4, 2007 and a wholly-owned subsidiary of our Company
“Hebei Yingde”	Hebei Yingde Gases Company Limited* (河北盈德氣體有限公司), a company established in the PRC on December 4, 2006 and a wholly-owned subsidiary of our Company
“Hengyang Valin”	Hengyang Hualing Lianzhaguan Company Limited* (衡陽華菱連軋管有限公司), a subsidiary of Hunan Valin Steel Company Limited (湖南華菱鋼鐵股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange
“Hengyang Yingde”	Hengyang Yingde Gases Company Limited* (衡陽盈德氣體有限公司) incorporated in the PRC on December 23, 2008 pursuant to a joint venture agreement between Yingde BVI, Hunan Yingde and Hengyang Valin, which is a joint venture company owned as to 70% by us and 30% by Hengyang Valin
“HK\$”, “HKD” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huai’an Yingda”	Huai’an Yingda Gases Company Limited* (淮安盈達氣體有限公司), a company established in the PRC on January 26, 2007 and a wholly-owned subsidiary of our Company
“Huikeying”	Beijing Huikeying Hi-tech Company Limited* (北京匯科盈高技術有限公司), 80% of which was owned by Torch at the relevant time
“Hunan Yingde”	Hunan Yingde Gases Company Limited* (湖南盈德氣體有限公司), a company established in the PRC on October 29, 2001 and a wholly-owned subsidiary of our Company
“IFRS”	International Financial Reporting Standards

DEFINITIONS

“independent third party”	a person or entity which is not a connected person of our Company
“Jiangsu Yingde”	Jiangsu Yingde Gases Company Limited* (江蘇盈德氣體有限公司), a company established in the PRC on April 15, 2003 and a wholly-owned subsidiary of our Company
“Laiwu Yingde”	Laiwu Yingde Gases Company Limited* (萊蕪盈德氣體有限公司), a company established in the PRC on January 30, 2007 and a wholly-owned subsidiary of our Company
“Latest Practicable Date”	September 14, 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Nanjing Xingang”	Nanjing Xingang Argon Company Limited* (南京新港氬氣有限公司), a company established in the PRC on June 11, 2003 and a wholly-owned subsidiary of our Company
“Nm ³ /hr”	normal cubic meter/hour
“Peace & Smooth”	Peace & Smooth (Hong Kong) Investment Limited, an investment holding company incorporated in Hong Kong, 50% of the voting power of which is held by Mr. Nie Kuang and 50% of the voting power of which is held by Mr. Yang Yonggang
“Pinpoint Capital”	Pinpoint Capital 2006 A Limited, an investment holding company incorporated in the British Virgin Islands, and other than as a Shareholder of our Company, is an independent third party of our Group
“Preferred Shares”	the convertible redeemable preferred shares initially issued by Yingde BVI to Baring for a cash consideration of US\$14 million pursuant to the Convertible Redeemable Preferred Shares Subscription Agreement dated June 23, 2006, and which were subsequently exchanged for convertible redeemable preferred shares issued by our Company to Baring as part of the Reorganization
“QYSD”	Beijing Qian Yuan Sheng Da Technology Company Limited* (北京乾元盛達科技有限公司), an investment holding company incorporated in the PRC, 55% of the voting power of its shares being held by Mr. Zhao Xiangti and 45% of the voting power of its shares being held by Mr. Yang Yonggang immediately prior to the Reorganization
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization of the companies and businesses comprising our Group, as described in the section headed “Our History and Reorganization – Reorganization” in this document

DEFINITIONS

“Rizhao Yingde”	Rizhao Yingde Gases Company Limited* (日照盈德氣體有限公司), a company established in the PRC on October 30, 2006 and a wholly-owned subsidiary of our Company
“Rongton”	Rongton Investments Limited, an investment holding company incorporated in the British Virgin Islands, 55% of the voting power of its shares being held by Mr. Zhao Xiangti and 45% of the voting power of its shares being held by Mr. Yang Yonggang
“Seabright”	Seabright Investment Limited (海明投資有限公司), an investment holding company the shares of which were, at the relevant time, held by Mr. Nie Xinhua and Mr. Kou Zhenwei, and which was affiliated with QYSD, Peace & Smooth and Rongton immediately prior to the Reorganization and established pursuant to an arrangement amongst the 31 members of the former Torch management team
“SAI Report”	the industry report dated July 16, 2009 entitled China Industrial Gas Market Analysis published by Strategic Analysis Inc.
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Shaanxi Yingde”	Shaanxi Yingde Gases Company Limited* (陝西盈德氣體有限公司), a company established in the PRC on June 24, 2003 and a wholly-owned subsidiary of our Company
“Shanxi Yingde”	Shanxi Yingde Gases Company Limited (山西盈德氣體有限公司), a company established in the PRC on September 3, 2009 and a wholly-owned subsidiary of our Company
“Share(s)”	ordinary share(s) with nominal value of US\$0.000001 each in the share capital of our Company
“Share Option Scheme”	the share option scheme conditionally approved by our shareholders on September 12, 2009 and approved and adopted by the board of directors of our Company on September 12, 2009, the principal terms of which are summarized under the section headed “Share Option Scheme” in Appendix VI to this document
“Shihlien Yingde”	Shihlien Yingde Gases Jiangsu Company Limited (實聯盈德氣體江蘇有限公司) incorporated in the PRC on June 19, 2009 pursuant to a joint venture agreement between Yingde BVI and Shihlien China Holding Company Limited, which is a joint venture company owned as to 50% by Yingde BVI and 50% by Shihlien China Holding Company
“Tianjin Yingde”	Tianjin Yingde Gases Company Limited* (天津盈德氣體有限公司), a company established in the PRC on September 17, 2004 and a wholly-owned subsidiary of our Company

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“Tongyue”	Shanghai Tongyue Trading Company Limited* (上海同岳科貿有限公司), an investment holding company the shares of which were, at the relevant time, held by Mr. Guo Zhiying and Mr. Zhang Fan, and which was affiliated with QYSD, Peace & Smooth and Rongton immediately prior to the Reorganization and was established pursuant to an arrangement amongst the 31 members of the former Torch management team
“Torch”	Torch Automobile Group Company Limited* (湘火炬汽車集團股份有限公司), a company incorporated in the PRC which was listed on the Shenzhen Stock Exchange before its merger with Weichai Power Company Limited in 2006, a company currently listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange
“Track Record Period”	the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “US dollars”	United States dollars, the lawful currency of the United States
“Wellsmith Investment”	Wellsmith Investment Limited, a company incorporated in Hong Kong on June 20, 2007 and a wholly-owned subsidiary of our Company
“Winford Global”	Winford Global Investments Limited, an investment holding company incorporated in the British Virgin Islands, and is a Shareholder of our Company
“Yangzhou Yingde”	Yangzhou Yingde Gases Company Limited* (揚州盈德氣體有限公司), a company established in the PRC on April 12, 2006 and a wholly-owned subsidiary of our Company
“Yingde BVI”	Yingde Gases Investment Limited (盈德氣體投資有限公司)*, a company incorporated in the British Virgin Islands on April 18, 2006 and a wholly-owned subsidiary of our Company and investment holding company in our Group
“Yingde Logistics”	Jiangsu Yingde Logistics Company Limited* (江蘇盈德物流有限公司), a company established in the PRC on October 15, 2008 and a wholly-owned subsidiary of our Company
“Zhangjiagang Yingde”	Zhangjiagang Yingde Gases Company Limited* (張家港盈德氣體有限公司), a company established in the PRC on December 31, 2004 and a subsidiary of our Company in which we own 75% of the equity interest
“Zhuhai Yingde”	Zhuhai Yingde Gases Company Limited* (珠海盈德氣體有限公司), a company established in the PRC on April 8, 2003 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Zhuzhou Yingde”	Zhuzhou Yingde Gases Company Limited* (株洲盈德氣體有限公司), a company established in the PRC on March 22, 2007 and a wholly-owned subsidiary of our Company
“Zibo Yingde”	Zibo Yingde Gases Company Limited* (淄博盈德氣體有限公司), a company established in the PRC on November 8, 2006 and a wholly-owned subsidiary of our Company

In this document:

- “Company”, “our Company”, “our”, “we” and “us” refer to Yingde Gases Group Company Limited, an exempted company incorporated in the Cayman Islands with limited liability on September 25, 2007 and, except where the context otherwise requires, include all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it;
- “Group” means our Company and its subsidiaries from time to time;
- the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the relevant rules and regulations, unless the context otherwise requires; and
- unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK\$ or US\$ and vice versa at an exchange rate of RMB0.8811 = HK\$1.00 or RMB6.8284 = US\$1.00, respectively, and certain amounts denominated in US\$ have been translated into HK\$ and vice versa at an exchange rate of US\$1.00 = HK\$7.7501, in each case, for illustration purpose only. Such translations shall not be construed as representations that amounts in Renminbi or US dollars were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.

** denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes only*

RISK FACTORS

In addition to other information in this document, you should carefully consider the following risk factors. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected.

RISKS RELATING TO OUR BUSINESS

We rely on a limited number of customers and gas products to derive the majority of our revenue.

We currently generate substantially all of our revenue from a limited number of customers, all of which are located in the PRC. Our five largest customers, all of which were our on-site customers, together accounted for approximately 82.1%, 65.3%, 62.8% and 66.9% of our total revenue for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. For the same periods, our single largest customer accounted for approximately 21.9%, 15.1%, 21.5% and 24.3% of our total revenue, respectively. We further generate substantially all of our revenue from a limited number of gas products, namely, oxygen, nitrogen and argon. We anticipate that the revenue generated by these major customers in the PRC and these limited number of gas products will continue to represent a substantial proportion of our total revenue in the near future. Any significant decline in the business and financial conditions of our major customers, the industries in which our major customers operate or the PRC economy in general, could adversely affect these customers' ability to satisfy their obligations under the take-or-pay gas supply contracts they have entered into with us. This in turn could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to the cyclical nature of our major customers' industries and the general economic conditions of the PRC.

We produce, supply and sell our gas products in the PRC to customers operating in a limited number of industries, primarily the iron and steel industries. These industries are cyclical in nature. The PRC economy has experienced significant growth in the past decade and such growth has contributed to, but may not necessarily be sufficient to sustain, an increase in demand for these products. A period of increased demand, which has caused the price of those products and the profit margins of our customers to increase, may be followed by a period of excess supply, causing prices and margins to decline. As most of our customers are primarily engaged in industries that are cyclical in nature, our results of operations are influenced by market cycles, cyclical volatility and the general economic conditions in the markets in which our customers operate. In addition, since late 2003, the PRC government has implemented certain measures to prevent the economy from overheating, which has had an adverse impact on the industries that supply capital goods, such as the iron and steel industries. In addition, the current major economic downturn precipitated by the global financial crisis beginning in early 2008 has had an adverse impact on the global economy, including the PRC economy and more specifically, the iron and steel industries in China. We expect that any continued slowdown in the PRC economy generally would result in reduced demand for capital goods, such as iron and steel and in turn the demand of these industries for our products, which would have an adverse effect on our business and results of operations.

As all of our operations are in the PRC, economic developments in the PRC have a significant impact on our customers and potential customers, and thus on the demand for our gas products. In addition, if our customers experience a period of declining demand in their major markets, our revenue may also decline. Furthermore, the effects of such developments may be amplified by the fact that our competitors and we cannot easily reduce excess production capacity and associated costs, or otherwise adapt to reductions in demand.

RISK FACTORS

The global financial markets have experienced significant deterioration and volatility since early 2008, which have had negative repercussions on the global economy and, as a result, may adversely affect our business, liquidity, financial conditions, results of operations and prospects.

Since early 2008, the global financial markets have been affected by a general slowdown of economic growth both in the United States and globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments could continue to present risks to our business operations for an extended period of time, including a potential slowdown in our gas supplies to customers, increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. The availability of credit to entities, such as ourselves, operating within emerging markets, is significantly influenced by levels of investor confidence in such markets as a whole and any factors that may impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in a market) could affect the costs or availability of funding for entities including ourselves. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. It is difficult to predict how long these conditions will exist and the extent to which we may be affected. If this economic downturn continues or there are prolonged disruptions to the credit markets, this could limit our ability to borrow funds from our current or other funding sources or cause our continued access to funds to become more expensive, which would materially and adversely affect our business, liquidity, results of operations, financial conditions, results of operations and prospects. During the year ended December 31, 2008, we understand that one of our merchant customers was affected by the recent financial crisis and was consequently unable to settle amounts owed to us in respect of purchases of gas products on a timely basis. In addition, some of our customers have not been settling our trade receivables within the same time periods as they did previously. We consider that the continuation of the impact of the financial crisis may affect our other customers and as a result, may increase our credit risk and counterparty risk.

We are exposed to various risks in relation to building new production plants.

We face various execution risks in relation to building new production plants to satisfy our on-site customers' requirements. Our ability to build new production plants and commence supplies to our on-site customers in a timely manner may be adversely affected by factors such as the lack of available capital and funding, equipment and components, utilities, qualified personnel, unexpected technical problems, unforeseen developments at our construction sites, and issues in connection with construction subcontractors and other logistical difficulties. Our failure to construct new production plants or commence gas supplies to our on-site customers in a timely manner may expose us to actions for breach of contract and could cause damage to our reputation.

In addition, we may not be able to achieve our new investment plans as projected or at all due to any downturn in the general economic environment, that may affect China, our on-site customers and/or us or any unforeseen legal impediments, such as failure to obtain the required regulatory approvals. Each of these factors could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to invest sufficiently in the expansion and modernization of our existing production capacities or in the creation of new production capacities, our ability to deliver our gas products in the quantity and quality demanded by our customers could be adversely affected, which in turn could materially weaken our competitive position and have a material adverse effect on our results of operations.

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We are subject to risks relating to the operation of our production facilities.

In gas production plants such as the ones we own and operate, the risk of operational breakdowns cannot be excluded even if high technical and safety standards for the construction, operation and maintenance of such production facilities are met. Although most of our on-site production plants store back-up gas supplies to ensure that we can continue to supply to our customers in the event of unforeseen interruptions to production, the emergency storage capacity at each facility is limited. Any interruption in, or prolonged suspension of any part of production at, or any damage to or destruction of any of our production facilities arising from unexpected or catastrophic events may prevent us from supplying gas products to our customers, resulting in a material adverse impact on our results of operations and financial condition. If there is a prolonged interruption to production at any of our production plants, we may be required to source gas from our unaffected production plants or from external gas suppliers in order to continue to supply industrial gas products to our customers, which may lead to additional costs or delays and alternative sources may not be readily available.

Operation breakdowns can result from external factors beyond our control, such as natural disasters (including but not limited to flooding, cyclone, typhoon, earthquake, blizzard and snow storm), terrorism or other third-party interference, but may also be caused by accidents occurring during the operating process, including faulty construction and operator error, and can, in particular, lead to fire, explosions or the release of toxic or harmful substances. The same applies to our transportation vehicles, some of which are filled at high pressure or with explosive, highly toxic or highly inflammable substances. In all these cases, there is also a risk of injury or damage to persons, the property of others or the environment, which in turn can lead to considerable financial costs and may also have legal consequences.

Any breakdown or suspension of production or failure to supply our gas products to our customers in a timely manner according to the provisions of our gas supply contracts may result in breach of contract, and loss of revenue, as well as expose us to liability and the requirement to pay compensation under the relevant gas supply contracts, lawsuits and damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations. During the Track Record Period, we have not experienced any breakdown, serious injury or damage during our production process nor any failure to supply our gas products to our customers in a timely manner which have had a material and adverse effect on our operation.

The implementation of our construction and production policies and the inclusion of certain conditions precedent in our future gas supply contracts may adversely affect our Group.

There may be a possible slowdown in our Group's growth and supply lead-time after the implementation of certain internal compliance guidelines. This includes our construction and production policies, and the inclusion of certain conditions precedent in our future gas supply contracts requiring on-site customers to provide proof of proper title to land and requiring on-site customers to provide all reasonable assistance to our Group to obtain the necessary construction planning permits and the construction permits. Compliance with our construction and production policies and satisfaction of conditions precedents in our future gas supply contracts may require time, and any delay in the commencement of operation of our production facilities may adversely affect our financial condition and results of operations.

We are exposed to risks that our on-site customers may prematurely terminate or default under our gas supply contracts, fail to take delivery of our gas products in connection with our long-term gas supply contracts or may not comply with the price adjustment provisions with respect to utility costs such as electricity in connection with our long-term gas supply contracts.

We generally enter into long-term take-or-pay gas supply contracts with our major on-site customers. However, if our major on-site customers terminate the gas supply contracts prior to the expiry of the agreed contractual term, become insolvent or otherwise default on payments under such contracts, fail to take delivery of our gas products in accordance with our long-term gas supply

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contracts or fail to comply with the price adjustment provisions in the gas supply contracts with respect to utility costs such as electricity, our expenditure for the construction, start-up and operation of the production plants may not be fully or partially recovered during the actual period of operations (as opposed to the planned period of long-term gas supply to the on-site customers). Our failure to make these expenditures economically viable could result in a loss of our investment, and have a material adverse effect on our business, financial condition and results of operations. During the Track Record Period, our Group has not experienced any premature termination of our gas supply contracts by our on-site customers.

We require substantial capital to expand our business and any failure to obtain sufficient capital on acceptable terms, or at all, may adversely affect our expansion plans and growth prospects.

The industrial gas industry in which we operate is generally capital-intensive. We require significant capital to build our production plants and operating facilities and to purchase production equipment, develop new products and develop and implement new technologies. We incur a substantial portion of our capital expenditures in advance of any revenue to be generated by new or upgraded production facilities or technology. Our capital expenditures have increased as a result of our further upgrade of production facilities and expansion of our operations and we plan to continue such investments, which has increased, and will continue to increase, our funding needs.

Under most of our gas supply contracts, we are required to finance the construction of new production plants, purchase of equipment and/or performance of engineering maintenance before we receive progress payments from our customers. We therefore have significant capital expenditure and working capital requirements.

To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing or to defer planned expenditures. In the past, we have financed our working capital and capital expenditures through a combination of sources, including cash flow from our operations and bank and other borrowings. If we are unable to obtain financing in a timely manner, at a reasonable cost or on reasonable terms, our expansion plans or completion of new production facilities may be delayed, our proposed or potential projects may be hindered, and our growth, competitive position, financial position and results of operations may be adversely affected.

We purchase our equipment and components primarily from a limited number of suppliers.

Our main equipment and supporting equipment including parts, sub-assemblies, components and technical modules that we need for production are purchased from a limited number of international and domestic suppliers. We have three main equipment and component suppliers with respect to each of our major equipment and component supplies during the Track Record Period. Late or interrupted deliveries of essential equipment or parts may cause delays in the commencement of production or the supply of our gas products to our customers. This may result in delayed production or supply or additional time and costs to find alternative sources of supplies, which may adversely affect our business, financial position and results of operations. Our directors are of the view that there are alternative supply sources for each of the major equipment and components used by our Group and the prices charged by such alternative equipment and component supply sources are to a certain extent similar to the prices of our existing equipment and component suppliers.

Any interruption or instability in utility supplies may prevent us from operating our production plants.

Our production process requires a stable supply of utilities, such as electricity and water in large quantities. Our entire production process must stop if there is insufficient utility supplies or suspension of such supplies. Our Group does not have contingent back-up electricity measures.

RISK FACTORS

Although we have not experienced any major shortage of utility supplies since we commenced business, there is no assurance that we can secure the level of utility supplies that we require in the future. Any interruption or instability in utility supplies will not only increase our costs of production, and adversely affect our financial condition and results of operations, but will also prevent us from producing and delivering our gas products to our customers as scheduled and may result in breach of contract, contractual damages and damage to our reputation.

Utility prices may fluctuate and may impact our cost of sales.

Our business is electricity-intensive. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, electricity expenses, being the largest component of our cost of sales, constituted approximately 83.3%, 80.1%, 86.7% and 87.5% of our total cost of sales, respectively. Our electricity prices and fuel costs may increase as our on-site customers may be required to increase the price of electricity they supply to us due to the increase in electricity prices effected by the PRC government. While we may experience increased electricity prices, most of our gas supply contracts allow us to mitigate the effects of such increases as we are generally entitled to make corresponding adjustments to the selling prices of our industrial gases by taking into account the fluctuations in electricity prices. As a result, we are able to fully cover the increase in utility prices from our on-site customers in accordance with our gas supply contracts. Some of our production plants experienced changes in electricity prices during the three years ended December 31, 2006, 2007 and 2008, for example: (i) in May 2006 the electricity price charged to Shaanxi Yingde decreased by approximately 64.7%; (ii) in July 2006 the electricity price charged to Zhuhai Yingde increased by approximately 13.5%; (iii) in February 2007 the electricity price charged to Jiangsu Yingde increased by 34.1%; and (iv) in July 2008 the electricity price charged to Jiangsu Yingde increased by approximately 9.1%. On each of these occasions, we made corresponding adjustments to the price of the gas products we supply to the relevant on-site customers to take into account the changes in electricity prices. We are also able to adjust the price of gas products for our merchant customers to factor in any increase in electricity or fuel costs as those sales are made at the market prices. If, however, we are not able to increase the prices we charge our on-site customers for any increase in electricity prices, or if we are unable to pass on the increase in electricity costs to our merchant customers, our results of operations may be adversely affected.

We rely on certain key personnel and hiring and retaining other qualified personnel to maintain our continued success.

The success of our business is, to a considerable extent, dependent on the services of Mr. Zhongguo Sun, Mr. Zhao Xiangti, Mr. Yang Yonggang, Mr. Trevor Raymond Strutt and other members of our senior management. Mr. Sun, Mr. Zhao, Mr. Yang and Mr. Strutt together with other members of our senior management, have been responsible for the development and business of our Company and have been the key drivers of our strategy and achievements to date. The loss of the services of any key member of our senior management or failure to recruit a suitable or comparable replacement could have a significant impact upon our ability to manage our business effectively and as a result, our business and future growth may be adversely affected.

Our future success is further dependent upon our continued ability to attract and retain key qualified personnel, who have the necessary experience and expertise. Competition for qualified personnel is intense in the PRC and we have from time to time experienced difficulties in recruiting suitable personnel. If we cannot recruit and retain the required qualified employees, our capabilities may be limited, which could reduce our profitability and limit our ability to grow.

We generally do not have fixed price gas supply contracts with the customers of our merchant operations and therefore the merchant market demand for, and the prices of our gas products, may fluctuate.

We generally do not have fixed price gas supply contracts with the customers of our merchant operations. Therefore, our industrial gas products for our merchant operations are generally sold at the

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market prices for any particular industrial gas product. Therefore, any decrease in the market prices for a particular industrial gas product that we sell will result in a decrease in the revenue generated by our merchant operations and hence, adversely affect the results of our operations.

We require various licenses and permits to commence, operate or expand our business, and the loss of or failure to obtain or renew any or all of these licenses and permits could materially adversely affect our business and expansion plans.

In accordance with applicable PRC laws and regulations, we are required to obtain and maintain various licenses and permits in order to commence and operate our business at each of our production facilities in the PRC including, without limitation, safe production permits issued by the State Administration of Work Safety or its local counterparts, and production permits for industrial products issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC or its local counterparts. We are required to comply with the applicable production safety standards in relation to our production processes. Our production plants and facilities are subject to inspections by the regulatory authorities for compliance with the Work Safety Law of the PRC. Failure to pass these inspections, or the revocation of or failure to obtain or renew our licenses and permits, could cause us temporarily or permanently to suspend some or all of our production activities, which could disrupt our operations and adversely affect our business.

Based on the opinion of our PRC legal advisors, we have obtained all material licenses and permits for the operations of our production facilities currently in operation and have passed inspections to obtain or renew our licenses and permits during the Track Record Period in all material respects, save for those matters disclosed in the sections headed “Business — Legal Proceedings and Regulatory Compliance”, “Our Properties” and “Quality, Safety and Environmental Protection” in this document.

We are subject to various environmental, safety and health regulations in the PRC, compliance with which may be difficult or expensive, and any failure to comply with such regulations may render us subject to penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business.

The PRC government has published extensive environmental, safety and health regulations with which we are required to comply. Please refer to the section headed “Regulatory Overview” in this document for details of these requirements. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business. Non-compliance with the relevant regulations may result in us being ordered to suspend or cease production, being fined up to three times the value of the products manufactured and having income derived from such manufacturing activity confiscated. Given the number and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources to establish efficient compliance and monitoring systems. In addition, these regulations are constantly evolving. There can be no assurance that the PRC government will not impose additional or stricter laws or regulations, the compliance with which may cause us to incur significant costs which we may be unable to pass on to our customers and may take significant time which may delay our project construction and operation schedule.

During the Track Record Period, we had a number of instances of non-compliance, including but not limited to, failure to renew certain of our business licenses in a timely manner, failure to obtain government approval before pledging duty free imported machinery to secure a bank loan, late application or filing for, or renewal of, safe production permits, production permits for industrial products and pollution discharge permits, and failure to obtain construction planning permits and construction permits, with respect to certain of our subsidiaries and the production facilities operated by those subsidiaries. Please refer to the sections headed “Business — Legal Proceedings and Regulatory Compliance”, “Our Properties” and “Quality, Safety and Environmental Protection” in this

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document for more details. Our directors confirm that except for those disclosed in this document, we have complied with relevant environmental, safety and health regulations in all material respects and have not been subject to fines or penalties during the Track Record Period in any material respect.

We may not be able to manage future growth.

We have grown rapidly since we commenced our business. Our total turnover increased by approximately 191% from RMB485.1 million in 2006 to RMB1,411.7 million in 2008. Please refer to the sections headed "Business – Our Production Facilities" and "Financial Information" in this document for further details. We intend to continue to expand the volume and variety of gas products we offer, and expand our production capacity, as well as the geographical scope of our production and distribution network. When we continue to expand the variety of our gas product offering in the future, we may enter into arrangements with business partners. We cannot assure that such relationships with our business partners will succeed and/or that such arrangements would not be terminated before we can derive the expected benefits and if this occurs, it may result in our incurrence of penalty charges and may adversely affect our operations and financial results. Our business growth could place considerable strain on our managerial, operational and financial resources. Our ability to manage future growth depends on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and control measures as well as our financial resources will be adequate to support our future growth. Failure to manage our expansion effectively may lead to increased costs, a decline in total revenue and/or reduced profitability.

Our historical results were affected by the financial impact of certain financial instruments during the Track Record Period.

Our net (loss)/profit attributable to the equity holders of our Company has taken into account finance costs in relation to fair value adjustments and termination gain/loss relating to certain financial instruments that we issued, which amounted to a loss of RMB135.1 million, RMB38.3 million and RMB11.0 million for the two years ended December 31, 2006 and 2007 and the six months ended June 30, 2009, respectively; and a gain of RMB21.3 million for the year ended December 31, 2008. Please refer to the section headed "Financial Information – Factors Affecting Comparability" in this document for further details on the nature of the financial instruments, their effect on our financial performance over the Track Record Period and how they have impacted the comparability of our performance over the Track Record Period. Moreover, fair value adjustments may continue to have an impact on our future results of operations.

We may not successfully protect our know-how.

We adopt commercially sound procurement practices and use our technological know-how to lower initial capital expenditure and maximize operational efficiency across our operations. Our know-how is based on the past experience of our senior management team in the industrial gas supply industry in relation to the operation of our production equipment. We understand that such know-how cannot be registered in the PRC, and therefore we rely on confidentiality obligations on our employees to protect this know-how. We have been advised by our PRC advisors, that our know-how would be registrable in the PRC only if it satisfies the criteria to be registered as a patent. There can be no assurance that any of our know-how will not be misappropriated by or disclosed to or re-engineered by third parties, or that our competitors will not independently develop alternative technologies that are equivalent or superior to our technologies.

In addition, the legal regime governing intellectual property in China is still evolving and the level of protection of intellectual property rights and know-how in China may differ from those in other more developed jurisdictions. In the event that the steps we have taken and the protection provided by law do not adequately safeguard our intellectual property rights, we could suffer losses in profits due to the sales of competing products which exploit our intellectual property rights.

RISK FACTORS

Our directors are not aware of any incident of infringement of our Group’s intellectual properties during the Track Record Period.

Some of the properties that we lease or occupy have defective or unclaimed title.

We place our production facilities and equipment, and build our control rooms, storage units and offices on parcels of land provided or secured by our on-site customers or in close proximity to our on-site customers’ production sites. Pursuant to the contractual undertakings given by our on-site customers in their respective gas supply contracts, most of our on-site customers are under a contractual obligation to secure appropriate parcels of land with valid title certificates for our use. If our on-site customers, in breach of their contractual undertakings, fail to provide or secure land with the necessary government approvals or the appropriate legal titles for our use, we may be required to relocate our production facilities and businesses. If any relocation is required for a particular on-site production facility, we estimate that it will cost approximately RMB10 million to relocate each production facility. Whilst most of our gas supply contracts require our on-site customers to pay us a specified amount of compensation in the event that the gas supply contract is terminated early because of the customer’s breach of its obligations under the gas supply contract (for example, failure to provide or secure land for our use), we may not be able to recover the compensation resulting from the early termination of our gas supply contracts or claim such relocation expenses from our on-site customers.

In addition, in respect of the buildings and units that we have built on those parcels of land provided or secured by our on-site customers, as those parcels of land are not registered under our name, we are not permitted to obtain the relevant building title certificates under relevant PRC laws and regulations. Our PRC legal advisors are of the view that our use of those buildings and units is subject to claims from the local government authorities or the relevant on-site customers (or the relevant land title holders). Therefore, we may be required to relocate those buildings and units that we have constructed or to demolish them pursuant to local government orders. Please refer to the section headed “Business – Our Properties” in this document for more details.

As at the Latest Practicable Date, we have not been subject to any claim from the local government authorities or the relevant on-site customers (or the relevant land title holders) in respect of production facilities and equipment we placed, and buildings and units we constructed, on those parcels of land provided or secured by our on-site customers, or forced to relocate from these parcels of land or demolish any facilities, buildings or units on these parcels of land. Most of our gas supply contracts would require our on-site customers to pay us a specified amount of compensation in the event that the gas supply contract is terminated early because of the customer’s breach of its obligation under the gas supply contract. Notwithstanding this, we may not be able to recover the compensation resulting from the early termination of our gas supply contracts or claim back such relocation expenses from our on-site customers.

We also leased nine properties for office and auxiliary uses out of which five have defective title as at July 31, 2009. Please refer to the section headed “Business – Our Properties” in this document for more details.

The properties (including the buildings and units we built on land provided or secured by on-site customers and leased properties) with defective titles or unregistered titles are mainly used for back office and future operational use. We cannot predict how our rights as a lessee or user of these properties, and our operations carried out on or from these properties, may be adversely affected as a result of the absence of vested legal title in these properties or sufficient right to lease or use these properties. We may be required to relocate our business operations carried out on properties that we do not have unassailable legal rights to use or occupy and such relocation could adversely affect our financial condition and results of operations. See the section headed “Business – Our Properties” in this document for further details.

RISK FACTORS

There is no assurance that we will continue to receive the preferential tax treatment or other incentives currently enjoyed by us.

The rate of income tax applicable to companies in China varies depending on the availability of preferential tax treatment or subsidies based on their industry or location. Under the previous provisions of the Foreign Invested Enterprises and Foreign Enterprises Income Tax Law, the maximum enterprise income tax rate was 33% for foreign-invested manufacturing enterprises which were scheduled to operate for at least ten years and such enterprises were entitled to a tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year after off-setting accumulated tax losses, if any ("2+3 tax holiday").

On March 16, 2007, the new Enterprise Income Tax Law of the PRC, or the PRC Enterprise Income Tax Law, was announced. On December 6, 2007, the Implementation Regulations of the PRC Enterprise Income Tax Law, or the Implementation Rules were published. The PRC Enterprise Income Tax Law and its Implementation Rules came into effect on January 1, 2008 and Foreign Invested Enterprises and Foreign Enterprises Income Tax Law was abolished accordingly. Under the PRC Enterprise Income Tax Law, in general, foreign-invested enterprises and domestic companies are subject to a uniform tax rate of 25%. The PRC Enterprise Income Tax Law and its related regulations provide certain grandfathering relieves for those enterprises established before March 16, 2007 which are enjoying preferential tax treatment, such as the 2+3 tax holiday, such treatment will continue until its expiration. However, where the preferential tax treatment has not commenced because of losses or accumulated losses not being fully off-set, such preferential tax treatment shall be deemed to commence from January 1, 2008. Although the Implementation Rules have been published, there is still uncertainty over the interpretation and application of some of the provisions under the PRC Enterprise Income Tax Law and its Implementation Rules. In addition, any increase in our effective enterprise tax rate in the future due to the introduction of the PRC Enterprise Income Tax could have an adverse effect on our financial condition and results of operations.

In addition, we currently enjoy certain tax rebates and income tax credits in connection with the purchase of equipment from local suppliers, and refund of value add tax paid. There is no assurance that we will continue to receive these preferential tax treatment in the future and our effective tax rate may increase, which could adversely affect our financial condition and results of operations.

We only have limited insurance coverage.

We face various risks in connection with our businesses and may not have adequate insurance coverage or may have no relevant insurance coverage. We may be held liable for losses, damages or injuries caused to third parties (including our on-site customers) or their properties by an accident caused by us. We do not maintain third party insurance in respect of our operations as it is neither industry practice nor a mandatory requirement under PRC law. We believe that our insurance coverage is sufficient for our present purposes and is consistent with coverage for other companies in our industry in China. Please see the section headed "Business – Insurance" in this document for more details. The occurrence of certain events including explosions and fire may result in an interruption to our operations and cause substantial losses or liabilities. If we incur substantial losses or liabilities and our insurance coverage is unavailable or inadequate to cover such losses or liabilities, our financial condition and results of operations may be materially and adversely affected.

We cannot assure you that any amount of dividends we declare in the future will be at a similar level to that declared and paid by us previously.

During the year ended December 31, 2008, dividends were declared and paid by our subsidiary Yingde BVI, to its then shareholders in the amount of RMB79.9 million which were fully settled in April 2008. Please see the section headed "Financial Information — Dividend Policy" and Note 6 of the Accountants' Report set out in Appendix I to this document for more details.

In the future, the amount of dividends that we may declare and pay will be subject to, among other things, the full discretion of our directors by reference to our dividend policy, and would depend upon

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our future operations and earnings, capital requirements and surplus, the general financial condition and any other factors which our directors may consider relevant. Accordingly, our historical dividend distributions are not indicative of our future dividend policy and therefore the amount of dividends paid previously should not be used as a reference or basis upon which our future dividends are determined.

We had net current liabilities as at December 31, 2006, 2007, 2008 and June 30, 2009.

As at December 31, 2006, 2007, 2008 and June 30, 2009, we had net current liabilities of approximately RMB285.4 million, RMB294.5 million, RMB830.0 million and RMB479.2 million, respectively. Our net current liabilities position was primarily due to the high level of trade and other payables and bank and other borrowings. The trade and other payables primarily included bills payable and payables for equipment as we were developing production facilities and purchased equipment for those facilities. The bank and other loans were borrowings that we required for capital expenditures and general working capital in order to finance the construction of additional production facilities for our business expansion purpose. In addition, the Convertible Loans and the Preferred Shares have also been recorded as current liabilities as at December 31, 2006, 2007, 2008 and June 30, 2009, respectively. Please see the section headed “Financial Information – Net Current Liabilities” in this document for more details. We may continue to have net current liabilities in the future. Our net current liabilities position exposes us to liquidity risk. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they fall due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. As at the Latest Practicable Date, we had not experienced any liquidity problem in settling our payables in the ordinary course of business when they fell due. However, there can be no assurance that we will always be able to raise the necessary funding to finance our current liabilities and our capital commitments and in such circumstances, our business operation, financial position and prospects may be materially and adversely affected.

RISKS RELATING TO THE INDUSTRIAL GAS SUPPLY INDUSTRY IN CHINA

We face competition from both domestic and international companies, which may affect our market share and profit margins.

The market for industrial gas supply in the PRC is characterized by strong competition generally consisting of a few large internationally active suppliers and a large number of smaller, mostly local suppliers. Since industrial gases are difficult or very expensive to transport at long distances, market share in regions where a supplier is already present with production plants can generally only be expanded or maintained by active measures to displace competitors, resulting in intensive price competition. Large suppliers, in particular, may therefore seek to gain or maintain market shares by offering low prices and attractive payment terms to new customers. This means that we may be subject to pricing competition, and as a result, we may be under pressure to reduce the prices of our gas products or margins for the products and services we offer. In addition, we face increasing competition from various small-scale local suppliers in different regions across the PRC in connection with our merchant operations.

The trend in China towards outsourcing on-site industrial gas supplies may also lead to an increase in competition and new entrants into the industrial gas market. New suppliers may enter the market and existing suppliers may expand their capacities in order to capture the increasing demand for outsourcing industrial gases.

Some of our competitors, especially international competitors, may have advantages over us in obtaining new customers in terms of more advanced equipment, a wider variety of product offering, established brand history and global networks, while some smaller domestic competitors may have advantages over us in terms of establishing local customer connections in the region where they primarily operate.

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Our market position depends on our ability to anticipate and respond to various competitive factors, including pricing strategies adopted by competitors, changes in customer preferences, availability of capital and financing resources and the introduction of new or improved gas products. There can be no assurance that our current or potential competitors will not offer industrial gas products comparable or superior to those that we offer at the same or lower prices or adapt more quickly than we do to evolving industry trends or changing market conditions. We may lose our customers to our competitors if, among other things, we fail to keep our prices at competitive levels or sustain and upgrade our capacity and technology. Increased competition may result in price reductions, reduced profit margins and loss of market share and as a result, our results of operations and financial condition may be adversely affected.

In addition, while we endeavor to develop further the range of our product offerings and improve our production processes, our competitors may develop their product offerings and technologies or alternative gas products that are more attractively priced or are of better quality than our products. If newly developed gas products can be offered at prices more attractive than ours, or if such gas products are more attractive than ours for other reasons, demand for our gas products may fall, which may have a material adverse effect on our financial condition and results of operations.

Any regulatory change to the industrial gas supply industry in the PRC may affect our business and our results of operations.

We carry on our business in an industry that is heavily regulated in the PRC. We must therefore observe a large number of national or local laws and regulations across the country that may change frequently and become more stringent. Failure to comply with such laws or regulations may result in fines, suspension of operations, loss of permits or licenses and, in more extreme cases, criminal proceedings against an enterprise and its management within our Group.

In addition, compliance with these changing laws and regulatory requirements in our industry may cause us to incur considerable time and significant expenses, which we may be unable to pass on to our customers through higher prices for our products as we enter into long-term contracts with our customers.

RISKS RELATING TO THE PRC

Political and economic policies of the PRC government may affect our business and results of operations and may result in our inability to sustain our growth and expansion plans.

The economy of the PRC differs from the economies of most developed countries in a number of respects, including the degree of government involvement, control of capital investment, and the overall level of development. Before its adoption of reform and open door policies in 1978, China was primarily a planned economy. In recent years the PRC government has been reforming the PRC economic system and the government structure. These reforms have resulted in significant economic growth and social progress. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not continue to benefit from all, or any, of these measures. In addition, we cannot predict whether changes in the PRC’s political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition and results of operations.

Government control of currency conversion and future movements in foreign exchange rates may adversely affect our financial condition and results of operations, and our ability to remit dividends.

Currently, Renminbi cannot be freely converted into any other foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that we will have sufficient foreign exchange to meet our foreign exchange requirements.

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Under the current PRC foreign exchange control system, most of the foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require approval from the State Administration of Foreign Exchange, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry on foreign exchange business. Most of the foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the State Administration of Foreign Exchange. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or satisfy any other foreign exchange requirements. If we fail to obtain the approval from the State Administration of Foreign Exchange to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our financial condition and results of operations, may be materially adversely affected.

PRC regulations of investment and loans by offshore holding companies to PRC entities may delay or prevent our Company from making additional capital contributions or loans to members of our Group.

Any capital contributions or loans our Company, as an offshore entity, makes to PRC members of our Group are subject to PRC regulations. The aggregate amount of long and medium-term non-RMB loans, short-term non-RMB loans and RMB loans guaranteed by overseas institutions must be limited to the difference between the total investment amount and the registered capital of the PRC members of our Group as approved by the relevant examination and approval authority. PRC members of our Group may borrow foreign loans as long as the total sum of these loans remains within such permitted level. Our Group cannot assure investors that it will be able to obtain these approvals on a timely basis, or at all. If our Group fails to obtain such approvals, its ability to capitalize the relevant PRC members of our Group or fund its operations in the manner described in the section headed “Future Plans” in this document may be negatively affected, which could adversely affect the liquidity of the relevant PRC member of our Group, our Group’s ability to grow through the members of our Group’s operations and financial condition and results of operations of our Company.

The legal system of the PRC is not fully developed, and there are inherent uncertainties which may affect the protection afforded to our business and our shareholders.

Most of our business and operations are governed by the legal system of China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, the interpretation and enforcement of these laws and regulations involves significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by the PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to us and investors in the Shares. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management attention.

As an investor holding the Shares, you will hold an indirect interest in our operations in China through our Company. Our operations in China are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of

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association of PRC companies and are intended to regulate the internal affairs of these companies. PRC company law and these regulations, in general, and the provisions for the protection of shareholders’ rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions.

Failure to comply with the State Administration of Foreign Exchange regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.

On October 21, 2005, the State Administration of Foreign Exchange issued a notice which became effective on November 1, 2005, referred to as Notice 75. Notice 75 requires PRC residents to register with the local State Administration of Foreign Exchange branch before establishing or controlling any company, referred to in the notice as a “special purpose offshore company”, or SPV, outside China for the purpose of capital financing. In addition, PRC residents are required to amend their registration with the local branch of the State Administration of Foreign Exchange within 30 days after any material change in the capital of a SPV without any in-bound accompanying investment into the PRC. Moreover, Notice 75 is applicable retrospectively.

The State Administration of Foreign Exchange issued an implementation notice in May 2007 in relation to Notice 75, referred to as Circular 106. Circular 106 specified the circumstances under which PRC residents are required to comply with Notice 75 and the procedures to be complied with. Under Circular 106, for SPVs already established by PRC residents, where such PRC residents fail to file for registration with the State Administration of Foreign Exchange pursuant to Notice 75 prior to March 31, 2006, the dividends remitted by the PRC domestic subsidiary to such SPVs after April 21, 2005 shall be deemed illegal and a penalty will be imposed on the PRC domestic subsidiaries and their actual controlling person(s).

PRC resident beneficial owners of our Shares need to comply with the relevant State Administration of Foreign Exchange requirements in all material respects. If such beneficial owners fail to comply with the relevant requirements of the State Administration of Foreign Exchange, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation, to us, and we may also be prohibited from investing further capital in those subsidiaries. Further, failure to comply with the various registration requirements of the State Administration of Foreign Exchange described above could result in liability on the beneficial owners of the Shares under PRC laws for evasion of applicable foreign exchange restrictions.

Our directors confirm that to the best of their knowledge and after making reasonable enquiries, all beneficial owners of the Shares have complied with the requirements of the State Administration of Foreign Exchange.

It may be difficult to effect service of process upon, or to enforce judgments against, us, our directors or our senior management members who reside in the PRC.

Almost all of our assets and our subsidiaries are located in China. In addition, most of our directors and senior management reside within China, and the assets of our directors and senior management may also be located within China. As a result, it may not be possible to effect service of process from China upon most of our directors and senior management, including matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the

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United Kingdom, the United States and most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in these jurisdictions is subject to uncertainties.

The outbreak of any severe contagious diseases in the PRC, if uncontrolled, could adversely affect our business and results of operations.

The outbreak of any severe communicable disease in China, if uncontrolled, could adversely affect the overall business sentiments and environment in China, which in turn may lead to slower overall economic growth in China. As all of our sales are currently derived from China, any contraction or slow down in the economic growth of China will adversely affect our financial condition, results of operations and future growth.

In addition, if any of our employees is infected or affected by any severe communicable diseases outbreak, it could adversely affect or disrupt our production at the relevant production facility and adversely affect our business operations as we may be required to close our production facilities to prevent the spread of the disease. The spread of any severe communicable diseases in China may also affect the operations of our customers and suppliers, causing delivery disruptions, which could in turn adversely affect our results of operations.

We may be deemed to be a Chinese resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability.

Under the new PRC Enterprise Income Tax Law that took effect on January 1, 2008, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate as to their global income (excluding dividends received from “resident enterprises”). Under the implementation regulations of the new PRC Enterprise Income Tax Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China. Therefore, we may be treated as a Chinese resident enterprise for enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the new PRC Enterprise Income Tax Law or the implementation regulations. If our Company or any of our subsidiaries registered outside the PRC is treated as a “resident enterprise” under the PRC Enterprise Income Tax Law, our income tax expenses may increase significantly, and our profitability could decrease materially.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name in the future, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us.

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our combined PRC entities only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our combined PRC entities are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year to their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of associations. As a result, our combined PRC entities are restricted in their ability to transfer a portion of their net income

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to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business. Under the new PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends paid by Chinese enterprises to “non-resident enterprises” (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax treaty that the PRC has entered into, which provides for a lower withholding tax rate. If our Company or our non-PRC subsidiaries are considered to be a “non-resident enterprise”, any dividend that our Company or any such subsidiary receive from our PRC subsidiaries may be subject to PRC taxation at the 10% rate (or lower treaty rate).

FORWARD-LOOKING STATEMENTS

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions of the PRC;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- projects under development;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in the section headed “Financial Information” with respect to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

The words “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realized.

DIRECTORS

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Zhongguo Sun (<i>chairman</i>)	No. 99-8-5B, Puming Road, Pudong New Area Shanghai, PRC	American
Mr. Zhao Xiangti	No. 268, Lane 1617 Jingao Road, Pudong New Area Shanghai, PRC	Chinese
Mr. Chen Yan	Unit 2701, No. 9 Lane 777, Anyuan Road, Jing’An District, Shanghai, PRC	Chinese
<i>Non-executive Director</i>		
Mr. Chen Dar Cin	5B Hamilton Court 8 Po Shan Road Hong Kong	American
<i>Independent Non-executive Directors</i>		
Mr. Xu Zhao	Unit 306, No.16 Lane 2168 Middle Yanggao Road Pudong New Area Shanghai, PRC	Chinese
Mr. Zheng Fuya	Unit 21B, Building 2 No. 5 Shoutudong Road Chaoyang District Beijing, PRC	American
Mr. Kam Son Leong	6A Seahorse Lane Discovery Bay Hong Kong	Malaysian

CORPORATE INFORMATION

Headquarters/Principal place of business	Unit 1702, Golden Eagle Tower A No. 1518 Minsheng Road Shanghai 200135 PRC
Registered office in Cayman Islands	Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman, KY1-1111 Cayman Islands
Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance	8th Floor, Gloucester Tower The Landmark, 15 Queen’s Road Central, Hong Kong
Joint Company Secretaries	Ms. Wong Sze Wing, HKICPA Mr. Ngai Wai Fung, FCIS, FCS(PE), CPA, ACCA
Authorized Representatives	Mr. Zhongguo Sun No. 99-8-5B Puming Road Pudong New Area Shanghai, PRC Ms. Wong Sze Wing 37C, Tower 11, Ocean Shores Tiu Keng Leng, Kowloon Hong Kong
Alternate Authorized Representative	Mr. Chen Dar Cin 5B, Hamilton Court 8 Po Shan Road Hong Kong
Audit Committee	Mr. Xu Zhao (<i>chairman</i>) Mr. Zheng Fuya Mr. Kam Son Leong
Remuneration Committee	Mr. Kam Son Leong (<i>chairman</i>) Mr. Xu Zhao Mr. Zheng Fuya
Nomination Committee	Mr. Zheng Fuya (<i>chairman</i>) Mr. Xu Zhao Mr. Kam Son Leong
Compliance Committee	Mr. Zhongguo Sun (<i>chairman</i>) Mr. Zhao Xiangti Mr. Zheng Fuya

CORPORATE INFORMATION

Principal Bankers

China Construction Bank
No. 25 Finance Street
Xicheng District
Beijing, PRC

Everbright Bank of China – Changsha Branch
218 Central People’s Road, Changsha
Hunan, PRC

China Merchants Bank – Changsha Branch
1F, Yinghong Mansion
148 West Jiefang Road, Changsha
Hunan, PRC

INDUSTRY OVERVIEW

This section contains certain information which has been derived from official, market and other third party sources. We believe the sources of such information are appropriate sources for the information. We have exercised reasonable care in compiling and reproducing such information, and we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. This information has not been independently verified by us or any of our affiliates or advisors. This information may not be consistent with information from other sources.

Certain information and statistics are extracted from an industry report prepared by Strategic Analysis Inc., dated July 16, 2009, or SAI Report. The information extracted from the SAI Report reflects an estimate of market conditions based on Strategic Analysis Inc.'s research and analysis. The information extracted from the SAI Report should not be viewed as a basis for investments provided by Strategic Analysis Inc. and references to the SAI Report should not be considered as Strategic Analysis Inc.'s opinion as to the value of our Company. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics by our Company, neither we, or any of our affiliates or advisors have independently verified such information and statistics directly or indirectly derived from official government publications, and such parties do not make any representation as to their accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside China.

The SAI Report

Strategic Analysis Inc., or SAI, an independent third party consultancy firm, previously published a report on China's industrial gas market with data and information up to the end of 2006. We commissioned SAI to update its existing report to also include data and information for the year of 2008. We paid a total fee of US\$76,500 for the updates and purchase of the updated SAI Report. Our directors are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the SAI Report.

Founded in 1977, SAI is a private consultancy firm with its headquarters in Pennsylvania, the United States. It is a leading international business intelligence and strategy consulting firm with operations in all major regions of the world. Services provided by SAI include market assessments, competitive benchmarking, strategic and market planning which serve a variety of industries including chemicals, metals, ceramics and automotive industries.

In updating the SAI Report, employees of SAI who specialize in the industrial gas sector and who are responsible for conducting research on the development of the industry, conducted field interviews, and market analysis on industry trend and development. The research process involved both primary and secondary research.

Primary research required consultants to conduct both face-to-face interviews and telephone interviews with industrial gas suppliers, customers, distributors and relevant associations to obtain data such as capacity, production volume, revenue generated, type of service provided, type of products supplied or consumed.

Secondary research is mainly desktop research of publicly-available data from industry, government, and other published sources. SAI verified the information through its primary market research.

For the industrial gas industry, SAI conducted numerous studies both within and outside China. As there is no reliable data from government statistics, or other published sources, the SAI Report is mainly based on its own primary research.

INDUSTRY OVERVIEW

OVERVIEW OF INDUSTRIAL GASES

Industrial gases and applications

The most commonly used industrial gases can be classified into two categories, as follows:

- air gases such as Oxygen (O₂), Nitrogen (N₂) and Argon (Ar); and
- rare gases such as Helium (He), Krypton (Kr), Xenon (Xe) and Neon (Ne).

Oxygen, nitrogen and argon are the primary ingredients of air, comprising approximately 20.9%, 78.1% and 0.9% of air by volume, respectively.

Industrial gases are commonly used in a variety of industries including metallurgical (iron and steel industries in particular), chemical, welding, electronic, glass, food, heat treatment and other industries. Metallurgical and chemical industries are the two largest industries in terms of variety and volume of industrial gases consumed. Oxygen and nitrogen are the two largest industrial gas products by usage volume.

The following table sets forth different types of industrial gas products used in various industries:

<u>Industry</u>	<u>Iron and Steel</u>	<u>Chemical</u>	<u>Non-ferrous Metals</u>	<u>Electronics</u>
Main industrial gases used	Oxygen	Oxygen	Oxygen	Nitrogen
	Nitrogen	Nitrogen	Nitrogen	Argon
	Argon	Hydrogen		Ultra High Purity
	Hydrogen	Carbon Monoxide		Electronics Specialty Gases
		Fuel Gases		

CHINA INDUSTRIAL GAS MARKET

Economic growth of China

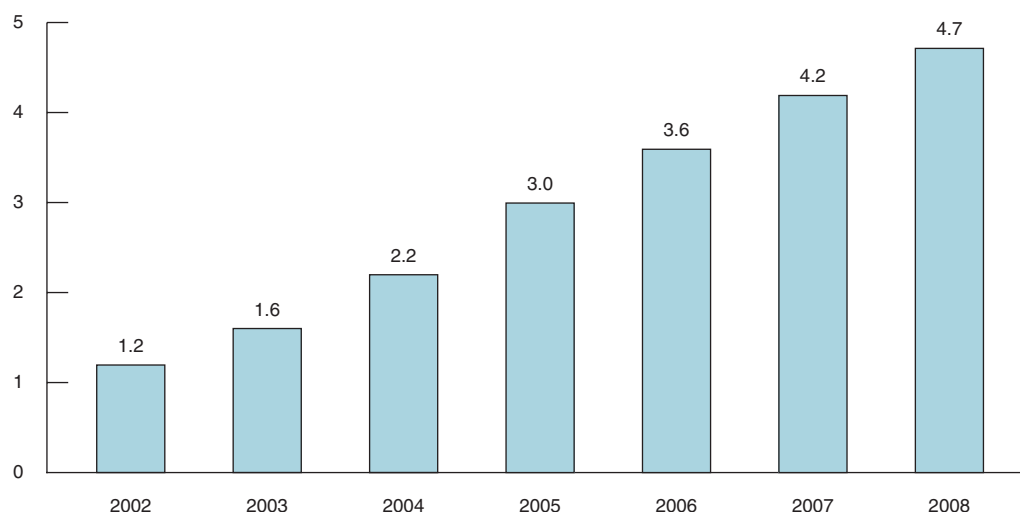
Since the introduction of economic reforms by the PRC government in the late 1970's, the PRC economy has grown significantly. According to the National Bureau of Statistics of China, from 2002 to 2008, the PRC's nominal GDP grew from RMB12.0 trillion to RMB30.1 trillion, representing a CAGR of 16.5%. During the same period, the PRC's gross industrial output value also increased from RMB4.7 trillion to RMB12.9 trillion, representing a CAGR of 18.2%.

INDUSTRY OVERVIEW

China's industrial gas market

The strong performance of the PRC economy has boosted the growth of the industrial sector in the PRC and as a result, significantly increased the consumption of industrial gases. According to the SAI Report, China's industrial gas market has grown from approximately US\$1.2 billion in 2002 to approximately US\$4.7 billion in 2008, representing a CAGR of approximately 25.6%. The following chart sets forth the size of China's industrial gas market in terms of sales revenue from 2002 to 2008:

Total Sales Revenue of China's Industrial Gas Market 2002-2008 (US\$ billion)



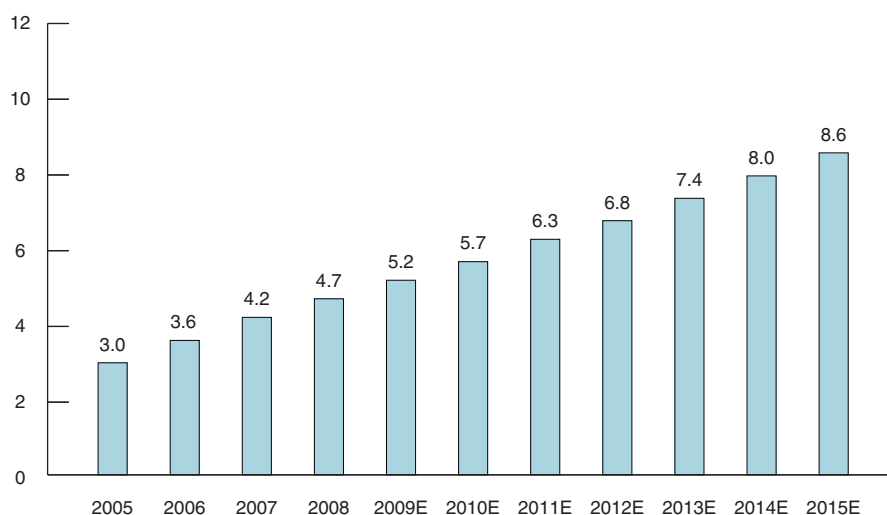
Source: SAI Report

Despite the recent economic downturn, China's industrial gas market is projected to continue its rapid growth driven by the strong growth of major end user markets. The SAI Report forecasts that the China's industrial gas market is expected to grow from US\$4.7 billion in 2008 to US\$5.7 billion in 2010 and US\$8.6 billion in 2015, representing a CAGR of approximately 10.1% and 9.0%, respectively, which are significantly higher than those of the overall global industrial gas market. As a result, China's industrial gas market's share as a percentage of the total global market by sales revenue is expected to increase from approximately 9.2% in 2008 to approximately 10.0% in 2010, and approximately 11.4% in 2015.

INDUSTRY OVERVIEW

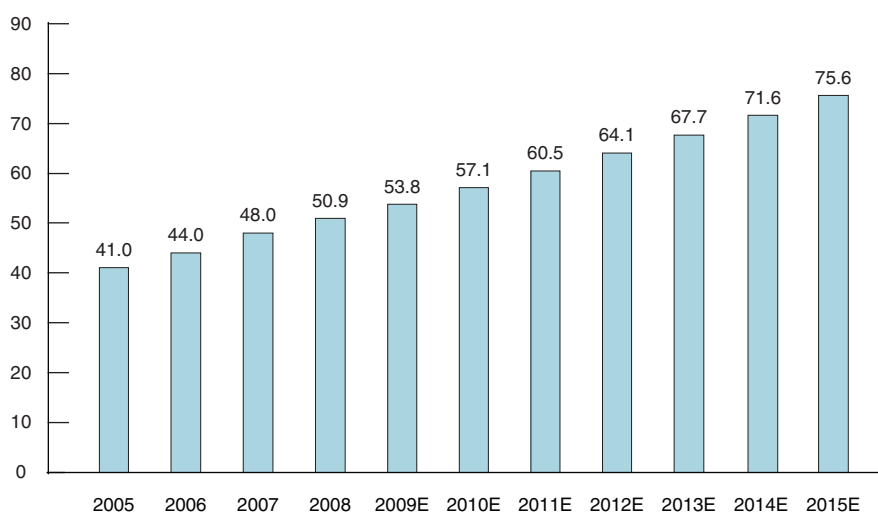
The following charts set out the estimated growth in the sales revenue in the industrial gas market in China and the world for the periods indicated:

Total Sales Revenue of China's Industrial Gas Market (US\$ billion)



Source: SAI Report

Total Sales Revenue of the Global Industrial Gas Market (US\$ billion)



Source: SAI Report

Major customers

According to the SAI Report, the steel and chemical industries are the two largest end user markets for industrial gas in China, accounting for approximately 56.0% of the total consumption in China in 2008, and these industries are expected to account for approximately 47.6% of total sales revenue in China in 2015. Among all end user markets, the medical, food and non-ferrous industries are expected to enjoy the highest growth, however, their proportion of percentage usage is expected to remain small compared to that of the steel and chemical industries. The rapid growth of these end user markets and increasing consumption of industrial gases in their manufacturing process have been and will continue to be the major growth drivers for China's industrial gas market. An analysis of the growth of the respective end user markets is set forth below:

- The Chinese steel industry's output reached 489.3 million metric tons in 2007 and increased by 2.4% to 500.9 million metric tons in 2008. It is estimated to reach approximately 550 million metric tons by 2010 with a CAGR of 4.8% from 2008 to 2010.

INDUSTRY OVERVIEW

- The petrochemical and coal chemical sectors are the two major sectors in the chemical industry. Oil refining output reached 342 million metric tons in 2008 and is expected to reach approximately 378 million metric tons in 2010; the coal chemical sector is expected to expand as a result of a number of government-driven investments valued at over US\$100 billion by 2020; China's ethylene production capacity is expected to rise to approximately 18.3 million metric tons per year by 2010 from 11.0 million metric tons in 2008 and fertilizer output is expected to increase to 64.4 million metric tons by 2010 from 58.4 million metric tons in 2008.
- The non-ferrous metals industry comprises the exploring, mining, ore processing, smelting, refining and manufacturing of non-ferrous metals, which include the ten major non-ferrous metals: copper, aluminium, lead, zinc, nickel, tin, antimony, mercury, magnesium and titanium. Driven by China's rapid growth in economic development and urban construction, this industry has experienced rapid growth in recent years. The total non-ferrous metals production output volume in China has increased from 12.3 million metric tons in 2003 to 25.2 million metric tons in 2008 at a CAGR of 15.5%. It is expected that the non-ferrous metals industry in China will grow at more than 10% annually in the next few years in terms of production output volume and the total production output volume of the ten major non-ferrous metals in China will reach approximately 30 million metric tons in 2010 according to the State Information Center.

The following table illustrates the historical, current and forecast demand for industrial gases by industry in China in terms of value for the periods indicated:

End User Industry	Market Size (US\$ billion, except percentages)									
	2007		2008		2010E		2008-2010E	2015E		2010E-2015E
	Value	Total	Value	Total	Value	Total	CAGR	Value	Total	CAGR
Steel	1.29	30%	1.35	29%	1.49	26%	5%	2.08	24%	7%
Chemical	1.20	29%	1.30	28%	1.50	26%	7%	1.99	23%	6%
Non-ferrous metals	0.04	1%	0.04	1%	0.05	1%	12%	0.07	1%	7%
Other	1.71	40%	2.04	42%	2.64	47%	14%	4.43	52%	11%
Total	4.24	100%	4.73	100%	5.68	100%	10%	8.57	100%	9%

Source: SAI Report

CHINA INDUSTRIAL GAS OUTSOURCING MARKET

Historically, most of the end users in China, particularly the large state-owned steel companies and chemical companies, constructed and installed their own air separation units in order to meet their own internal industrial gas demands. This supply model is referred to as the captive supply model. According to the SAI Report, in 2008 the captive industrial gas market accounted for 58% of the total industrial gas market or US\$2.72 billion, while the total outsourcing industrial gas market only accounted for 42% or US\$2.01 billion of the total industrial gas market in China in terms of value.

In recent years, however, there has been a growing number of end users in China switching to outsource their industrial gas needs to independent suppliers, including major international industrial gas suppliers and domestic independent industrial gas suppliers. Both are able to supply and provide higher quality products and services at a competitive cost with reliability and professional management. As a result, the industrial outsourcing market is expected to be the fastest growing market segment in China's industrial gas market. According to the SAI Report, this segment is expected to reach US\$2.56 billion by 2010 and US\$4.31 billion by 2015, representing 45% and 50% of the total industrial gas market by value by 2010 and 2015, respectively.

INDUSTRY OVERVIEW

The following table illustrates the respective current and forecast value and market share (by value) of the captive and outsourcing market segments as a percentage of China's total industrial gas market for the periods indicated:

	Segment Value (US\$ billion, except percentages)									
	2007		2008		2010E		2008-2010E	2015E		2010E-2015E
	Value	Market Share	Value	Market Share	Value	Market Share	CAGR	Value	Market Share	CAGR
Captive	2.51	59%	2.72	58%	3.13	55%	7%	4.26	50%	6%
Outsourcing	1.73	41%	2.01	42%	2.56	45%	13%	4.31	50%	11%

Source: SAI Report

Distribution methods

There are four major distribution methods in China for delivering outsourced industrial gases from suppliers to customers, namely, on-site supply, pipeline, merchant and cylinder, which represented 37.3%, 14.4%, 27.4% and 20.9% of the total industrial gas outsourcing market in terms of sales revenues in 2008, respectively.

Each of these distribution methods are described below:

- On-site: Independent industrial gas supply companies build air separation units within the production sites of the customers and supply industrial gases directly to customers. In some cases, the industrial gas supply companies will establish joint ventures with their customers. For the purpose of this document, "independent industrial gas supply companies" refers to companies having 50% or more of the ownership of the industrial gas supply operation.
- Merchant: Industrial gas supply companies either build independent air separation units or use extra capacity from the existing on-site or pipeline facilities to supply industrial gases and liquefied industrial gases in thermal tanks to distributors or end users.
- Pipeline: The air separation units are established by an independent industrial gas supply company and the industrial gases produced are distributed through pipelines to several customers within a specified region, for example, in industrial parks.
- Cylinder: Gases are compressed into cylinders at gas stations which are then transported to customers.

As most of the large-scale customers of industrial gas in China, such as iron and steel, chemical and non-ferrous metals companies, prefer on-site and/or pipeline supply methods, these two distribution methods enjoy a higher growth rate than the other distribution methods.

The following table sets forth the respective current and forecasted value and market share (by value) of the four distribution methods in China's industrial gas market:

Supply Mode	Supply Mode Value (US\$ billion, except percentages)									
	2007		2008		2010E		2008-2010E	2015E		2010E-2015E
	Value	Market Share	Value	Market Share	Value	Market Share	CAGR	Value	Market Share	CAGR
On-site	0.62	15%	0.75	16%	1.01	18%	16%	1.94	23%	14%
Merchant	0.50	12%	0.55	12%	0.68	12%	11%	0.99	12%	8%
Pipeline	0.21	5%	0.29	6%	0.40	7%	18%	0.76	9%	14%
Cylinder	0.40	9%	0.42	9%	0.47	8%	6%	0.62	7%	6%
Total	1.73	41%	2.01	42%	2.56	45%	13%	4.31	50%	11%

Source: SAI Report

INDUSTRY OVERVIEW

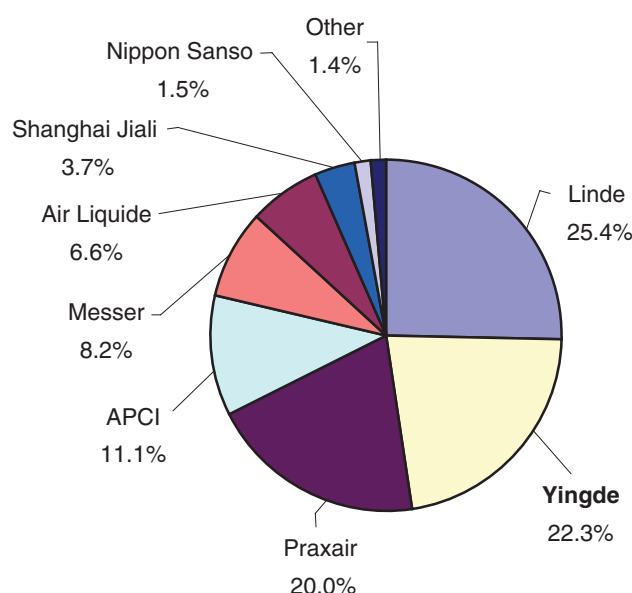
Competitive landscape

The outsourcing industrial gas market in China is highly fragmented with approximately one-third of the market share dominated by the top nine industrial gas suppliers in terms of total revenue in 2008. There are over 1,000 industrial gas suppliers in China, but only a few large-scale international and independent domestic industrial gas suppliers are capable of independently producing and supplying industrial gases to large-scale customers. Most of the industrial gas suppliers are either small-scale producers or effectively distributors who merely purchase liquefied industrial gases from other industrial gas producers, which they then sell to customers.

We believe that the large international industrial gas suppliers have certain advantages in competing for large-scale projects in China. Their advantages include advanced equipment, a wide variety of product offerings, established brand history and global networks. We believe domestic industrial gas suppliers have advantages in establishing local customer connections. Our main competitors are large-scale international industrial gas suppliers against whom we compete on price and supply lead-time. In addition, other important competitive advantages that the leading players in this market enjoy are high quality and a stable customer base. Major on-site customers tend to source their industrial gas supply needs from the same supplier when they expand their operations.

The following chart sets forth the market share of the leading independent industrial gas suppliers in China’s on-site industrial gas market in 2008:

Market Share in China’s On-site Industrial Gas Outsourcing Market by Revenue in 2008⁽¹⁾



Source: SAI Report

Note:

- (1) According to the SAI Report, all of the companies identified in the above chart are independent industrial gas suppliers with independent air separation units that are not owned by their customers. Linde, Praxair, APCI, Messer, Air Liquide and Nippon Sanso are international industrial gas suppliers. Our Company and Shanghai Jiali are domestic industrial gas suppliers. The information in the above chart has been collected through interviews with independent industrial gas suppliers who are active in China using the primary search method as described under the paragraphs headed “The SAI Report” in this section.

REGULATORY OVERVIEW

OVERVIEW

All of our business operations are based in the PRC. We are required to comply with a range of laws, regulations and measures in the PRC which regulate the production of industrial gases.

The laws, regulations and measures in the PRC regulating the production of industrial gases in the PRC include the following:

- Production Safety Law of the PRC (中華人民共和國安全生產法), or Production Safety Law;
- Measures for Implementation of Safe Production Permit of Hazardous Chemicals Production Enterprises (危險化學品生產企業安全生產許可證實施辦法), or Safe Production Permit Measures;
- Regulations on the Administration of Production Permit for Industrial Products (中華人民共和國工業產品生產許可證管理條例), or Production Permit for Industrial Products Regulations;
- Measures for Implementation of the Regulations on the Administration of Production Permit for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法);
- Regulations on the Safety Administration of Hazardous Chemicals (危險化學品安全管理條例), or Hazardous Chemicals Regulations;

Certain important provisions of the laws, regulations and measures described above relating to the industrial gas industry in the PRC are set out below.

Production Safety Law

The Standing Committee of the National People’s Congress of the PRC promulgated the Production Safety Law on June 29, 2002 to strengthen the supervision and administration of production safety, prevent and reduce safety accidents, protect the safety of life and property, and promote the development of economy.

The Production Safety Law is applicable to enterprises engaging in production activities within the PRC. The Production Safety Law provides that enterprises engaging in production activities must comply with the provisions of the Production Safety Law and other relevant laws and regulations concerning production safety. Such enterprises are required to strengthen the administration of production safety, establish and improve the system of responsibility for production safety and ensure a safe production environment.

The Production Safety Law establishes a system of attributing responsibility for production safety accidents in the PRC. Those attributed with responsibility for production safety accidents are liable according to the Production Safety Law and other provisions of the relevant laws and regulations.

The Production Safety Law sets out the requirements with which enterprises engaging in production activities must comply, including:

- having designated staff responsible for managing production safety;
- providing appropriate safety related education and training to the relevant staff to ensure such staff possess the required knowledge and management skills on production safety;
- erecting appropriate safety signage on dangerous equipment and installations; and
- ensuring safety-related equipment comply with national or industry standards.

Where an enterprise fails to comply with the provisions of the Production Safety Law, the relevant production safety supervision authority may, according to the case, issue a rectification order, impose a fine, order the enterprise to cease production and operation or revoke the relevant permits.

REGULATORY OVERVIEW

Safe Production Permit Measures

The State Administration of Work Safety and the State Administration of Coal Mine Safety promulgated the Safe Production Permit Measures on May 17, 2004 to regulate the work safety conditions of hazardous chemical production enterprises and to strengthen the administration of issuing safe production permits for hazardous chemical production enterprises.

The Safe Production Permit Measures stipulates that a hazardous chemical production enterprise shall hold a safe production permit. An enterprise without the relevant safe production permit is prohibited from engaging in hazardous chemical production activity.

Under the Safe Production Permit Measures, the Administrative Department of Work Safety of the State Council is responsible for the issuance and administration of safe production permits for hazardous chemical production enterprises under the administration of the central government. The Administrative Departments of Work Safety of the people's governments of provinces, autonomous regions and municipalities are responsible for the issuance and administration of safe production permits for those hazardous chemical production enterprises not under the administration of the central government.

The Safe Production Permit Measures set out the requirements with which an enterprise must comply in order to be granted with a safe production permit, including:

- establishing a work safety management body and employing a full-time management personnel in charge of work safety;
- ensuring that their safety management personnel have completed the necessary safety education and training;
- ensuring that their principal and production management personnel in charge of work safety have passed examinations on work safety knowledge and management competence;
- ensuring operational staff have passed the examination held by the relevant administrative department of business operations and obtained the qualification certificate of special operations; and
- providing work injury insurance coverage for employees in accordance with the law.

The Safe Production Permit Measures also set out details on the permit application process, and stipulate the manner in which the Administrative Department of Work Safety is to assess and make decisions on such applications.

Where an enterprise fails to comply with any requirement set out in the Safe Production Permit Measures, the Administrative Department of Work Safety may issue a rectification order, impose a fine, order the enterprise to cease production and operations or revoke the relevant permit.

Production Permit for Industrial Products Regulations

The State Council promulgated the Production Permit for Industrial Products Regulations on July 9, 2005 to ensure the quality and safety of the major industrial products that directly concern public health and safety, and the safety of life and property.

The Production Permit for Industrial Products Regulations stipulate that enterprises undertaking the production of certain products including hazardous chemicals shall hold a production permit for industrial products. An enterprise without such permit is prohibited from producing any of the products subject to the regulations. No entity or individual shall engage in the business of selling or using such product without obtaining the production permit for industrial products. The production permit for industrial products shall be valid for five years.

REGULATORY OVERVIEW

The Production Permit for Industrial Products Regulations set out the conditions which an enterprise shall meet for obtaining a production permit for industrial products, including:

- having professional technicians qualified for the products it produces;
- having production conditions and means of inspection and quarantine that are suitable for the products it produces;
- having technical documents for the products it produces;
- having sound and effective quality control system and responsibility system;
- the product must comply with the relevant national standards, industrial standards and requirements for ensuring personal health and personal and property safety; and
- complying with the provisions of state industrial policy.

Where an enterprise fails to comply with the Production Permit for Industrial Products Regulations, the relevant department responsible for production permits for industrial products may issue a rectification order, impose a fine, order the cessation of production and operation, revoke the relevant permits, and or confiscate illegal gains, if any.

Hazardous Chemicals Regulations

The Hazardous Chemicals Regulations were promulgated by the State Council on January 26, 2002 and were formulated in order to strengthen the safety administration of hazardous chemicals, to guarantee the safety of life and property and to protect the environment.

The Hazardous Chemicals Regulations prescribe that the production, management, storage, transportation and use of hazardous chemicals and the disposal of hazardous waste chemicals must comply with the provisions of these regulations and the laws and other administrative regulations of the nation related to production safety.

According to the Hazardous Chemicals Regulations, the term "hazardous chemicals" includes explosives, compressed gas and liquefied gas, inflammable liquids, inflammable solids, self-igniting articles and articles inflammable in a humid environment, oxidants and organic peroxides, toxicants and corrosives.

Under the Hazardous Chemicals Regulations, the principals of an enterprise that produces, manages, stores, transports, or uses hazardous chemicals or disposes of hazardous waste chemicals must comply with the provisions of the relevant laws, regulations and rules, and the requirements of the national standards. The principals of such an enterprise are responsible for ensuring the safety requirements concerning hazardous chemicals are met. The personnel of enterprises involved in dealing with hazardous chemicals and waste chemicals must undertake training in relation to the relevant laws, regulations and rules, safety knowledge, professional technology, occupational health protection and knowledge of emergency treatment, and must pass the necessary examinations prior to commencing work.

The Hazardous Chemicals Regulations apply uniform planning and strict control to the production and storage of hazardous chemicals by providing for the examination and approval procedures in relation to the production and storage of hazardous chemicals, and prohibiting enterprises or individuals from producing or storing hazardous chemicals without approval.

A hazardous chemical production enterprise must apply to the Department of Quality Inspection for the relevant hazardous chemicals production license. Such enterprise must not commence production unless it has obtained a hazardous chemicals production license.

An enterprise in breach of the Hazardous Chemicals Regulations may be subject to closure, subject to orders to stop production activity, rectification, and or orders for the destruction of the dangerous chemicals. The illegal gains may be confiscated, if any. If the criminal law is violated, the responsible personnel may be subject to criminal proceedings.

REGULATORY OVERVIEW

Save as disclosed in this document, we are of the view that our Group is in compliance with PRC laws and regulations governing the production of industrial gases in the PRC as described above in material respects during the Track Record Period in all material respects.

To supply industrial gases to our on-site customers or merchant customers, we are required to construct and install relevant gas production equipment, which is subject to the following major laws and regulations regulating the construction activity:

- Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法), or Planning Law;
- Construction Law of the PRC (中華人民共和國建築法), or Construction Law.

Certain important provisions of the laws and regulations described above relating to the construction of gas production equipment and facilities in the PRC are set out below.

Planning Law

The Standing Committee of National People’s Congress of PRC promulgated the Planning Law on October 28, 2007 which became effective on January 1, 2008 and substitutes the previous Urban Planning Law of the PRC (中華人民共和國城市規劃法). The Planning Law is formulated for the purpose of strengthening urban and rural planning administration, harmonizing urban and rural spatial layout, improving people’s living environment and promoting the integrated, harmonious and sustainable development of urban and rural society and economy. Under the Planning Law, to build any structure, fixture, road, pipeline or other engineering project within a urban or rural planning area, the construction entity or individual shall apply to the relevant department of urban and rural planning under the people’s government of the city or county, or the people’s government of the town specified by the people’s government of the province, autonomous region or municipality directly under the Central Government for a construction planning permit.

Construction Law

The Standing Committee of National People’s Congress of PRC promulgated the Construction Law on November 1, 1997 to strengthen the supervision and regulation of construction activities, maintain construction market order, ensure the quality and safety of construction projects and promote the healthy development of construction industry. Under the Construction Law, before the commencement of construction of projects, the construction entities shall, in accordance with the relevant provisions of the State, apply to the relevant construction administrative departments under the prefecture-county governments or above for construction permits.

OUR HISTORY AND REORGANIZATION

HISTORY

Background

Prior to the establishment of our Group, Mr. Sun and Mr. Strutt were both professionals working in the industrial gas industry, employed at BOC Gases, an international gas supply company. Mr. Sun and Mr. Strutt had been long-term friends and business partners through their previous work experience at BOC Gases. Mr. Sun and Mr. Strutt, both having extensive work experience in and knowledge of the industrial gas market, recognized the potential of the growing industrial gas market and the opportunities available to independent domestic industrial gas suppliers in China.

In 2001, Mr. Sun and Mr. Strutt sought suitable funding and appropriate business partners from the industrial sector to assist with and participate in the establishment of an independent industrial gas company in the PRC. Mr. Sun and Mr. Strutt entered into cooperation with the management members (hereafter referred to as the “former Torch management”) of an industrial company, Torch Automobile Group Co., Ltd., or Torch, a company established in the PRC and previously listed on the Shenzhen Stock Exchange. These former Torch management members were led by Mr. Nie Xinyong, Mr. Zhao Xiangti and Mr. Yang Yonggang. In 2007, Torch was merged into Weichai Power Co., Ltd., a company currently listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange. Torch was founded in 1961 and was engaged primarily in the manufacture of heavy automobiles, high performance off-road vehicles and auto parts. Although Torch’s core business was focused on the automotive industry, Torch also operated and made investments in a number of non-core businesses, including new energy, metal materials, technology, and industrial service sectors. For more information on Torch, please see the section headed “Further Information on Torch” below. Torch invested in Hunan Yingde as it recognized the potential for growth in the industrial gas market in China and the opportunities available to an independent industrial gas supplier.

In October 2001, the following parties entered into a joint venture agreement pursuant to which they jointly invested to establish Hunan Yingde and made the following contributions:

- Baslow Technology Limited, an investment holding company, of which 60% interest was held by Mr. Sun (on behalf of Ms. Li Hongmei, Mr. Sun’s mother-in-law) and 20% by Mr. Strutt at the time of incorporation, and which contributed professional knowledge, industry expertise and funding to Hunan Yingde⁽¹⁾;
- Peace & Smooth (Hong Kong) Investment Limited, an investment holding company, of which 60% of the voting power was held by Mr. Deng Jun and 40% of the voting power was held by Mr. Tang Lin at the time of incorporation, and which contributed local knowledge, management expertise and funding to Hunan Yingde⁽²⁾;
- Beijing Qian Yuan Sheng Da Technology Company Limited, an investment holding company, 100% of the voting power of which was collectively held by Mr. Zhao and Mr. Yang at the time of incorporation, and which contributed local knowledge, management expertise and funding to Hunan Yingde;
- Torch contributed funding to Hunan Yingde⁽³⁾;

Notes:

- ⁽¹⁾ The remaining 20% interest in Baslow was held by two individual investors who are independent third parties of our Group and who disposed of their respective interests in Baslow to Mr. Strutt in October 2005 and February 2006, respectively. After the disposals, Mr. Strutt was holding 25% and 40% interest in Baslow for himself from October 2005 and February 2006, respectively.
- ⁽²⁾ Mr. Deng Jun and Mr. Tang Lin were the shareholders of Peace & Smooth upon its incorporation on August 15, 2001. Mr. Deng and Mr. Tang established Peace & Smooth as one of the investment vehicles for the former Torch management led by Mr. Nie Xinyong, Mr. Zhao and Mr. Yang with financial contributions from the 31 members of the former Torch management team, to invest in Hunan Yingde. Mr. Deng and Mr. Tang are not part of the 31 members of the former Torch management, and ceased to be shareholders of Peace & Smooth on May 24, 2005.
- ⁽³⁾ Torch (together with Huikeying) were financial investors in Hunan Yingde and were responsible for contributing part of the capital proportional to their respective equity interests. They also participated in the management and operations of Hunan Yingde and its group of companies but had no control over the board or management of Hunan Yingde.

OUR HISTORY AND REORGANIZATION

- Beijing Huikeying Hi-tech Co., Ltd. (北京匯科盈高新技術有限公司), a company owned as to 80% by Torch, contributed funding to Hunan Yingde; and
- Shanghai Tongyue Trading Co., Ltd. (上海同岳科貿有限公司), or Tongyue, an investment holding company, contributed funding to Hunan Yingde.

At the time of establishment, the registered capital of Hunan Yingde was RMB66,800,000 to which Baslow contributed an amount equivalent to RMB13,360,000; Peace & Smooth contributed an amount of RMB7,680,000; QYSD contributed an amount of RMB7,800,000; Torch contributed an amount of RMB18,800,000; Huikeying contributed an amount of RMB13,600,000 and Tongyue contributed an amount of RMB5,560,000, accounting for 20.00%, 11.50%, 11.68%, 28.14%, 20.36% and 8.32%, respectively, of Hunan Yingde’s registered capital.

An agreement on voting arrangements in Hunan Yingde was entered into on December 18, 2001 among Baslow, Peace & Smooth, QYSD and Tongyue to the effect that Baslow, Peace & Smooth, QYSD and Tongyue shall vote in the same manner with respect to decisions in connection with Hunan Yingde. In July 2004, QYSD purchased an 8.32% equity interest in Hunan Yingde from Tongyue after which QYSD owned a 20% equity interest in Hunan Yingde. Notwithstanding the changes in shareholders that occurred in July 2004, as the same group of shareholders remained in control of Hunan Yingde, the then shareholders were of the view that they would continue to honor the previous voting agreement and it was not necessary for them to enter into new or supplemental voting agreements.

A total of 31 members of the former Torch management team, led by Mr. Nie Xinyong, Mr. Zhao and Mr. Yang, jointly provided the financial resources to establish Hunan Yingde together with Baslow and Torch. Peace & Smooth, QYSD (which has been subsequently replaced by Rongton) and Tongyue were investment companies jointly established by the representatives of the same 31 members of the former Torch management team. Please refer to the paragraph headed “Arrangements among shareholders of Peace & Smooth, Rongton and the 31 members of the former Torch management” below for further details on the arrangements. There have been no changes in the composition of the 31 members of the former Torch management since January 1, 2007.

Other than as disclosed in this document, there was no other relationship between Torch, Peace & Smooth, QYSD, Tongyue and our Group when Hunan Yingde was established in October 2001.

Since the establishment of Hunan Yingde in October 2001, Mr. Sun and Mr. Strutt, with assistance from Mr. Zhao and Mr. Yang, were and continue to be our Group’s core management team, who collectively exercise substantial control over and influence on the management of the business and operations of our Company and our subsidiaries both at the board and management level.

Further information on Torch

Mr. Nie Xinyong served as the chairman (until November 2004) and the president (until April 2007) of Torch. In 2006, the CSRC imposed public sanctions and fines on Torch for overstating profits for the financial years of 1997, 1998 and 1999, overstating the amount of proceeds from share placement used on certain projects in 2003, failure to disclose certain guarantees provided to its related companies and failure to account for the losses of an indirect non-wholly owned subsidiary in 2003. The CSRC imposed a fine of RMB600,000 on Torch. The CSRC also issued public sanctions and imposed fines on three of Torch’s directors (including Mr. Nie Xinyong) in relation to the same matters. Mr. Nie Xinyong was fined RMB100,000. In 2004, the Shenzhen Stock Exchange issued a public sanction of Mr. Nie Xinyong and another director of Torch for Torch’s failure to make disclosures as required under the Shenzhen Stock Exchange Listing Rules in respect of a connected transaction involving the provision of financial assistance to a connected person.

Mr. Nie Xinyong was previously a non-executive director of the PRC subsidiaries of our Company. Mr. Nie Xinyong was involved in the overall strategic development and customer relationship-building

OUR HISTORY AND REORGANIZATION

for our Group. His roles were of a non-executive nature and he was not involved in the day-to-day management of our Group. Mr. Nie Xinyong resigned from all his directorships and management positions in our Group on September 10, 2008.

The current members of our board of directors and senior management had the following past relationships with Torch:

- Mr. Sun was appointed as a vice president with Torch from March 2004 to January 2005 as a result of Torch's investment in Hunan Yingde, and by virtue of Mr. Sun's position as chief executive officer of Hunan Yingde. We have received a written confirmation from Mr. Sun confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Zhao was a supervisor, a non-management position, of Torch from May 2000 to April 2007. From September 2002 to June 2006, Mr. Zhao was a director and vice president of Shaanxi Heavy Duty Automobile Co., Ltd., a subsidiary of Torch. From June 2000 to September 2006, Mr. Zhao was the chief executive officer and director of Huikeying. Mr. Zhao's role was limited to his executive positions at the subsidiary level of the Torch group and the non-executive supervisor role at Torch, while he held no management position at Torch nor any of its other subsidiaries. We have received a written confirmation from Mr. Zhao confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Yang was a vice president and director of Huikeying from June 2000 to September 2006. Other than this, Mr. Yang held no management position at Torch nor any of its other subsidiaries. Mr. Yang's role was limited to his executive positions at the subsidiary level of the Torch group, while he held no management position at the holding group level of Torch. We have received a written confirmation from Mr. Yang confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Xu Zhao was the chief financial officer of Shaanxi Heavy Duty Automobile Co., Ltd., a subsidiary of Torch, from September 2002 to November 2006. He did not hold any executive or management role at the Torch holding company level. Mr. Xu's role was limited to his executive positions at the subsidiary level of the Torch group. We have received a written confirmation from Mr. Xu confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Chen Yan was the deputy director of Torch's international division from May 2004 to June 2006. Mr. Chen's responsibilities involved evaluating and overseeing any offshore merger and acquisition opportunities and projects for Torch. Mr. Chen confirmed to us that his management responsibilities at Torch were of a limited scope, and that he had no connection with the non-compliance matters committed by the Torch group. We have received a written confirmation from Mr. Chen confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.

Save as disclosed above, none of the current members of our board of directors and senior management has had any connections with Torch or any of its subsidiaries. None of the current members of our board of directors and senior management has ever been a director of Torch. None of the above persons was sanctioned or penalized by the Shenzhen Stock Exchange or the CSRC.

OUR HISTORY AND REORGANIZATION

We have implemented a number of internal control measures to ensure effective management of our Group’s business and operations and compliance with applicable laws and regulations. Please see the section headed “Business — Our internal control measures.”

Commencement of Our Business

We commenced our business with the establishment of Hunan Yingde in Hunan province, PRC, in October 2001. In May 2003, our first industrial gas production facility, located in Loudi in Hunan province, commenced operation. Since May 2003, we have grown to become the largest domestic independent supplier of on-site industrial gases in the PRC by revenue in 2008 with 20 production facilities in operation and another 12 industrial gas production facilities under development as at the Latest Practicable Date. Upon completion of these production facilities, we expect to increase our total gas supply capacity to approximately 848,800 Nm³/hr, in terms of installed oxygen capacity, representing a 135.1% increase from the capacity of 361,000 Nm³/hr at the end of 2008. Our industrial gas production facilities (including those currently under development) are located in eight provinces, one autonomous region and one municipality (Hunan, Jiangsu, Guangdong, Shaanxi, Shandong, Hebei, Shanxi, Guizhou, Inner Mongolia and Tianjin), all of which are expected to have a growing demand for industrial gases.

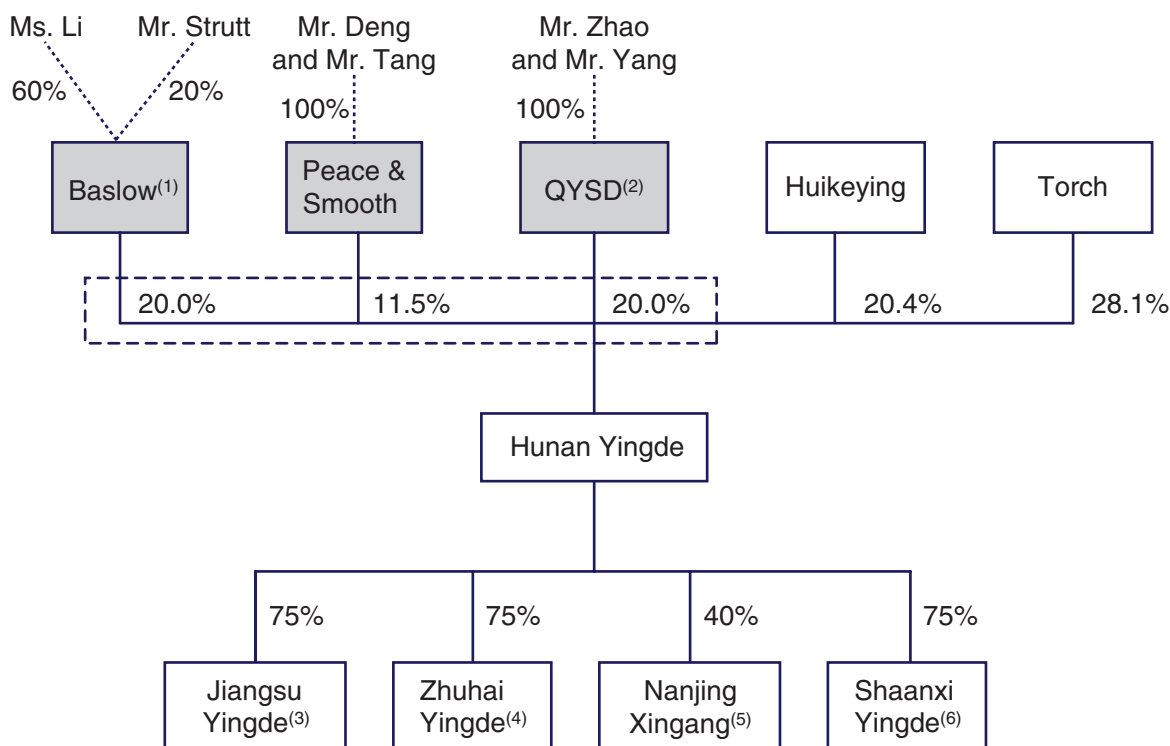
The following table provides certain information with respect to our subsidiaries with production facilities currently in operation:

<u>Name</u>	<u>Establishment date</u>	<u>Number of production facilities in operation as at the Latest Practicable Date</u>
Hunan Yingde	October 2001	One
Jiangsu Yingde	April 2003	One
Zhuhai Yingde	April 2003	Two
Nanjing Xingang	June 2003	One
Shaanxi Yingde	June 2003	Three
Tianjin Yingde	September 2004	One
Rizhao Yingde	October 2006	Three
Zibo Yingde	November 2006	One
Hebei Yingde	December 2006	Two
Huai’an Yingda	January 2007	One
Laiwu Yingde	January 2007	One
Zhuzhou Yingde	March 2007	One
Hengyang Yingde	December 2008	Two

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Shareholding structure as at January 1, 2005

On January 1, 2005, the shareholding structure of our Group was as follows:



Notes:

- (1) Ms. Li and Mr. Strutt collectively held 80% beneficial interest in Baslow since January 1, 2005. Initially, Mr. Sun, the son-in-law of Ms. Li, acted as her trustee and held the interest in Baslow on her behalf. As directed by Ms. Li, Mr. Sun was replaced by Mr. Strutt and another individual (who is an independent third party of our Group) as her trustees in August 2004. Subsequently, in February 2006, that individual ceased to be a trustee of Ms. Li, and Mr. Strutt became the sole trustee of Ms. Li. Ms. Li and Mr. Strutt entered into a trust agreement dated February 20, 2006 to formalize their entrustment arrangement. Our British Virgin Islands legal advisors, Conyers Dill & Pearman, are of the opinion that the trust agreement between Ms. Li and Mr. Strutt is legal, valid, binding and enforceable under the laws of the British Virgin Islands.
- (2) Mr. Zhao and Mr. Yang collectively held 100% interest in QYSD and were the only two directors as at January 1, 2005.
- (3) The other shareholders of Jiangsu Yingde were Baslow with a shareholding of 5% and Seabright with a shareholding of 20%. Please refer to the section headed “Our History and Reorganization – History – Background” in this document for further details on the connection between Seabright, QYSD and Peace & Smooth.
- (4) The other shareholders of Zhuhai Yingde were Baslow with a shareholding of 5% and Seabright with a shareholding of 20%.
- (5) The other shareholders of Nanjing Xingang were Baslow with a shareholding of 30% and Seabright with a shareholding of 30%.
- (6) The other shareholders of Shaanxi Yingde were Baslow with a shareholding of 12.5% and Seabright with a shareholding of 12.5%.
- (7) As at January 1, 2005, Baslow, Peace & Smooth and QYSD held 20%, 11.5% and 20% interest in Hunan Yingde, respectively, and collectively a total of 51.5% interest in Hunan Yingde.
- (8) Prior to February 2006, the Controlling Shareholders, Baslow (Ms. Li and Mr. Strutt), Peace & Smooth and QYSD collectively held an effective interest of 47.5% in Hunan Yingde. Ms. Li and Mr. Strutt collectively held 80% beneficial interest in Baslow at the relevant time. As a result, the Controlling Shareholders’ effective equity interest in Hunan Yingde held through Baslow was 16%. At the relevant time, Hunan Yingde’s board comprised five members, three members of which were appointed by the Controlling Shareholders giving them majority voting rights and control over the board of directors of Hunan Yingde.

Preparation for investment by Baring on June 20, 2006

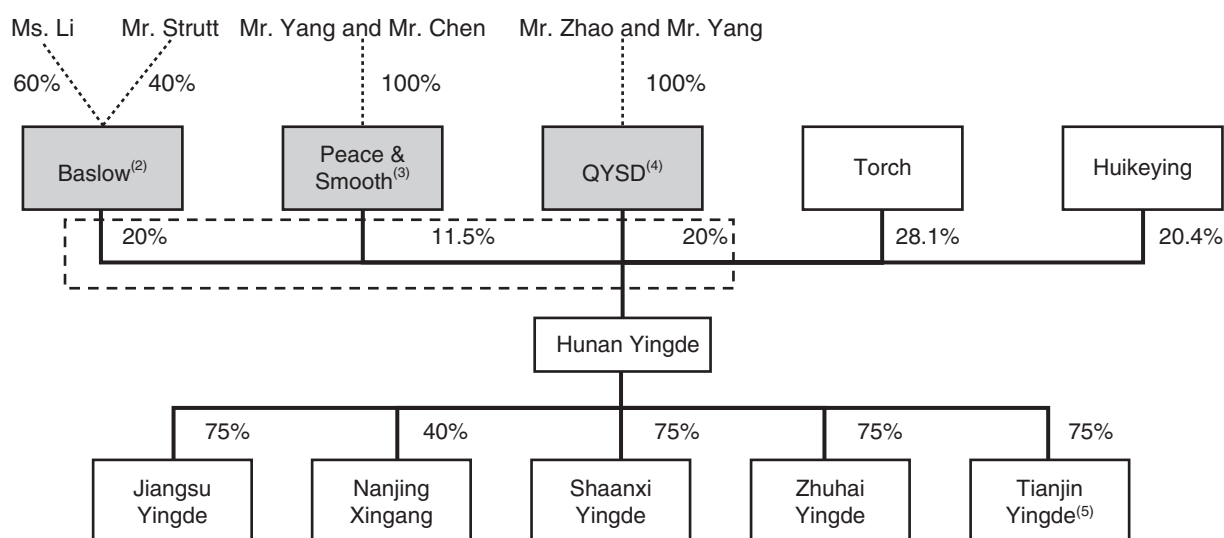
Yingde BVI was incorporated in the British Virgin Islands on April 18, 2006 to facilitate the proposed investment by Baring in our Group. Baring’s investment, which was made on June 20, 2006, primarily involved the introduction of Baring as an equity investor in our Group and a financing provider for our

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purchase of the equity interests in Hunan Yingde that were previously owned by Torch and its affiliates. Baring’s investments consisted of the subscription of 2,000 Preferred Shares and 850 ordinary shares (to be issued to Bubbly Brooke) in Yingde BVI for a total consideration of US\$14 million, and the provision of a US\$20.2 million loan facility to Yingde BVI (comprising a US\$14.2 million loan and a US\$6 million convertible loan).

All of the Preferred Shares held by Baring will be automatically converted into Shares immediately prior to the commencement of dealings of our Shares on the Hong Kong Stock Exchange. Upon such automatic conversion, no Preferred Shares will be outstanding and as a result, none of the terms or rights of the Preferred Shares will be applicable.

The following chart illustrates the corporate structure of our Group immediately prior to the investment by Baring on June 20, 2006:



Notes:

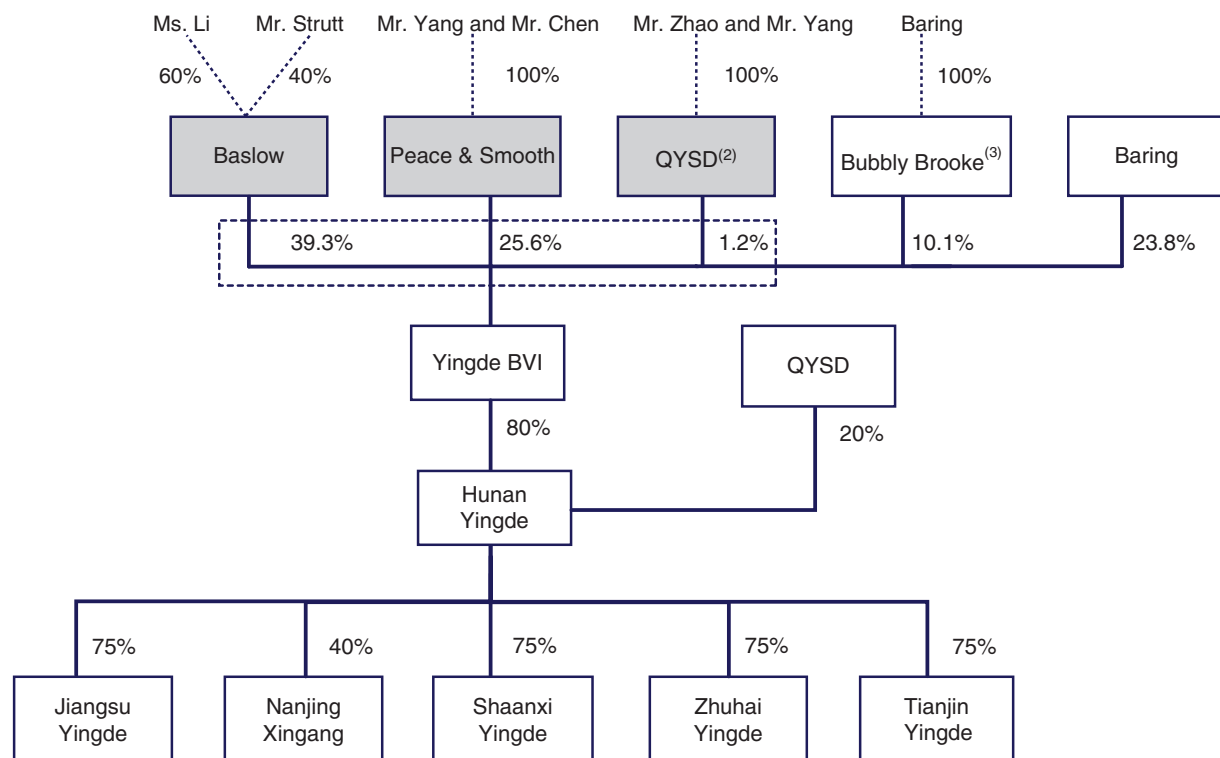
- (1) Each of Baslow and Peace & Smooth made cash contributions of approximately RMB8,000 to Yingde BVI at its establishment.
- (2) Immediately prior to the investment by Baring on June 20, 2006, Mr. Strutt was holding 60% of the interest in Baslow on behalf of Ms. Li and 40% of the interest in Baslow for himself and such arrangement continued after June 20, 2006. Mr. Strutt’s shareholding in Baslow was initially 20% of the issued capital in Baslow which was issued to him on May 5, 2001, and subsequently 30%, 5% and 45% of the issued share capital of Baslow were transferred to him on August 31, 2004, October 25, 2005, and February 20, 2006, respectively.
- (3) Each of Mr. Chen and Mr. Yang owned 50% interest in Peace & Smooth.
- (4) Mr. Zhao and Mr. Yang owned 55% and 45% interest, respectively, in QYSD.
- (5) The other shareholders of Tianjin Yingde were Baslow with a shareholding of 5% and Seabright with a shareholding of 20%.

Issuance of options on June 20, 2006 and completion of Baring’s investment on June 22, 2006

We issued 100 options, accounting for approximately 1.2% of the then total issued share capital of Yingde BVI, to each of Mr. Zhao and Mr. Strutt to recognize their contribution to our Group, which they then held for the benefit of QYSD and Baslow, respectively. The 100 options granted to each of Mr. Zhao and Mr. Strutt are share-based employee benefits, which have been accounted for in the Accountants’ Report set out in Appendix I to this document as equity settled share-based transactions. Baring’s investment in our Group was completed on June 22, 2006, after which Yingde BVI purchased a total of 48.5% interest in Hunan Yingde from Torch and Huikeying in addition to the swap of Baslow and Peace & Smooth’s shares in Hunan Yingde into shares of Yingde BVI.

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The following chart illustrates the corporate structure of our Group immediately after completion of these steps⁽¹⁾:



Notes:

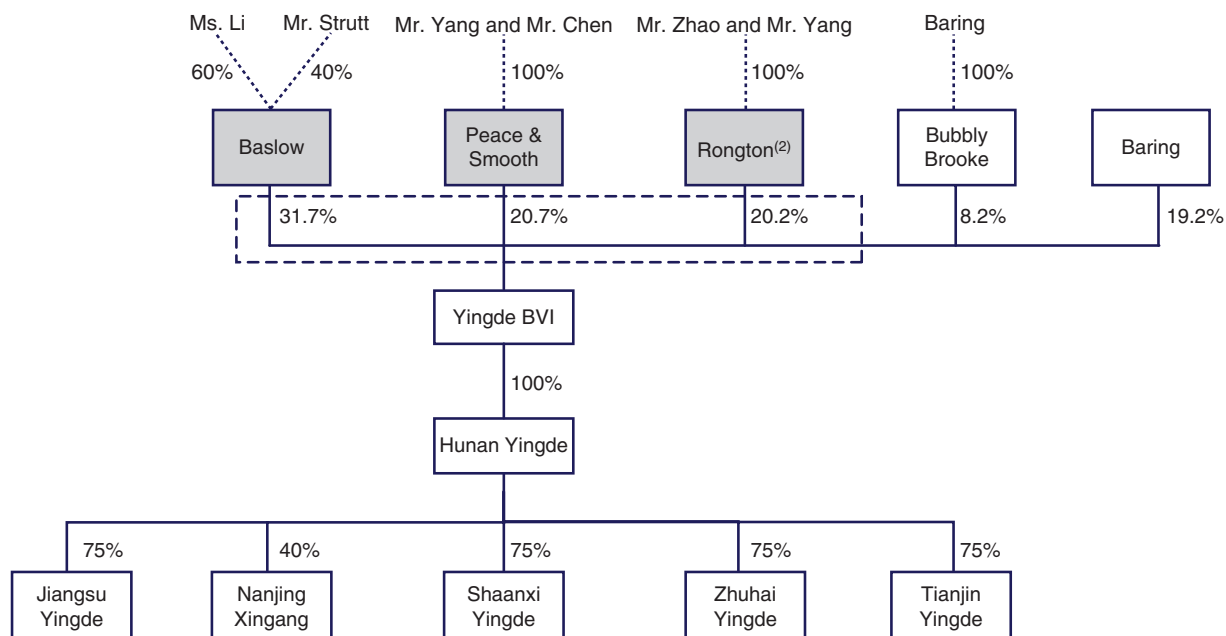
- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares and full exercise of the options held for the benefit of QYSD and Baslow into ordinary shares of Yingde BVI.
- (2) The 100 options granted to Mr. Zhao were held for the benefit of QYSD.
- (3) Pursuant to the convertible redeemable preferred shares subscription agreement with Baring dated June 20, 2006, Bubbly Brooke was entitled to subscribe for 850 shares of Yingde BVI at a nominal value of US\$1.00 each. As at June 22, 2006, Baring held 100% of the interest in Bubbly Brooke. At the time of Baring's initial investment in Yingde BVI, Baring granted Baslow an option to acquire Baring's shareholding in Bubbly Brooke for a total consideration of US\$4 million. Baslow subsequently exercised this option for US\$1.00 in January 2007.

Acquisition of minority interest in Hunan Yingde from QYSD on August 23, 2006

Yingde BVI acquired a 20% minority interest in Hunan Yingde from QYSD on August 23, 2006, after which Hunan Yingde became a wholly-owned subsidiary of Yingde BVI. As consideration, Yingde BVI issued 2,000 shares representing approximately 20% of its then issued share capital to QYSD which nominated Rongton to accept the issuance of the shares on its behalf. The percentage of shares of Yingde BVI issued to QYSD was intended to ensure QYSD held the same percentage interest in Yingde BVI as in Hunan Yingde.

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The following chart illustrates the corporate structure of our Group after completion of these steps⁽¹⁾:



Notes:

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Rongton is a company with the same shareholding structure as QYSD and is jointly controlled by Mr. Zhao and Mr. Yang. The options issued in the name of Mr. Zhao and previously held for the benefit of QYSD were subsequently held for the benefit of Rongton.

Further rationalization of our Group structure on March 20, 2007

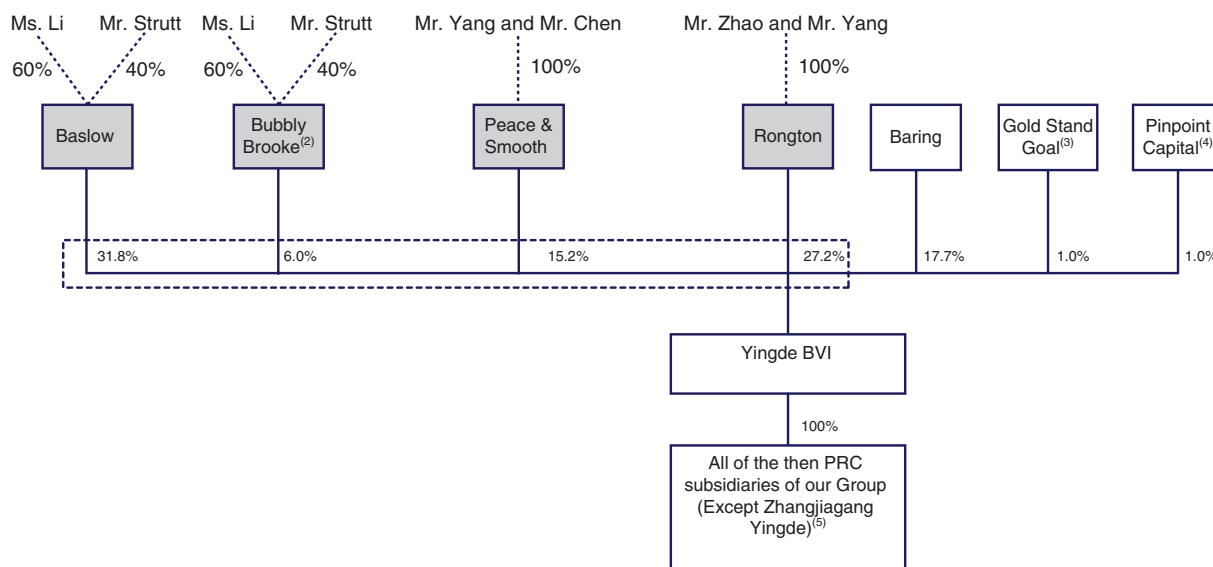
On March 20, 2007, we undertook a further rationalization of the ownership structure of our Group through the steps listed below.

- (i) We acquired those minority equity interests in our PRC subsidiaries previously held by Seabright on August 18, 2006 and we issued 2,015 ordinary shares in Yingde BVI to Seabright as consideration with reference to the profitability of those subsidiaries in 2006, accounting for approximately 14.3% of the then total issued share capital of Yingde BVI. Out of these 2,015 ordinary shares of Yingde BVI, Seabright nominated Rongton to accept the issuance of 1,733 ordinary shares, accounting for approximately 12.3% of the then total issued share capital of Yingde BVI, and sold 141 ordinary shares to each of Pinpoint Capital 2006 A Limited and Gold Stand Goal Limited in aggregate accounting for approximately 2.0% of the then total issued share capital of Yingde BVI on March 20, 2007.
- (ii) Yingde BVI acquired those minority equity interests in our PRC subsidiaries previously held by Baslow on August 18, 2006 and we issued 1,193 ordinary shares in Yingde BVI to Baslow as consideration with reference to the profitability of those subsidiaries in 2006, accounting for approximately 8.5% of the then total issued share capital of Yingde BVI on March 20, 2007.
- (iii) Baring's US\$6 million convertible loan was converted on December 29, 2006 and subsequently 502 ordinary shares of Yingde BVI, accounting for approximately 3.6% of the then total issued share capital of Yingde BVI, were issued to Baring pursuant to this conversion on March 20, 2007.

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Following completion of these steps, all of our then subsidiaries in the PRC became wholly-owned subsidiaries (directly or indirectly) of Yingde BVI except for Zhangjiagang Yingde.

The following chart illustrates the corporate structure of our Group after completion of these steps⁽¹⁾:



Notes:

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) On January 26, 2007, Mr. Strutt became the sole shareholder and director of Bubbly Brooke after acquiring 100% of the total issued share capital of Bubbly Brooke from Baring. Bubbly Brooke holds all its shares in Yingde BVI on trust for Baslow.
- (3) Gold Stand Goal Limited is a company incorporated in the British Virgin Islands and is an independent third party of our Group. Our directors believe that Gold Stand Goal invested in our Group because it recognized the growth potential of our Group.
- (4) Pinpoint Capital 2006 A Limited is a company incorporated in the British Virgin Islands and is an independent third party of our Group. Our directors believe that Pinpoint Capital invested in our Group because it recognized the growth potential of our Group.
- (5) Hunan Yingde became a 75% shareholder of Zhangjiagang Yingde from July 31, 2006 after acquiring the interest in Zhangjiagang Yingde held by China Hi-tech Group Company Limited (中國高科集團股份有限公司). The remaining 25% interest is held by Smart Excel Investment Ltd., a company incorporated in the British Virgin Islands which is an independent third party of our Group.

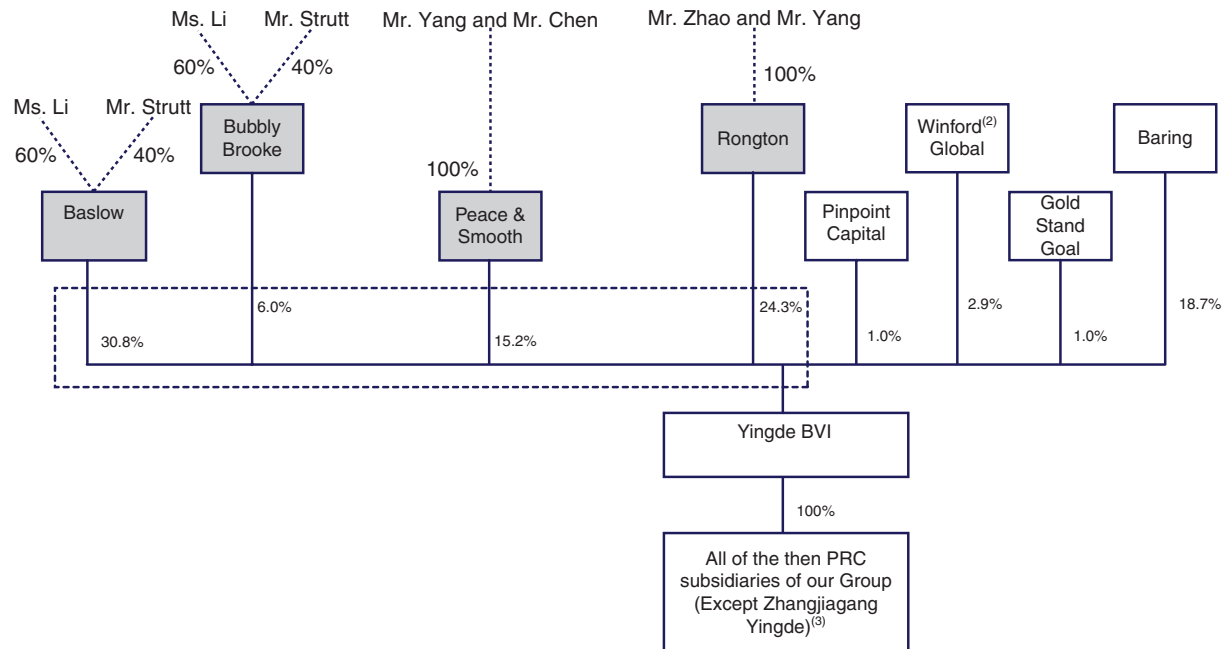
Disposals by our shareholders on May 30, 2007

On May 30, 2007, certain of our shareholders sold some of their shareholdings in Yingde BVI as follows:

- (i) Baslow and Rongton sold a total of 411 ordinary shares of Yingde BVI, accounting for approximately 2.9% of the then total issued share capital of Yingde BVI, to Winford Global Investments Limited; and
- (ii) Rongton sold 139 ordinary shares of Yingde BVI, accounting for approximately 1.0% of the then total issued share capital of Yingde BVI, to Baring.

OUR HISTORY AND REORGANIZATION

The following chart illustrates the corporate structure of our Group after completion of these steps⁽¹⁾:



Notes:

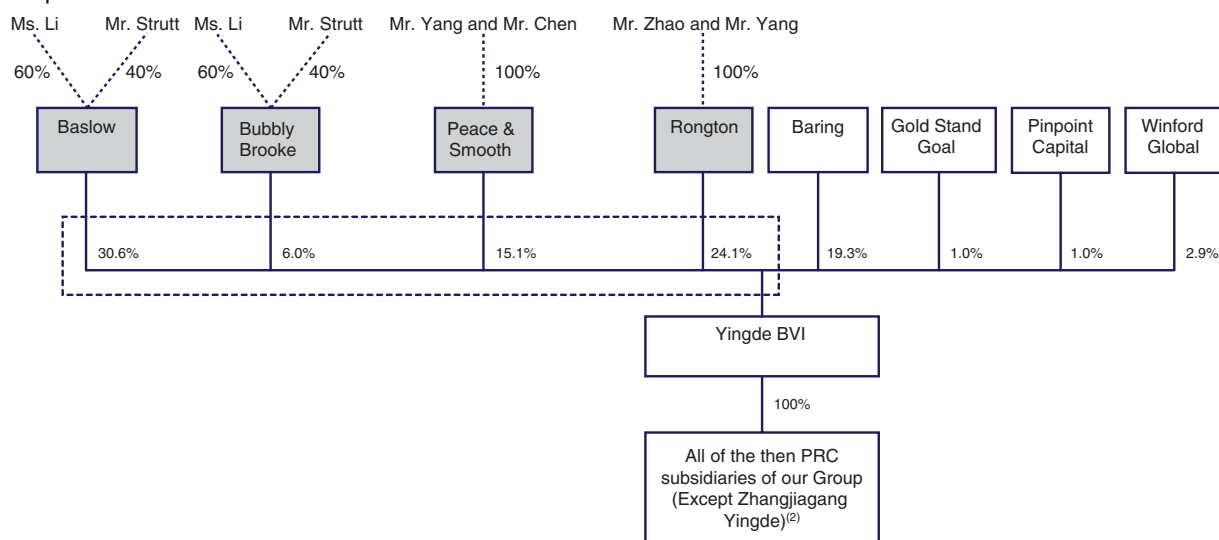
- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Winford Global Investments Limited is a company incorporated in the British Virgin Islands and is an independent third party of our Group. Our directors believe that Winford Global invested in our Group because it recognized the growth potential of our Group.
- (3) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde.

Further issuance of shares on June 29, 2007

On June 29, 2007, Yingde BVI issued 102 ordinary shares, accounting for approximately 0.6% of the then total issued share capital of Yingde BVI, to Baring pursuant to a US\$2 million subscription agreement. For further information please refer to the section headed “Our History and Reorganization — Information Regarding Baring — US\$2 million subscription of ordinary shares” below.

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The following chart illustrates the corporate structure of our Group after completion of the above step⁽¹⁾:



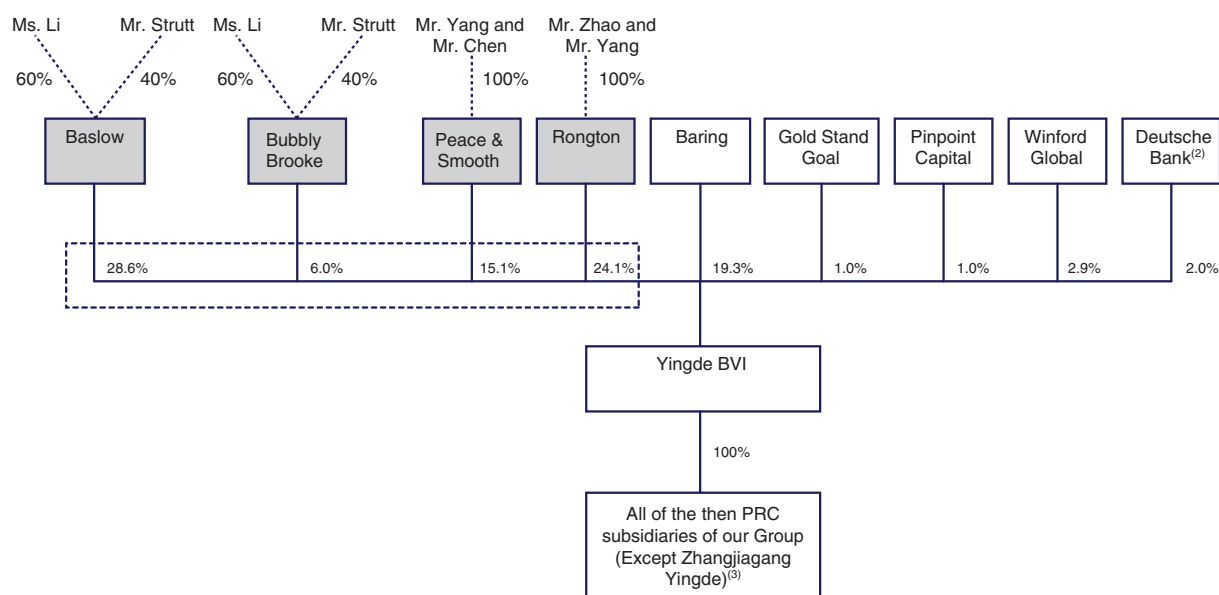
Notes:

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Hunan Yingde holds 75% equity in Zhangjiagang Yingde.

Further disposal of shares by a shareholder on August 3, 2007

On August 3, 2007, Baslow, disposed of 282 ordinary shares, accounting for approximately 2.0% of the then total issued share capital of Yingde BVI, to Deutsche Bank AG, acting through its Hong Kong Branch.

The following chart illustrates the corporate structure of our Group after this disposal⁽¹⁾:



Notes:

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Deutsche Bank is an independent third party of our Group.
- (3) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde.

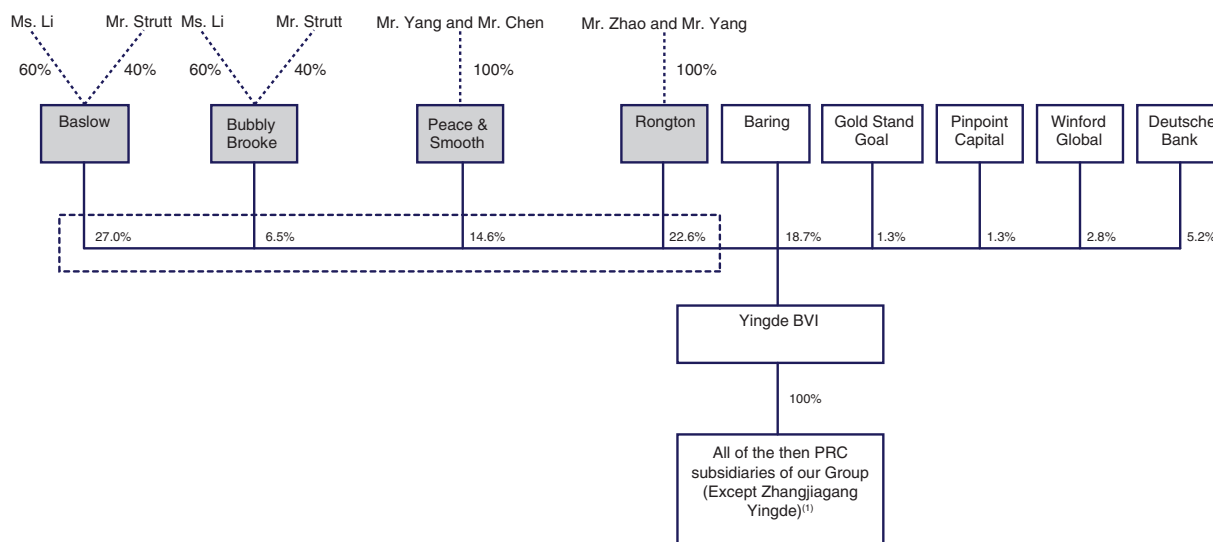
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Further disposal of shares by our shareholders, issuance of new shares and exercise of options in November 2007

In November 2007, the following events occurred:

- (i) Rongton sold 50 ordinary shares in Yingde BVI to Pinpoint Capital, accounting for approximately 0.3% of the then total issued share capital of Yingde BVI, on November 21, 2007;
- (ii) Rongton sold 50 ordinary shares in Yingde BVI to Gold Stand Goal, accounting for approximately 0.3% of the then total issued share capital of Yingde BVI, on November 21, 2007;
- (iii) 488 ordinary shares of Yingde BVI, accounting for approximately 3.2% of the then total issued share capital of Yingde BVI, were issued on November 19, 2007 to Deutsche Securities Nominees Hong Kong Limited, a subsidiary of one of our existing shareholders, Deutsche Bank AG, for approximately US\$39.3 million in order to raise capital to fund our business expansion and project development; and
- (iv) The 100 share options held by each of Mr. Zhao for the benefit of Rongton and Mr. Strutt for the benefit of Baslow were exercised, resulting in the issuance of 100 ordinary shares of Yingde BVI to each of Rongton and Bubbly Brooke on November 11, 2007. The 100 options originally issued to Mr. Strutt and held for the benefit of Baslow was exercised under the name of Bubbly Brooke because Bubbly Brooke held all its shares in Yingde BVI on trust for Baslow.

The following chart illustrates the corporate structure of our Group upon the occurrence of these events:



Note:

(1) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde.

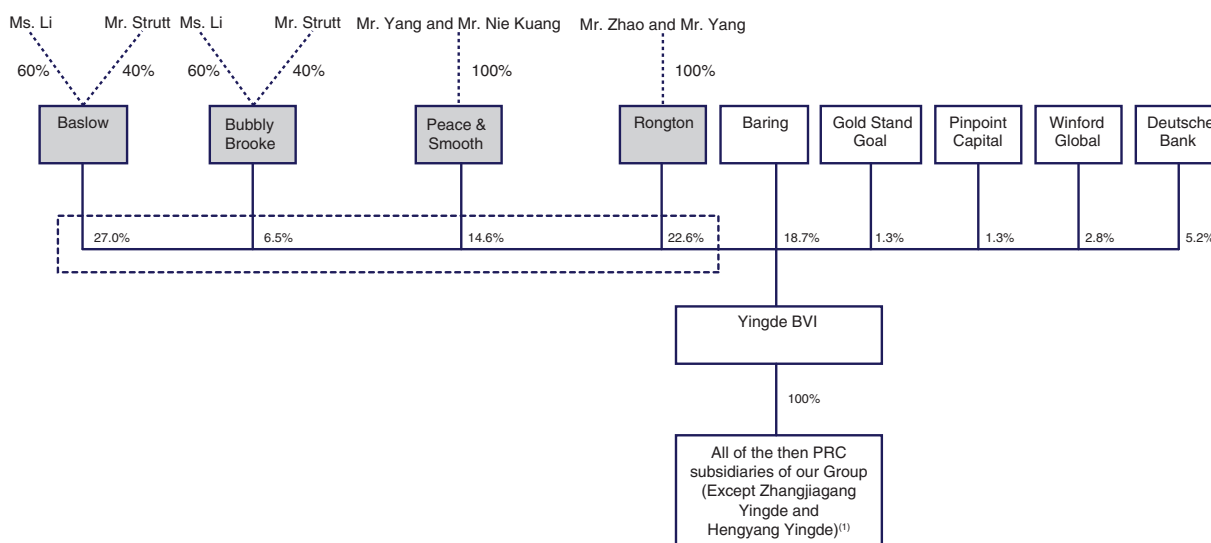
Mr. Nie Kuang replaced Mr. Chen Yan as a representative of the former Torch management team on March 6, 2009

On March 6, 2009, Mr. Nie Kuang replaced Mr. Chen Yan as a representative of the 31 members of the former Torch management team and accordingly, Mr. Nie Kuang became the registered shareholder of all of the Peace & Smooth shares previously held by Mr. Chen Yan. Mr. Nie Kuang is the son of Mr. Nie Xinyong and is well known to the former Torch management team. We understand that Mr. Nie Kuang has never been a director nor held any management or other position in Torch, and did not have any involvement in the previous non-compliance of Torch as disclosed in the section

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headed “Further Information on Torch” above. Mr. Nie Kuang’s role is limited to being an indirect shareholder of our Company arising from his role as a shareholder of Peace & Smooth and a representative of the 31 members of former Torch management, Mr. Nie Kuang does not hold any directorship or management or other position in our Group nor have any influence on the business or internal control of our Group. Other than disclosed in this document, Mr. Nie Kuang is not an associate of our Company or our connected persons. Please see the paragraph headed “Arrangement among shareholders of Peace & Smooth, Rongton and the 31 members of the former Torch management” in this section for further details.

The following chart illustrates the corporate structure of our Group upon the occurrence of this event:



Note:

(1) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde. Hunan Yingde and Yingde BVI collectively hold a 70% equity interest in Hengyang Yingde which was established on December 23, 2008.

Arrangements among shareholders of Peace & Smooth, Rongton and the 31 members of the former Torch management

A total of 31 members of the former Torch management team, led by Mr. Nie Xinyong, Mr. Zhao and Mr. Yang, contributed financing to the establishment of Hunan Yingde. Please see the section headed “Background” above. Pursuant to the arrangements between Mr. Nie Xinyong, Mr. Zhao and Mr. Yang and the other members of the former Torch management, QYSD, Peace & Smooth and Rongton were the entities through which the representatives’ investments were made with financial contributions from the 31 members. Certain representatives of the 31 members, including Mr. Zhao, Mr. Yang and, subsequently, Mr. Chen (who became a representative from May 24, 2005 replacing Mr. Deng Jun and Mr. Tang Lin), and Mr. Nie Kuang (who became a representative from March 6, 2009 replacing Mr. Chen) were the shareholders of these entities, exercising all shareholder rights including voting rights in respect of the shares, and dividend rights. The representatives agreed to pass on the economic benefits consequent upon any disposal of shares of Hunan Yingde, or as the case may be, our Company by these entities to the relevant 31 members as recognition of their financial contributions. These representatives controlled and managed the 31 members’ investment in our Company. They were also the senior members of the former Torch management (or their associates) who introduced this investment opportunity to the other members. As at the Latest Practicable Date, Peace & Smooth and Rongton are the registered shareholders of our Company, and as such, they are the legal owners of the Shares in our Company. The representatives, being the legal owners of Peace & Smooth and Rongton shares, are deemed to be interested in the Shares held by Peace & Smooth and Rongton.

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Pursuant to the arrangements between the representatives and the 31 members, the representatives have the right to initiate disposal of the Shares held by Peace & Smooth and Rongton, but consent of the 31 members for such disposal is required. On the other hand, the 31 members are also entitled to request for disposal of the Shares held by Peace & Smooth and Rongton, but consent of the representatives for such disposal is required. Our PRC legal advisors have also confirmed these arrangements between the 31 members and the representatives are legal, valid and binding under PRC law. The representatives may refuse to dispose of the Shares held by Peace & Smooth and Rongton despite the unwillingness or objections of the 31 members. In the event that there is no disposal of the Shares held by Peace & Smooth and Rongton, the representatives will continue to enjoy the dividends and voting rights they are entitled to under the investment arrangements with the 31 members (who are only entitled to the economic interest upon disposal). Disagreements between the representatives and the 31 members may be resolved through good faith and amicable discussions and negotiations. Any disagreement that cannot be resolved through this process will be submitted for arbitration by the Shanghai Arbitration Commission.

The representatives are also entitled to receive 3% of the proceeds from the disposal of the Shares as their fee for managing the investment on behalf of the 31 members. The 31 members receive returns for providing financial resources in support of the establishment of Hunan Yingde and our Group in the form of proceeds upon sale of the shares of Hunan Yingde or, as the case may be, our Company. These arrangements between the 31 members of the former Torch management team and the representatives also extended to companies formed subsequently to hold these investments, including Seabright. The 31 members of the former Torch management team personally funded their respective investments in our Group for their individual benefit and were not acting for the benefit of Torch.

Among the 31 members, Mr. Nie Xinyong, Mr. Zhao and Mr. Yang hold the largest economic interest in the proceeds upon disposal of the Shares: their combined interests account for approximately 47.4% of that portion of the total issued share capital of our Company in which the 31 members have an interest, representing an economic interest proportionate to approximately 17.6% of the total Shares as at the Latest Practicable Date (assuming all of the Preferred Shares have been converted into the Shares). The economic interests of each of the remaining members of the 31 members of the former Torch management team are between 1% and 3% of that portion of the total issued share capital of our Company in which the 31 members have an interest, representing in aggregate approximately 19.6% of the total Shares as at the Latest Practicable Date (assuming all of the Preferred Shares have been converted into Shares).

(i) Arrangements with respect to Peace & Smooth

Each of Mr. Nie Kuang and Mr. Yang holds a 50% interest in Peace & Smooth, pursuant to which they hold the economic interests in the proceeds upon any disposal of the Shares held by Peace & Smooth on behalf of 15 people amongst the 31 members of the former Torch management team, including Mr. Nie Xinyong and Mr. Yang. The economic interests of Mr. Nie Xinyong and Mr. Yang in the Shares held through Peace & Smooth amounts to approximately 34.9% and 6.1% respectively of the Shares held by Peace & Smooth as at the Latest Practicable Date.

Each of these 15 members initially entered into agreements with Mr. Zhao and Mr. Yang dated September 8, 2001 setting out the arrangements between them with regard to their financial contributions to Hunan Yingde, and entered into further agreements with Mr. Chen and Mr. Yang dated November 8, 2007. Further agreements with Mr. Nie Kuang and Mr. Yang were entered into on or about June 10, 2009 which superseded the 2001 and 2007 agreements and formalized and particularized these arrangements. These trust agreements entered into in 2001, 2007 and 2009 are governed by PRC law and our PRC legal advisors are of the view that these agreements are legal, valid and binding under PRC law. Mr. Nie Kuang and Mr. Yang have agreed to pass on the economic interests in the proceeds of any disposal of the Shares held by Peace & Smooth to these 15 members in proportion to the contributions they made to Hunan Yingde. Pursuant to the arrangements, Mr. Nie

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Kuang and Mr. Yang shall exercise all shareholder rights in relation to the shares held in Peace & Smooth and our Company, including voting rights and the rights to receive dividends. In addition, Mr. Nie Kuang and Mr. Yang retain the right to decide, with the consent of the 15 members, the timing and amount of any disposals of the Shares, which they will exercise after taking into account various factors which may include lock-up undertakings, legal implications and market conditions. The members may request Mr. Nie Kuang and Mr. Yang to dispose of the Shares, and Mr. Nie Kuang and Mr. Yang are entitled to consider such request after taking into account the above factors.

(ii) Arrangements with respect to Rongton

Mr. Zhao and Mr. Yang hold a 55% and a 45% interest in Rongton, respectively, pursuant to which they hold the economic interests in the proceeds of any disposal of the Shares held by Rongton on behalf of a group of 18 people amongst the 31 members of the former Torch management team, including Mr. Nie Xinyong, Mr. Zhao and Mr. Yang. The economic interests of Mr. Nie Xinyong, Mr. Zhao and Mr. Yang in the Shares held through Rongton are approximately 22.5%, 15.3% and 11.2% respectively of the Shares held by Rongton as at the Latest Practicable Date.

Each of these 18 members initially entered into agreements with Mr. Zhao and Mr. Yang dated September 8, 2001 setting out the arrangements between them with regard to their contributions to Hunan Yingde, and entered into further agreements dated November 8, 2007. Further agreements with Mr. Zhao and Mr. Yang were entered into on or about June 10, 2009 which superseded the 2001 and 2007 agreements and formalized and particularized these arrangements. These trust agreements entered into in 2001, 2007 and 2009 are governed by PRC law and our PRC legal advisors are of the view that these agreements are legal, valid and binding under PRC law. Mr. Zhao and Mr. Yang have agreed to pass on the economic interests in the proceeds of any disposal of the Shares held by Rongton to these 18 members in proportion to the contributions they made to Hunan Yingde. Pursuant to the arrangements, Mr. Zhao and Mr. Yang shall exercise all shareholder rights in relation to the shares held in Rongton and our Company, including voting rights and the rights to receive dividends. In addition, Mr. Zhao and Mr. Yang retain the right to decide, with the consent of the 18 members, the timing and amounts of any disposals of the Shares, which they will exercise after taking into account various factors which may include lock-up undertakings, legal implications and market conditions. The members may request Mr. Zhao and Mr. Yang to dispose of the Shares, and Mr. Zhao and Mr. Yang are entitled to consider such request after taking into account the above factors.

Controlling Shareholders

The following parties constitute the core group of shareholders who exercise voting control over the relevant shares of our Group held through the relevant shareholding companies from January 1, 2007:

- Baslow and Bubbly Brooke — Ms. Li owned 60% of the voting power and economic interest in Baslow and nominated Mr. Strutt to act as her trustee and representative. Mr. Strutt owned and controlled the remaining 40% voting power and economic interest in Baslow. Bubbly Brooke holds all of its shares in Yingde BVI on trust for Baslow;
- Peace & Smooth — Mr. Nie Kuang and Mr. Yang collectively exercise control over 100% of the shares of Peace & Smooth. They have agreed to pass on the economic interest in the proceeds upon disposal of shares to certain of the 31 members of former Torch management in recognition of their financial contributions in respect of the investment in our Group but retain control over the voting power in respect of the shares in our Group. The economic interest in the proceeds of any disposal of the Shares held by Peace & Smooth is to be shared amongst 15 of the 31 members of former Torch management, and the composition of these 15 people has not change since January 1, 2007; and
- Rongton — Mr. Zhao and Mr. Yang collectively exercise control over 100% of the shares of Rongton. They have agreed to pass on the economic interest in the proceeds upon

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disposal of shares to certain of the 31 members of former Torch management in recognition of their financial contributions in respect of the investment in our Group but retain control over the voting power in respect of the shares in our Group. The economic interest in the proceeds of any disposal of the Shares held by Rongton is to be shared amongst 18 of the 31 members of former Torch management, and the composition of these 18 people has not changed since January 1, 2007. Mr. Nie Xinyong and Mr. Yang, as members of the 31 members of former Torch management, have economic interests in the Shares held by Rongton and Peace & Smooth.

In addition:

- an agreement on voting arrangements in Hunan Yingde was entered into on December 18, 2001 amongst Baslow, Peace & Smooth, QYSD and Tongyue to the effect that Baslow, Peace & Smooth, QYSD and Tongyue shall vote together with respect to decisions in connection with Hunan Yingde. Our PRC legal advisors confirm that it is with the power of the representatives, without the consent of the 31 members, to enter into and perform the agreement on voting arrangements of December 18, 2001 and to agree and continue to agree on the terms and conditions of such agreement, and the agreements dated August 18, 2006 and August 23, 2006 confirming that the agreement on voting arrangements will be honored. Peace & Smooth, QYSD and Tongyue entered into the agreement on voting arrangements with Baslow, rather than Torch, because Mr. Zhao, Mr. Yang, Mr. Sun and Ms. Li personally shared the same vision in respect of the long-term development and business objectives of our Group;
- Ms. Li and Mr. Strutt act in concert with the other Controlling Shareholders of our Company through their investment vehicle, Baslow, which is a party to the voting agreement dated December 18, 2001. Ms. Li and Mr. Strutt have acted in concert with the other Controlling Shareholders through Bubbly Brooke since January 26, 2007 when Bubbly Brooke began to hold all its shares in Yingde BVI on trust for Baslow. Bubbly Brooke became bound by the voting agreement dated December 18, 2001 as Baslow was the trustee of Bubbly Brooke;
- on September 16, 2009, Baslow, Bubbly Brooke, Peace & Smooth, Rongton, Mr. Zhao, Mr. Yang, Mr. Nie Kuang, Ms. Li and Mr. Strutt entered into a new voting arrangement with substantially similar terms as the voting agreement dated December 18, 2001; and
- during the Track Record Period, the representatives of Baslow, Peace & Smooth and QYSD or Rongton (as the case may be) on the board of directors of our Group always voted in the same manner in relation to all management and operational decisions concerning our Group.

On the basis set out above, Baslow, Bubbly Brooke, Peace & Smooth and Rongton have collectively exercised control over more than 50% of the voting power and shares of Yingde BVI and subsequently our Company since January 1, 2007. Accordingly, these entities together with Ms. Li, Mr. Strutt, and the representatives of the former Torch management team (Mr. Nie Kuang, Mr. Zhao and Mr. Yang) are considered to comprise the group of Controlling Shareholders of our Company.

INFORMATION REGARDING BARING

Baring Private Equity Asia III Holding (7A) Limited is an investment holding company whose entire share capital is owned by The Baring Asia Private Equity Fund III, a private equity fund comprising limited partnerships established in the Cayman Islands.

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The investment by Baring in our Group consisted of the following:

(a) US\$14 million Preferred Shares

On June 20, 2006, Yingde BVI entered into a convertible redeemable preferred shares subscription agreement with Baring pursuant to which Yingde BVI agreed to issue and allot and Baring agreed to subscribe for 2,000 Preferred Shares and 850 ordinary shares (to be issued and allotted to Bubbly Brooke) in the share capital of Yingde BVI (representing approximately 23.8% and 10.1%, respectively, of the then existing issued share capital of Yingde BVI on a fully diluted basis assuming all Preferred Shares were converted into ordinary shares of Yingde BVI and the exercise in full of all outstanding options) for cash consideration of US\$14 million. The settlement date was June 23, 2006. The Preferred Shares may be converted into ordinary shares of Yingde BVI at the option of Baring or redeemed pursuant to the convertible redeemable preferred shares subscription agreement. All the Preferred Shares will be automatically converted into Shares immediately prior to [●].

The proceeds from the issuance of the Preferred Shares to Baring were applied for the acquisition of 48.5% interest in Hunan Yingde from Torch and Huikeying as part of the Reorganization. As the proceeds were applied for the acquisition of a minority interest in Hunan Yingde, our directors are of the view that the use of the proceeds from the issuance of the Preferred Shares is of a capital nature.

Consideration for the issuance of the Preferred Shares under the convertible redeemable preferred shares subscription agreement relating to Yingde BVI was determined through commercial negotiation between us and Baring to reach a then fair valuation of our Group. The Preferred Shares were issued at equivalent to approximately HK\$0.55 per Share based on the total number of issued Shares. The conditions precedent included Yingde BVI entering into a loan agreement with Baring, and Yingde BVI, Peace & Smooth and Baslow having complied with all the representations, warranties and undertakings, which they made to Baring.

Pursuant to the subscription agreement described above, all the Preferred Shares held by Baring will be automatically converted into Shares immediately prior to [●].

(b) US\$20.2 million loan facility

On June 20, 2006, Yingde BVI entered into a loan facility agreement with Baring pursuant to which an affiliate of Baring agreed to provide a US\$20.2 million loan facility to Yingde BVI, of which US\$6 million was a convertible loan facility. On December 29, 2006, the convertible loan and the interest accrued thereon were converted into 502 ordinary shares of Yingde BVI (representing approximately 3.6% of the then existing issued share capital of Yingde BVI on a fully diluted basis assuming all Preferred Shares were converted into the ordinary shares of Yingde BVI). The ordinary shares issued by Yingde BVI pursuant to the conversion of the convertible loan ranked equally with all the other ordinary shares in the share capital of Yingde BVI at that time with no special terms and conditions attached. The remaining US\$14.2 million loan facility and the interest accrued thereon have been fully repaid.

Consideration for the US\$20.2 million loan facility including the US\$6 million convertible loan facility was determined through commercial negotiation between us and Baring to reach the then fair valuation of our Group. The annual rate of interest payable was determined by the lender to be the aggregate of 3% and the Singapore inter-bank borrowing rate for US dollars as quoted by The Hongkong and Shanghai Banking Corporation Limited. The shares issued pursuant to the US\$6 million convertible loan facility were issued at equivalent to approximately HK\$0.93 per Share based on the total number of issued Shares prior to [●].

OUR HISTORY AND REORGANIZATION

(c) US\$2 million subscription of ordinary shares

On December 29, 2006, Yingde BVI and Baring entered into a subscription agreement relating to the subscription for 102 ordinary shares in Yingde BVI by Baring (representing approximately 0.7% of the then existing issued share capital of Yingde BVI on a fully diluted basis assuming all Preferred Shares were converted into ordinary shares of Yingde BVI). The ordinary shares issued by Yingde BVI pursuant to the subscription agreement ranked equally with all other ordinary shares in the share capital of Yingde BVI at that time with no special terms and conditions attached. The settlement date was December 31, 2006.

Consideration for the subscription agreement relating to the subscription for the 102 ordinary shares in Yingde BVI by Baring was determined through commercial negotiation between us and Baring to reach a then fair valuation of our Group. The shares issued pursuant to the ordinary share subscription agreement were issued at equivalent to approximately HK\$1.53 per Share based on the total number of issued Shares.

Conversion of Preferred Shares

The Preferred Shares comprise three components: (a) a derivative liability on currency swap; (b) a liability component; and (c) an equity component. The derivative liability on currency swap and the liability component are presented as current liability and the equity component is presented as other reserve within the equity.

If the Preferred Shares are converted into Shares, the other reserve, together with the carrying amount of the liability at the time of conversion, will be transferred to share capital and share premium as consideration for the Shares issued. Our directors confirmed that there will be no impact on our consolidated income statement.

All of the Preferred Shares held by Baring will be converted into Shares immediately prior to [●]. Upon such conversion, no Preferred Shares will be outstanding and, as a result, none of the terms and rights of the Preferred Shares will be applicable.

OUR HISTORY AND REORGANIZATION

INFORMATION ON THE OTHER FINANCIAL INVESTORS

The table below sets out information relating to the other financial investors:

Investor	Shareholding in our Company as at the Latest Practicable Date	Number of Shares	Consideration paid	Settlement date
Gold Stand Goal	1.3%	14,100,000	US\$ 3,800,000	End of February 2007
An investment holding company incorporated in the British Virgin Islands, and an independent third party of our Group. Gold Stand Goal Limited and Pinpoint Capital 2006 A Limited belong to the same fund.		5,000,000	US\$ 4,024,643	November 20, 2007
Pinpoint Capital	1.3%	14,100,000	US\$ 3,800,000	End of February 2007
An investment holding company incorporated in the British Virgin Islands, and an independent third party of our Group. Gold Stand Goal Limited and Pinpoint Capital 2006 A Limited belong to the same fund. Such fund invests in new energy and services industries and has invested in LDK Solar Co. Ltd., a company listed on the New York Stock Exchange.		5,000,000	US\$ 4,024,643	November 20, 2007
Winford Global	2.8%	27,000,000	US\$12,507,008	June 8, 2007 (with majority of payment made by May 30, 2007)
An investment holding company incorporated in the British Virgin Islands, and an independent third party of our Group.		14,100,000	US\$ 6,531,437	
Deutsche Bank	5.2%	28,200,000	US\$13,207,656	August 6, 2007
An international financial institution, the parent company of Deutsche Securities Nominees Hong Kong Limited, and an independent third party of our Group.		48,800,000	US\$39,263,080	November 19, 2007

The Shares held by Deutsche Bank were acquired at an average cost equivalent to approximately HK\$5.32 per Share based on the total number of issued Shares.

The Shares held by Gold Stand Goal were acquired at an average cost equivalent to approximately HK\$3.20 per Share based on the total number of issued Shares.

The Shares held by Pinpoint Capital were acquired at a cost equivalent to approximately HK\$3.20 per Share based on the total number of issued Shares.

The Shares held by Winford Capital were acquired at an average cost equivalent to approximately HK\$3.61 per Share based on the total number of issued Shares.

REORGANIZATION

We undertook the following steps in connection with our Reorganization:

Incorporation of our Company

Our Company was incorporated in the Cayman Islands on September 25, 2007 with an authorized share capital of US\$50,000 divided into 50,000 Shares with a nominal value of US\$1.00 per Share.

OUR HISTORY AND REORGANIZATION

On July 21, 2008, each share in the capital of our Company with a nominal value of US\$1.00 each was sub-divided into 1,000,000 shares of par value of US\$0.000001 each, after which the authorized share capital of our Company of US\$50,000 was divided into 49,600,000,000 ordinary shares of US\$0.000001 par value each and 400,000,000 preferred shares of US\$0.000001 par value each.

Share exchange

On July 10, 2009, our Company conducted a share exchange pursuant to which all the shares in Yingde BVI were exchanged for the Shares. The consideration for this share exchange was satisfied by an issue of a total of 1,269,000,000 Shares and 200,000,000 Preferred Shares to the then shareholders of Yingde BVI. On July 10, 2009, the authorized share capital of our Company was redesignated as 49,800,000,000 ordinary shares of US\$0.000001 par value each and 200,000,000 preferred shares of US\$0.000001 par value each. As a result of this share exchange, Yingde BVI became wholly-owned by our Company.

Rationalization of shareholding by Baslow and Bubbly Brooke

Ms. Li and Mr. Strutt decided to rationalize their respective shareholding in our Company in preparation for the initial public offering of the Shares and on the same date as executing the share exchange agreement, reached an agreement that Baslow should continue to be the investment vehicle representing the interest of Mr. Strutt (i.e. 40% of aggregate interest in our Company held through Baslow and Bubbly Brooke) and Bubbly Brooke should continue to be used as the investment vehicle representing the interest of Ms. Li (i.e. 60% of aggregate interest in our Company held through Baslow and Bubbly Brooke which was previously held by Mr. Strutt and Bubbly Brooke on trust). Ms. Li and Mr. Strutt achieved such rationalization of their respective interests during the share exchange process in which Bubbly Brooke received additional Shares from Baslow in order to achieve the agreement reached between Ms. Li and Mr. Strutt. Baslow and Bubbly Brooke held approximately 13.4% and 20.1% of the total issued share capital of our Company after our Reorganization, respectively. The purpose of this swap in investment vehicles was to achieve a more streamlined shareholding structure. This rationalization did not in substance change the ultimate beneficial interest in the Shares held by Ms. Li and Mr. Strutt. For further information on the shareholding in Baslow and Bubbly Brooke after the share exchange, please refer to the section headed “Substantial Shareholders” in this document.

Regulations on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC

The Rules on the Acquisition of Domestic Enterprises by Foreign Investors in the PRC, or the M&A Rules, came into effect on September 8, 2006. Under the M&A Rules, a foreign investor is required to obtain regulatory approvals when it (i) acquires equity of a domestic enterprise resulting in the conversion of the domestic enterprise into a foreign-invested enterprise; (ii) subscribes additional equity capital of a domestic enterprise resulting in the conversion of the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise and acquires assets from a domestic enterprise; or (iv) acquires the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. In addition, if a security offering involves a reorganization that falls within the scope of the activities described above, approval from the CSRC is required for the offering.

According to our Company’s PRC legal advisors, neither our Company nor Yingde BVI has conducted any activities described in the M&A Rules after September 8, 2006.

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OVERVIEW

We are the largest domestic independent industrial gas supplier specializing in on-site gas supply in China in terms of total revenue as at the end of 2008, based on the research information in the SAI Report.

We produce, supply and distribute a variety of industrial gas products to our on-site and merchant customers from a number of locations in the PRC, with oxygen, nitrogen and argon being our main gas products. Our on-site customers are customers for whom we have our gas production facilities located on or in close proximity to their premises and to whom we supply industrial gases directly. We own 100% equity interest in all of our subsidiaries conducting on-site operations, except for one joint venture company with one of our on-site customers (namely, Hengyang Yingde). Our merchant customers are generally liquid gas distributors who purchase industrial gases from us on a spot market basis from time to time.

We primarily focus on on-site gas supply, which generated 89.3% of our total revenue for the six months ended June 30, 2009. Through our on-site gas operations, which we generally own independently from our on-site customers, we design, construct, operate and maintain gas production facilities, assuring the reliability and stability of our industrial gas supplies to our on-site customers. Our on-site customers are primarily iron and steel companies which use our gas products as part of their production processes. We also supply gas products to the chemical and non-ferrous metals industries. We enter into long-term take-or-pay gas supply contracts with our on-site customers, generally with a duration of between 15 to 25 years. Pursuant to the terms of these take-or-pay gas supply contracts, our on-site customers undertake to purchase at least the specified minimum quantity of industrial gases from us throughout the contract term and they are required to pay for this minimum quantity even if their usage does not reach such minimum level.

In addition, we maintain a merchant gas operation for which we have one dedicated production facility currently in operation located in Nanjing and two production facilities under development in Yangzhou and Zhangjiagang, all located in Jiangsu province, as at the Latest Practicable Date. Gases that are sold through our merchant operations can be applied in the solar, electronics, glass, food, automotive and construction industries. Any remaining available capacity of our on-site gas production facilities is also utilized to produce gases for selling to the merchant market, which allows us to take full advantage of our production capacity to maximize sales revenue.

We distinguish ourselves in the industry by providing customized solutions, high quality products and competitive prices to a variety of on-site customers based on their specific needs. We have successfully built our customer base to include a group of established and high quality companies consisting of several leading iron and steel companies across different regions in China. We are generally the major outsourcing on-site industrial gas supplier for the production facilities of on-site customers, and our industrial gases are essential to our on-site customers' production processes. Accordingly, we enjoy entrenched relationships with our on-site customers, who we believe are reliant on us. We are frequently engaged by our on-site customers to expand existing production plants or to construct new production facilities in order to supply additional industrial gases for their expansion needs.

Since the establishment of our first subsidiary, Hunan Yingde, in October 2001 which commenced gas supply in May 2003, we have expanded our operations across the PRC to include 20 industrial gas production facilities currently in operation and another 12 production facilities under development as at the Latest Practicable Date. Upon completion of these 12 production facilities that are under development, we expect to increase our total installed capacity to approximately 848,800 Nm³/hr, in terms of installed oxygen capacity, representing a 135.1% increase from our total installed capacity of 361,000 Nm³/hr at the end of 2008.

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We believe our increasing production capacity, together with our proven track record, experienced management team, local market knowledge and focused geographic expansion, will place us in an advantageous position to capture the opportunities presented by the expected high growth of the outsourcing on-site industrial gas market in China.

For the three years ended December 31, 2008, our total revenue and profit from operations grew by a CAGR of 70.6% and 65.0%, respectively. For the year ended December 31, 2008, we generated total revenue and profit from operations of approximately RMB1,411.7 million and RMB489.9 million, respectively. For the six months ended June 30, 2009, we generated total revenue and profit from operations of approximately RMB917.2 million and RMB278.0 million, respectively. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our (loss)/profit attributable to the equity holders of our Company were approximately RMB(6.7) million, RMB177.0 million, RMB430.1 million and RMB232.5 million, respectively. Our profit/(loss) attributable to the equity holders of our Company has taken into account finance costs in relation to fair value adjustments and termination gain/loss relating to certain financial instruments that we issued, which amounted to a loss of RMB135.1 million, RMB38.3 million and RMB11.0 million for the two years ended December 31, 2006 and 2007 and the six months ended June 30, 2009, respectively; and a gain of RMB21.3 million for the year ended December 31, 2008. Please refer to the section headed “Financial Information — Factors Affecting Comparability” in this document for further details.

OUR COMPETITIVE STRENGTHS

We believe our achievements to date and potential for future growth can be attributed to a combination of our competitive strengths, including:

Market leader in the outsourcing on-site industrial gas market in China with a proven track record

We are the largest domestic independent industrial gas supplier specializing in on-site supply in China in terms of total revenue as at the end of 2008, based on the research information in the SAI Report. For the year ended December 31, 2008, our total sales revenue was RMB1,411.7 million. We had a total oxygen, nitrogen and argon installed capacity of 361,000 Nm³/hr, 545,500 Nm³/hr and 13,650 Nm³/hr, respectively, in relation to our gas production facilities in operation as at December 31, 2008, and a total sales volume of 1,861.1 million Nm³ for our oxygen product, 1,369.5 million Nm³ for our nitrogen product and 65.1 million Nm³ for our argon product. We have an established nation-wide gas supply network in the PRC with 20 industrial gas production facilities currently in operation and another 12 production facilities under development as at the Latest Practicable Date. These production facilities are located in eight provinces, one autonomous region and one municipality (Hunan, Jiangsu, Guangdong, Shaanxi, Shandong, Hebei, Shanxi, Guizhou, Inner Mongolia and Tianjin), all of which are expected to have a growing demand for industrial gases.

We have a proven track record in constructing and operating large-scale industrial gas production plants since we established our business in Hunan province in October 2001, which commenced gas supply in May 2003. Since our establishment, we have successfully implemented our expansion strategies in the PRC and established, constructed and commenced gas supply with respect to 20 industrial gas production facilities as at the Latest Practicable Date.

In addition, we have achieved a proven record of reliable and safe gas supply since production commenced at our first production plant in May 2003. This track record has helped us attract and establish a quality customer base.

Well positioned to capture future growth opportunities in the outsourcing on-site industrial gas market in China

As the largest domestic independent on-site gas supplier in China, with in-depth local knowledge and customer experience as well as our proven track record and project pipeline, we believe we are

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well-positioned to capture the opportunities presented by the anticipated high growth of the outsourcing on-site industrial gas market in China. Based on the research information in the SAI Report, the value of the outsourcing on-site industrial gas market in China was approximately US\$2.01 billion in 2008 and is expected to grow at a CAGR of 12.9% from 2008 to 2010, primarily driven by (i) expected continued GDP growth in the PRC; (ii) expected growth in the iron and steel, chemical and non-ferrous metals industries in the PRC, and corresponding growth in the industrial gas consumption in these industries; and (iii) increasing customer receptiveness to outsourced on-site industrial gas supply. We believe these factors present significant market opportunities for us.

Customized and efficient solutions resulting in short supply lead-time

We are able to provide customized solutions to our customers and establish efficient production facilities with short supply lead-time.

We compete based on the length of supply lead-time, which refers to the period from the signing of the gas supply contract with our on-site customer to the commencement of gas supply. Our optimized construction management practices allow us to adjust the supply lead-time of our production plants to accommodate our on-site customers’ project completion timing requirements, and deliver gas products to our on-site customers in a timely manner. Our ability to simultaneously construct several production facilities at different sites enables us to take advantage of efficient construction and procurement process. As a result, we believe we are able to achieve supply lead-time shorter than the industry average.

We adopt commercially sound procurement practices and use our advanced production integration systems, know-how and technological processes to lower initial capital expenditure and maximize operational efficiency across our operations. Our procurement process involves sourcing from a combination of local and overseas suppliers, who are able to offer reliable and high quality products. In addition, our team of experienced engineers and support staff draw on their extensive industry experience and our technological know-how to design, construct and operate efficient gas production plants, which also leads to savings in utility costs.

Entrenched relationships with high quality customers

We strive to establish a high quality customer base through our stringent customer selection process. We target potential on-site customers with strong financial conditions and favorable competitive advantages in their respective markets. Since production commenced at our first production plant in May 2003, we have successfully expanded our customer base to include a group of high quality companies consisting of several leading iron and steel companies across different regions in China including, Tianjin Steel Pipe Corporation, the single largest production plant for seamless steel pipes in the world, and Shaanxi Longmen Steel Company Limited, the largest steel company in Shaanxi province.

For further details on our customer base, please refer to the section headed “Business — Our Production Facilities”. Our customer-centric focus together with our reliability and safety record have contributed to our success in winning new on-site customers as well as maintaining sound relationships with our existing on-site customers.

We are generally the major on-site industrial gas supplier for the production facilities of our on-site customers that are served by us, and our industrial gases are an important component of our on-site customers’ production processes. Accordingly, we enjoy entrenched relationships with our on-site customers, who we believe are reliant on us. We believe we have achieved a high level of customer satisfaction and loyalty amongst our existing on-site customers. As a result, we have received a number of requests from our on-site customers to expand our existing production plants, or to

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construct new production facilities in order to supply additional industrial gases for their expansion needs.

We are diversifying our customer base into the rapidly growing chemical and non-ferrous metals industries. We believe our established and quality customer base has placed us in an advantageous position to grow our customer base further.

Strong and predictable earnings secured by long-term gas supply contracts

We generated approximately 89.3% of our total revenue from our on-site customers for the six months ended June 30, 2009. The revenue and income generated from our on-site operations are generally more stable and less exposed to market volatilities compared to those generated from our merchant operations.

We sign long-term take-or-pay gas supply contracts generally with a duration ranging from 15 to 25 years with our on-site customers. These gas supply contracts provide for a minimum quantity of industrial gas to be purchased by our on-site customers throughout the contract term. Our electricity costs, being the largest component of our cost of sales, accounted for approximately 87.5% of our total cost of sales for the six months ended June 30, 2009. We generally include price adjustment provisions in these gas supply contracts which allow us to pass on fluctuations in utility costs to our on-site customers, and hence maintain the stability of our gross profit margin.

Optimized geographic coverage and self-supporting network

Since our first plant commenced production in May 2003, we have engaged in a selective expansion of our production plant network in China, while taking into account the strategic value of each individual gas production plant to our overall expansion strategy. In addition, we have targeted locations that are highly industrialized or resource rich, including Inner Mongolia, Jiangsu, Shaanxi and Guangdong, all of which are expected to have a growing demand for industrial gases.

Due to the optimized geographic coverage of our business, we were able to leverage our existing production plants to complement our new projects when they are under development. For example, production plants within geographic proximity can support each other during the ramp-up period of our new production plant (the length of which is determined by the demand level of our on-site customers) to provide stable supplies and satisfy customers' demand. In addition, in the event of unforeseen production disruptions, we believe that the optimized geographic coverage of our production plants and self-supporting network is able to minimize disruptions and hence losses to our customers and our business.

Strong and experienced management and engineering teams with extensive operating experience and industry knowledge

Our senior management team, headed by our founders, Mr. Sun and Mr. Strutt, and key engineering personnel, possess extensive operating experience and industry knowledge in the industrial gas market in the PRC. Each of Mr. Sun and Mr. Strutt has more than ten years of experience in the industrial gas business including working with major international industrial gas companies in China.

Under their leadership, we have successfully established and maintained management and engineering teams with extensive regional experience and knowledge of the industrial gas market across different regions in China. Many of our managerial and technical staff have had experience working with leading international industrial gas companies. The experience and quality of our management and engineering teams have been demonstrated by our execution ability in building our Company into the largest domestic independent supplier of on-site industrial gases in China, and achieving profitability within the first 12 months of commencement of production at our first plant in May 2003.

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OUR STRATEGIES

We aim to consolidate and further strengthen our position as the leading domestic independent on-site industrial gas supplier in the PRC.

In order to achieve this, we intend to pursue the following strategies:

Capitalize on the outsourcing trend and consolidate and further strengthen our leading position in the outsourcing on-site industrial gas market in China

We seek to capitalize on the outsourcing trend in the China industrial gas market, continue to focus on the outsourcing on-site industrial gas market in the PRC, and aim to maintain our established and long-term relationships with, and strive to become the exclusive or primary outsourcing industrial gas supplier for, all of our on-site customers.

We will also seek to continue to attract new customers and expand our production capacity and geographic coverage. Pursuant to gas supply contracts executed with our on-site customers, we expect to invest approximately RMB1,234 million in connection with those facilities recently completed and to complete those production facilities currently under development as set out in the section headed "Business — Our Business — Our Production Facilities" in this document. Upon completion of these production facilities, and together with our existing production capacity currently under operation, we expect to increase our total gas installed capacity to approximately 848,800 Nm³/hr, in terms of installed oxygen capacity, representing a 135.1% increase from the capacity of 361,000 Nm³/hr at the end of 2008. In addition, we plan to continue to establish, construct and commission new production plants with an aim to maintain our leading domestic position in the outsourcing on-site industrial gas supply market in China.

We may also consider undertaking selective acquisitions of existing industrial gas suppliers in the PRC which satisfy our investment criteria to strengthen our market leading position.

Further enhance and expand our target market through industry diversification

We aim to continue to pursue our customer-focused approach to expand and further diversify our customer base to other markets including chemical, coal chemical and non-ferrous metals industries. For example, the on-site customer of our new production plant in Zhuzhou in Hunan province is in the non-ferrous metals industry, while the on-site customer of our new production plant in Fuquan in Guizhou province is in the chemical industry. We have also successfully secured the coal chemical subsidiary of China Shenhua Energy Group as one of our on-site customers.

Enhance our competitive strength in providing customized, unique and efficient solutions to our customers through continuous innovation and effort

One of the critical factors for our success and achievements to date has been our ability to provide customized, unique and efficient solutions to accommodate the needs of different on-site customers. We will strive to further enhance this competitive strength by:

- further developing innovative solutions to suit the needs of different on-site customers;
- solidifying our relationships with equipment manufacturers and component suppliers, domestically and overseas;
- managing the construction phase of our new projects to accommodate our on-site customers' project completion timing requirements as part of our endeavor to provide customized solutions;

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- endeavoring to expand product offerings to include capital- or technology-intensive gas products such as syngas, fuel gases and other specialty gases; and
- continuing to reduce costs and improve efficiency.

Continue to attract and retain highly skilled personnel

The successful implementation of our growth strategies by our experienced management team and employees has been critical to our accomplishment to date. Attracting and retaining highly skilled personnel has been, and will remain, critical to our success.

We plan to continue to attract and retain highly skilled personnel and further strengthen our corporate culture by continuing to invest in employee training and other professional development programs. We also plan to provide our employees with growth opportunities, performance-based incentives linked to individual contributions and our operational results and other attractive benefits to further align employees' interests with those of our shareholders.

OUR BUSINESS

Our Products and Services

We design, construct, operate and maintain gas production facilities; produce, supply and distribute liquid and non-liquid industrial gases; and provide ancillary services to our on-site customers. We also produce, supply and distribute liquid industrial gases to customers in the merchant market.

Through our on-site gas supply operations, we design, construct, operate and maintain gas production facilities on or in close proximity to our on-site customers' production sites, and supply our on-site customers with industrial gas products, assuring the reliability and stability of their industrial gas supplies. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, revenue from our on-site operations was RMB399.5 million, RMB625.9 million, RMB1,137.2 million and RMB819.0 million, respectively, representing 82.4%, 79.9%, 80.6% and 89.3% of our total revenue for the respective periods.

In relation to our on-site operations, we identify and then enter into definitive long-term gas supply contracts with our on-site customers. After we have entered into definitive long-term gas supply contracts, we commence construction of production facilities. After construction is completed, we commence gas supplies in accordance with the terms of the long-term gas supply contract. Therefore, we will not commence construction of a production facility prior to identification of an on-site customer and the execution of a long-term gas supply contract with such on-site customer.

We sign long-term take-or-pay gas supply contracts with our on-site customers. These gas supply contracts are generally for a term ranging from 15 to 25 years. The gas supply contracts provide for a minimum volume of gas products (where applicable, the minimum volume for different types of gas products) our on-site customers are required to purchase from us throughout the term of the gas supply contract. Where our on-site customer fails to utilize the minimum off-take volume, it is still under an obligation to pay us for the minimum off-take volume.

Our gas supply contracts generally stipulate the minimum production capacity with respect to the gas production facility that we are obliged to construct and sometimes a specified gas production capacity for different types of gas products. There are generally provisions on the specifications of the gas products that we are required to supply to our on-site customers, such as purity, pressure level, temperature and hourly supply quantity. The gas supply contracts generally also contain terms enabling us to make adjustments to gas prices to take into account fluctuations in utility prices. Our on-site customers are generally required to provide us with electricity as part of the gas supply contracts and, as such, if we suffer losses resulting from our on-site customer's breach of contract by failing to provide the required electricity, we would be entitled to compensation from the relevant on-site customer. Whilst our gas supply contracts do not stipulate which party would be responsible for losses

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or damages caused to a third party, our PRC legal advisors advise that under PRC law, the party responsible for causing losses or damages would be liable to such third parties. We are also entitled to compensation for losses resulting from breach of contract by our on-site customers who fail to provide or secure the parcels of land for us, including losses for relocation and demolition.

We take into account a number of considerations before entering into a gas supply contract with an on-site customer including the potential on-site customer's industry profile, financial background and whether the project is in line with our business strategy. After we have entered into the gas supply contract with an on-site customer, we commence construction of our production facilities pursuant to our obligation under the gas supply contract. We finance the entire cost of construction and we own the facilities constructed. The length of construction time varies and is affected by a number of factors, such as the requirements of our on-site customers, availability of funding, equipment and components, utilities and/or qualified personnel, unexpected technical problems, unforeseen developments at the construction sites and issues in connection with the construction subcontractors and other logistical issues. Upon the expiry of a gas supply contract, we may negotiate with our on-site customer to renew or sign a new gas supply contract, or we may dismantle and remove our production facilities. As at the Latest Practicable Date, none of our gas supply contracts has expired.

Our gas supply contracts generally provide that where we, in breach of our contractual obligations, fail to construct gas production facilities by the dates specified in such gas supply contracts or we fail to provide gas supplies at the agreed level to our on-site customers, we are liable to compensate our on-site customers and pay a specified monetary sum or a sum to be determined in accordance with a specified formula. Our gas supply contracts generally provide a limit on the total amount of compensation we are required to pay to our on-site customers for our breach of contract.

Our gas supply contracts generally provide that we can terminate the contract 40 days after the due date for payment from our on-site customer if such payment remains outstanding. After such termination, most of our gas supply contracts require our on-site customer to pay us a specified penalty or a penalty calculated using a specified formula. Generally, the circumstances which entitle us to claim against our on-site customers include late payment, breach of confidentiality and failure to provide us with suitable land, electricity, water, sewage or road access for us to construct and operate our gas production facilities. Save as disclosed in this document, neither we nor any of our on-site customers have terminated any gas supply contract prior to its expiry during the Track Record Period.

In addition, we maintain a merchant gas operation for which we have three dedicated production plants (one in operation and two under development) in the PRC, located in Nanjing, Yangzhou and Zhangjiagang in Jiangsu province. We also use the remaining available capacity of our on-site gas production facilities to produce industrial gases which we sell to local distributors in the merchant market. We offer both liquid gas supplies and compressed gas supplies. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, revenue from our merchant gas distribution operations was RMB85.6 million, RMB157.8 million, RMB274.5 million and RMB98.2 million, respectively, representing 17.6%, 20.1%, 19.4% and 10.7% of our total revenue for the respective periods.

On the basis set out above, we differentiate our on-site operation and merchant operation as well as the revenue generated from the respective operations in accordance with the type of customers to which we sell our gas products. In relation to the on-site operation, we generate revenue by selling our gas products to those customers with whom we have entered into long-term gas supply contracts. In relation to the merchant operation, we generally generate revenue by selling our gas products (which are produced from the remaining available capacities of our on-site production facilities as well as from our dedicated merchant production facilities) to local distributors in the spot market. The on-site production facilities referred to in this document relate to those facilities which are dedicated to serving our on-site customers pursuant to long-term gas supply contracts. The merchant production facilities referred to in this document relate to those facilities which we generally operate without entering into

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long-term gas supply contracts. However, we have entered into gas supply contracts with a selected number of merchant customers who have a stable and regular demand for our gas products, pursuant to which we supply industrial gas products on a regular basis during the term of the relevant gas supply contracts.

For our on-site operation, we construct and operate the gas production facilities ourselves. We then supply the industrial gases we produce to our on-site customers who pay us in accordance with the gas supply contracts. The payment terms we extend to our on-site customers generally range from 30 to 45 days. Extended credit terms are granted to certain on-site customers depending on the credit assessment carried out by our management on a case-by-case basis. For our merchant operation, we generally generate our revenue by selling the gases we produce to our merchant customers at market spot prices. We generally receive payment from our merchant customers on or prior to delivery.

Our Production Method

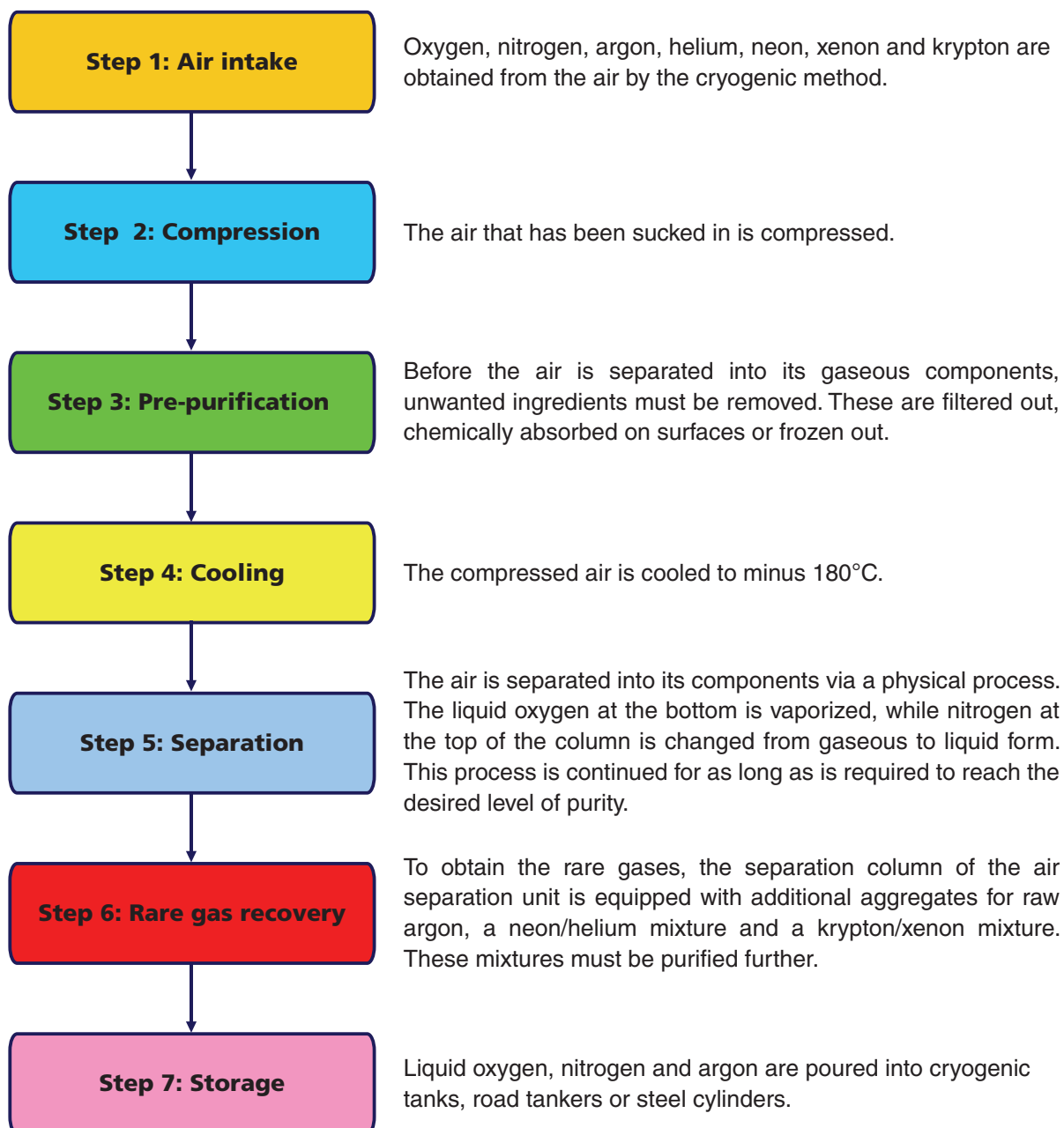
There are two major industrial gas production methods, namely the cryogenic and non-cryogenic processes, used to separate air components and to produce industrial gases.

- The cryogenic process uses very low temperature distillation to separate air ingredients and achieve desired product purity under the principle that different gases have different boiling points. We believe this is the most cost-effective means to produce gas products with the highest purity at a high production rate.
- The non-cryogenic process generates oxygen and nitrogen under near-ambient temperature by utilizing different properties of air ingredients, such as absorption rates or diffusion rates. We believe this is a suitable and cost-effective means of gas production when a high purity product is not required and/or when the required production rate is relatively low.

We primarily utilize the cryogenic process in our industrial gas production process. We believe the cryogenic process is more commonly used by industrial gas suppliers with large-scale operations.

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The following flow chart sets forth the major steps in the cryogenic process:



The core equipment used during the industrial gas production process is the air separation unit. The main parts and components of a typical air separation unit include: air filter, air compressor, refrigerator unit, molecular sieve purifier, electric heater, heat exchanger, turbo expander, rectification column, sub-cooler, oxygen storage balloon, oxygen compressor and oxygen filling system.

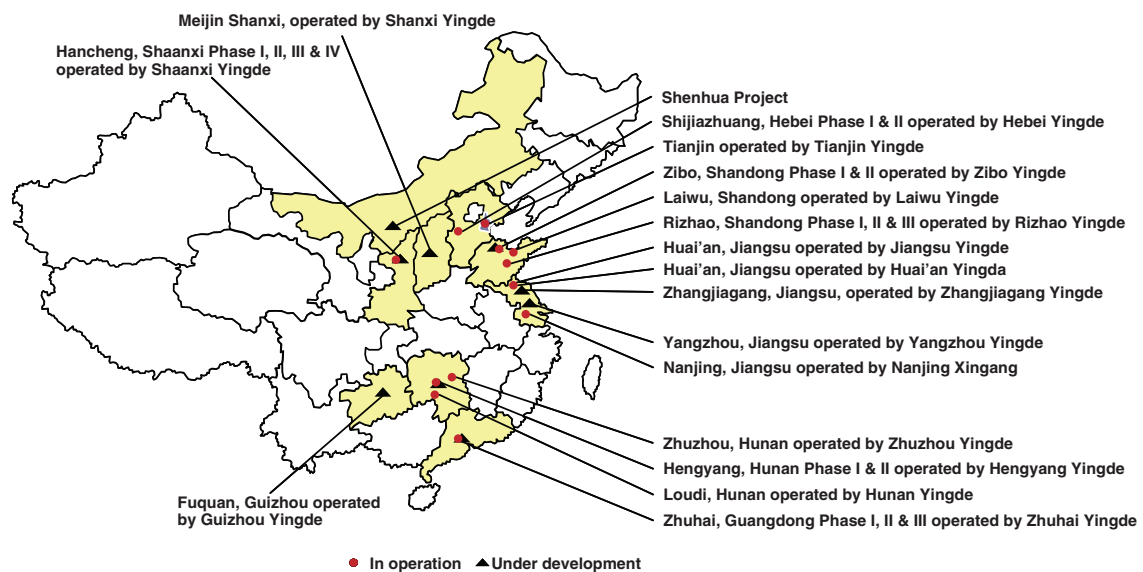
Our Production Facilities

We commenced our business in October 2001 with the establishment of our first subsidiary, Hunan Yingde, in Loudi, Hunan province. We completed the construction of our first production plant in early 2003 and commenced gas supplies to our first on-site customer in May 2003.

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Since 2003, we have expanded our production plant network and established a nation-wide gas supply network in China with 20 industrial gas production facilities in operation and another 12 industrial gas production facilities under development as at the Latest Practicable Date. Our industrial gas production plants (including those currently under development) are located in eight provinces, one autonomous region and one municipality across the PRC, namely, Hunan, Jiangsu, Guangdong, Shaanxi, Shandong, Hebei, Shanxi, Guizhou, Inner Mongolia and Tianjin.

The following map illustrates the locations in China where we have, and plan to have, industrial gas production facilities:



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The following table sets out certain information regarding our on-site and merchant industrial gas production facilities currently in operation:

Location/Subsidiary	Off-taker	Supply start time	Installed capacity (Nm ³ /hr)	Utilization rate ⁽¹⁾
On-site Facility				
Loudi Hunan, operated by Hunan Yingde	A major steel company based in Hunan	May 2003	Oxygen: 17,500 Argon: 630 Nitrogen: 18,000	92%
Huai'an Jiangsu, operated by Jiangsu Yingde	A major steel company based in Jiangsu	May 2004	Oxygen: 17,500 Argon: 630 Nitrogen: 18,000	77% ⁽²⁾
Hancheng Shaanxi Phase I, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	September 2004	Oxygen: 25,000 Argon: 800 Nitrogen: 25,000	93%
Zhuhai Guangdong, Phase I operated by Zhuhai Yingde	Zhuhai Yueyufeng Iron & Steel Company Limited	June 2005	Oxygen: 17,500 Argon: 630 Nitrogen: 18,000	86%
Tianjin, operated by Tianjin Yingde	Tianjin Steel Pipe Corporation	July 2005	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	86%
Rizhao Shandong Phase I, operated by Rizhao Yingde	Rizhao Steel Company Limited	May 2007	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	89% ⁽³⁾
Zibo Shandong Phase I, operated by Zibo Yingde	Zibo Qilin Fushan Steel Company Limited	September 2007 ⁽²⁾	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	47%
Shijiazhuang Hebei Phase I, operated by Hebei Yingde	Hebei Jingye Steel Company Limited	September 2007	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	75%
Hancheng Shaanxi Phase II, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	September 2007	Oxygen: 6,500 Nitrogen: 6,500	68%

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Location/Subsidiary	Off-taker	Supply start time	Installed capacity (Nm ³ /hr)	Utilization rate ⁽¹⁾
Rizhao Shandong Phase II, operated by Rizhao Yingde	Rizhao Steel Company Limited	November 2007	Oxygen: 42,000 Argon: 1,400 Nitrogen: 60,000	89% ⁽³⁾
Huai'an Jiangsu, operated by Huai'an Yingda	A major steel Company based in Jiangsu	March 2008	Oxygen: 28,000 Argon: 900 Nitrogen: 40,000	77% ⁽²⁾
Laiwu Shandong, operated by Laiwu Yingde	Taishan Steel Group Company Limited	July 2008	Oxygen: 28,000 Argon: 900 Nitrogen: 40,000	99%
Rizhao Shandong Phase III, operated by Rizhao Yingde	Rizhao Steel Company Limited	October 2008	Oxygen: 63,000 Argon: 2,000 Nitrogen: 120,000	89% ⁽³⁾
Shijiazhuang Hebei Phase II, operated by Hebei Yingde	Hebei Jingye Steel Company Limited	November 2008	Oxygen: 28,000 Argon: 900 Nitrogen: 40,000	62%
Hancheng Shaanxi Phase III, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	March 2009	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	N/A
Hengyang Hunan Phase I, operated by Hengyang Yingde ⁽⁴⁾	Hengyang Hualing Lianzhaguan Company Limited	April 2009	Oxygen: 3,800 Nitrogen: 4,000	N/A
	Hengyang Hualing Lianzhaguan Company Limited	April 2009	Oxygen: 6,000 Argon: 180 Nitrogen: 10,000	N/A
Zhuzhou Hunan, operated by Zhuzhou Yingde	Hunan Zhuzhou Yelian Huoju Jinshu Company Limited	June 2009	Oxygen: 6,500 Argon: 180 Nitrogen: 10,000	N/A
Zhuhai Guangdong Phase II, operated by Zhuhai Yingde	Zhuhai Yueyufeng Iron & Steel Company Limited	July 2009	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	N/A

Merchant Facility

Nanjing Jiangsu, operated by Nanjing Xingang	N/A	July 2006	Argon: 1,860	N/A
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Notes:

- (1) For the purpose of calculating the utilization rate, only the production facilities that were in operation throughout the entire six months ended June 30, 2009 were included. The figures refer to the utilization rate for the six months ended June 30, 2009, which is calculated according to the following formula:

$$\frac{\text{Total sales volume} - \text{purchases from third parties}}{\text{Installed oxygen capacity} \times 24 \text{ hours} \times 181 \text{ days}}$$

- (2) The utilization rate refers to the combined average utilization rate for Huai'an Jiangsu operated by Jiangsu Yingde and Huai'an Jiangsu operated by Huai'an Yingda.
- (3) The utilization rate refers to the combined average utilization rate for Rizhao Shandong Phases I, II and III.
- (4) Hengyang Phase I consists of two production facilities. We hold a 70% interest in Hengyang Yingde and the installed production capacity information provided in this table includes the entire installed production capacity of Hengyang Yingde.

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We set out below certain information regarding some of our on-site customers and the length of our supply lead-time with such on-site customers.

- The on-site customer at our production plant operated by Hunan Yingde is a major steel company based in Hunan, whose parent company is ranked 8th in China and 24th globally in terms of steel products output in 2008. Our customer is a strong local player with over 50% market share in Hunan province. Our gas supply contract was signed in August 2001 and we commenced our gas supply in May 2003 with a total supply lead-time of approximately 21 months.
- The on-site customer at our production plants operated by Jiangsu Yingde and Huai'an Yingda is a major steel company based in Jiangsu, which is a subsidiary of the largest private steel-maker in China. Our customer's main products, non-alloy steel products, account for 30% market share in Jiangsu province and its spring steel products account for approximately 80% domestic market share. Our gas supply contract was signed in October 2002 and Jiangsu Yingde commenced gas supply in May 2004 with a total supply lead-time of approximately 20 months. Huai'an Yingda commenced gas supply in March 2008.
- The on-site customer at our production plants operated by Shaanxi Yingde is Shaanxi Longmen Steel Company Limited, which is a state-owned enterprise the majority interest of which is owned by the Shaanxi provincial government. Shaanxi Longmen Steel Company Limited is the largest steel-maker in Shaanxi province with over 50% market share in Shaanxi province. It is ranked 467th among the "China Top 500 Enterprises 2008" compiled by the China Enterprise Confederation and China Enterprise Directors Association. Our gas supply contract was signed in January 2003 and we commenced our gas supply at the Phase I facility of Hancheng Shaanxi in September 2004 with a total supply lead-time of approximately 20 months. We commenced gas supply at the Phase II and Phase III facilities of Hancheng Shaanxi in September 2007 and March 2009, respectively.
- The on-site customer at our Phase I plant operated by Zhuhai Yingde is Zhuhai Yueyufeng Iron & Steel Company Limited, which is controlled by the same ultimate ownership group as Guangzhou Panyu Yufeng Iron & Steel Company Limited. These two companies have a combined production output that places them amongst the top four major steel billet and rebar producers in Guangdong province. Our gas supply contract was signed in December 2002 and we commenced our gas supply at Zhuhai Guangdong Phase I in June 2005 with a total supply lead-time of approximately 30 months. We commenced gas supply at the Phase II facility of Zhuhai Guangdong in July 2009.
- The on-site customer at our production plant operated by Tianjin Yingde is Tianjin Steel Pipe Corporation, which owns the largest production plant for seamless steel pipes in the world, accounting for 11% of total domestic production and 50% of oil casing pipe production in 2005. It is ranked 46th in China and 114th globally in terms of steel products output in 2008. Our gas supply contract was signed in July 2004 and we commenced our gas supply in July 2005 with a total supply lead-time of approximately 12 months. In addition to oxygen, nitrogen and argon, we also supply purified air to this on-site customer.
- The on-site customer at our production plants operated by Rizhao Yingde is Rizhao Steel Company Limited, which is one of the leading H Beam suppliers in China, and also produces other high-end steel products. It is ranked 14th in China and 40th globally in terms of steel products output in 2008. Our gas supply contract was signed in May 2006 and we commenced our gas supply at the Phase I facility of Rizhao Shandong in May 2007 with a total supply lead-time of approximately 12 months and we commenced our gas supply at the Phase II facility of Rizhao Shandong in November 2007 with a total supply lead-time of approximately 19 months.

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- The on-site customer at our production plants operated by Hebei Yingde is Hebei Jingye Steel Company Limited, which is a privately-owned steel corporation. In terms of steel production, it is ranked 8th in Hebei province. In terms of steel products output, Hebei Jingye Steel Company Limited is ranked 30th in China and 74th globally in 2008. Our gas supply contract was signed in June 2006 and we commenced our gas supply at the Phase I facility of Shijiazhuang Hebei in September 2007 with a total supply lead-time of approximately 15 months. We commenced gas supply at Shijiazhuang Hebei Phase II in November 2008.
- The on-site customer at our production plant operated by Zibo Yingde is Zibo Qilin Fushan Steel Company Limited, which is ranked 452nd among the "China Top 500 Enterprises 2008" compiled by the China Enterprise Confederation and China Enterprise Directors Association. Our gas supply contract was signed in April 2006 and we commenced our gas supply in September 2007 with a total supply lead-time of approximately 16 months.
- With respect to our merchant facility operated by Nanjing Xingang, we have entered into a 30 year co-operation agreement with a leading petroleum and petrochemical company in China pursuant to which the petroleum and petrochemical company will supply the argon-rich gases from their operation for our processing and subsequent sales. Pursuant to the terms of the relevant co-operation agreement, we have delegated the production and operational aspects of this business to our cooperative partner who charges us management fees while we remain responsible for the sales and overall supervision of this business. This is an attractive business opportunity for us and this merchant production facility differs from the other dedicated merchant production facilities that we are currently developing in that we are able to utilize the argon-rich gases, which cannot be obtained directly from the air, discharged as a by-product from our cooperative partner's operation by the installation of our separation unit at their gas discharge point, enabling us to produce argon gases for commercial sale to our merchant customers in areas surrounding Nanjing. We are able to minimize our operational costs by delegating the management and maintenance services to our cooperative partner.

In June 2008, Nanjing Xingang terminated its sales contract with one of its merchant customers as it was unable to produce sufficient argon to supply the amount required under the sales contract as well as to other merchant customers, because the raw material for the production of argon, namely argon fraction, provided by our co-operative partner was not at the required level. The terminated sales contract was with a merchant customer which had contributed only limited income to our Group during the Track Record Period and accordingly, our directors consider that the termination of the contract did not have a material effect on our Group during the Track Record Period.

- The on-site customer at our production plant operated by Laiwu Yingde is Taishan Steel Group Company Limited, which is ranked 42nd in China and 101st globally in terms of steel products output in 2008.
- The on-site customer at our production plant operated by Hengyang Yingde is Hengyang Valin. The holding company of Hengyang Valin is Hunan Valin Steel Company Limited, a company whose shares are listed on the Shenzhen Stock Exchange and whose largest shareholder is Hunan Valin Iron & Steel Group Company Limited. Hunan Valin Iron & Steel Group Company Limited is ranked 8th in China and 24th globally in terms of steel products output in 2008.
- The on-site customer at our production plant operated by Zhuzhou Yingde is Hunan Zhuye Torch Metals Company Limited, or Zhuye Torch, a non-ferrous metals company based in Hunan province. Zhuye Torch is a subsidiary of Hunan Nonferrous Metals Holding Group Company Limited, which is the largest integrated producer of non-ferrous metals, excluding aluminum, in the PRC as measured by production volume.

As at the Latest Practicable Date, our directors confirm that, save for Hengyang Valin which is a substantial shareholder of Hengyang Yingde, all of the above customers and cooperative partner are independent third parties of our Group.

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Our production facilities are accounted for as property, plant and equipment in our financial statements.

The table below sets out the total revenue generated by our subsidiaries for the periods indicated:

	For the year ended December 31,						Six months ended June 30,	
	2006		2007		2008		2009	
	RMB	% of total	RMB	% of total	RMB	% of total	RMB	% of total
(in millions, except for percentages)								
Hunan Yingde	53.4	11.0	89.4	11.4	83.3	5.9	38.8	4.2
Jiangsu Yingde	112.2	23.1	134.5	17.2	95.1	6.7	21.7	2.4
Shaanxi Yingde	115.7	23.8	119.6	15.3	140.1	9.9	88.7	9.7
Zhuhai Yingde	105.1	21.7	125.9	16.1	145.9	10.3	83.3	9.1
Tianjin Yingde	94.6	19.5	139.8	17.8	132.1	9.4	64.8	7.1
Nanjing Xingang	4.1	0.9	20.6	2.6	13.9	1.0	2.8	0.3
Rizhao Yingde ⁽¹⁾	—	—	104.2	13.3	363.8	25.8	242.3	26.4
Zibo Yingde ⁽¹⁾	—	—	15.1	1.9	26.9	1.9	45.6	5.0
Hebei Yingde ⁽¹⁾	—	—	34.6	4.4	162.6	11.5	109.4	11.9
Huai'an Yingda ⁽²⁾	—	—	—	—	153.0	10.9	101.1	11.0
Laiwu Yingde ⁽²⁾	—	—	—	—	95.0	6.7	101.7	11.1
Zhuzhou Yingde ⁽³⁾	—	—	—	—	—	—	2.7	0.3
Hengyang Yingde ⁽³⁾	—	—	—	—	—	—	14.3	1.5
Total:	485.1	100.0	783.7	100.0	1,411.7	100.0	917.2	100.0

Notes:

- (1) The relevant production plant operated by our subsidiary had not yet commenced operation during the year ended December 31, 2006.
- (2) The relevant production plant operated by our subsidiary had not yet commenced operation during the two years ended December 31, 2006 and 2007.
- (3) The relevant production plant operated by our subsidiary had not yet commenced operation during the three years ended December 31, 2006, 2007 and 2008.

The table below sets out the volume weighted average prices of gases sold through our merchant operations for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
Unit price (RMB/Nm ³)					
Oxygen	0.77	0.90	0.79	0.89	0.69
Nitrogen	0.97	0.88	0.76	1.18	0.68
Argon	1.77	2.55	3.21	2.64	1.60
Total volume weighted average price:	1.03	1.36	1.44	1.45	0.89

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The following table sets forth information regarding our on-site and merchant industrial gas production facilities currently under development:

<u>Location/Entity</u>	<u>Off-taker</u>	<u>Target supply start time</u>	<u>Installed capacity (Nm³/hr)</u>
On-site Facility			
Hengyang Hunan Phase II, operated by Hengyang Yingde ⁽¹⁾	Hengyang Hualing Lianzhaguan Company Limited	November 2009	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000
Fuquan Guizhou, operated by Guizhou Yingde	A chemical company based in Guizhou	January 2010	Oxygen: 55,000 Argon: 1,600 Nitrogen: 100,000
Zibo Shandong Phase II, operated by Zibo Yingde	Shandong Xiwang Steel Company Limited	April 2010	Oxygen: 6,500 Argon: 180 Nitrogen: 10,000
Shenhua Project	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Argon: 2,000 Nitrogen: 60,000
	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Nitrogen: 60,000
	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Nitrogen: 60,000
	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Nitrogen: 60,000
Hancheng Shaanxi Phase IV, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	July 2010	Oxygen: 45,000 Argon: 1,500 Nitrogen: 70,000
Meijin Shanxi, operated by Shanxi Yingde	Meijin Energy Group Company Limited	January 2011	Oxygen: 28,000 Argon: 900 Nitrogen: 50,000
Zuhai Guangdong Phase III, operated by Zuhai Yingde	Zuhai Yueyufeng Iron & Steel Company	December 2011	Oxygen: 28,000 Argon: 900 Nitrogen: 50,000
Merchant Facility			
Yangzhou Jiangsu, operated by Yangzhou Yingde	N/A	October 2009	Liquid oxygen: 3,000 Argon: 100 Nitrogen: 9,000
Zhangjiagang Jiangsu, operated by Zhangjiagang Yingde	N/A	March 2010	Sulfur fluoride: 500 metric ton Nitrogen fluoride: 150 metric ton Fluoride: 50 metric ton

Note:

- (1) While we hold a 70% interest in Hengyang Yingde, the installed production capacity information provided in this table includes the entire installed production capacity of Hengyang Yingde.

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Arrangement with our on-site customer in Guizhou

We entered into a gas supply contract on November 10, 2006 with our on-site customer in Guizhou province, referred to as our Guizhou On-site Customer. Our Guizhou On-site Customer is a company incorporated under the laws of the PRC, and is a chemical production company and a subsidiary of a company listed on the Shanghai Stock Exchange. Our Guizhou On-site Customer is an independent third party of our Company. Under the terms of this gas supply contract, our Guizhou On-site Customer was granted an option to purchase between 25% to 49% of the equity of Guizhou Yingde. The consideration to be paid for any equity purchase under the option will be determined on the basis of a valuation by an accounting firm recognized by both parties and will be subject to the relevant PRC laws and regulations.

Under the same gas supply contract, we and Guizhou On-site Customer agreed in principle that we would invest RMB250 million for a 25% equity interest in the registered capital of Guizhou On-site Customer which had a registered capital of RMB1 billion at the time. However, other contractual details in connection with our proposed investment, including but not limited to, the joint venture arrangement, PRC government approval procedure and completion process, had not been agreed upon the execution of the gas supply contract and will be subject to further discussion and negotiation between the parties. Our PRC legal advisors, Jun He Law Offices, have advised that our contractual obligation to invest RMB250 million for a 25% equity interest in Guizhou On-site Customer is legal and valid, but the enforcement of the proposed investment by us is still subject to agreement between the parties, approval of Guizhou On-site Customer shareholders and government approval and registration. We are under an obligation to enter into further discussion of the details of our proposed investment with the shareholders of Guizhou On-site Customer in good faith. This contractual obligation will cease to have effect upon the expiry of the gas supply contract.

We agreed to the option clause for us to invest in Guizhou On-site Customer because, at that time, we intended to expand our synthetic gas production capabilities through our minority investment in Guizhou On-site Customer's synthetic gas business. We no longer hold such intention at present because we believe that we have already built our own team of experts for the development of the synthetic gas business subsequent to the execution of the gas supply contract with Guizhou On-site Customer. Further, it was also brought to the parties' attention that a foreign investment by us into Guizhou On-site Customer may create government procedural hurdles for the gas project currently undertaken by Guizhou On-site Customer. Accordingly, we advised Guizhou On-site Customer that we no longer intended to invest in them and have also requested to terminate the arrangement. Our Company believes that we have acted in good faith. However, we have not terminated this contractual arrangement as Guizhou On-site Customer has not yet agreed to the termination. Our PRC legal advisors advised that our action does not amount to a breach of contract on our part before a more specific agreement regarding the investment is reached.

Guizhou On-site Customer was also granted an option such that in the event our proposed investment in Guizhou On-site Customer is not approved by the PRC government, Guizhou On-site Customer has an option to require us to dispose of the gas production facility operated by Guizhou Yingde to Guizhou On-site Customer. Guizhou On-site Customer requested this option because Guizhou On-site Customer wanted to secure ongoing industrial gas supply in the event that Guizhou Yingde decides that it no longer wishes to continue supplying industrial gases to Guizhou On-site Customer. Such an option was a term granted by us alongside with, and part and parcel of the arrangement in respect of, the agreement with Guizhou On-site Customer for a potential investment by us in Guizhou On-site Customer for the purposes of expanding our business into the synthetic gas sector. The consideration of such disposal would be determined on the basis of a valuation by an accounting firm recognized by both parties and will be subject to the relevant PRC laws and regulations.

As of the Latest Practicable Date, other than the agreed terms in the gas supply contracts, we have not had any further discussion or agreement with Guizhou On-site Customer in relation to any proposed joint venture arrangement or further steps to complete our proposed investment, nor have we received

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any notice from Guizhou On-site Customer regarding the exercise of its option to acquire the gas production facility operated by Guizhou Yingde.

Our PRC legal advisors advised that the contractual obligation to enter into discussions in respect of our investment in Guizhou On-site Customer will cease to have effect upon the expiry of the gas supply contract entered into between the parties.

Joint venture arrangement with Hengyang Valin

On November 28, 2008, Yingde BVI and Hunan Yingde entered into a joint venture agreement with Hengyang Valin, to establish a joint venture industrial gas supply company named Hengyang Yingde in Hengyang city, Hunan province.

Pursuant to the terms of the joint venture agreement, we and Hengyang Valin have jointly established Hengyang Yingde in which we and Hengyang Valin hold a 70% and 30% interest, respectively. Pursuant to the joint venture agreement, we are required to contribute a total of RMB84 million and Hengyang Valin is required to contribute a total of RMB36 million to the registered capital of Hengyang Yingde. The board of directors of Hengyang Yingde comprises three directors. Pursuant to the shareholders' agreement between the parties, we are entitled to appoint two directors and Hengyang Valin is entitled to appoint one director to the board of directors of Hengyang Yingde. Hengyang Yingde supplies industrial gas products to Hengyang Valin's production facility in Hengyang city, Hunan province.

As we own a 70% interest in Hengyang Yingde and have the right to appoint two out of three members of its board of directors, we have control over Hengyang Yingde. Therefore, we account for Hengyang Yingde as our subsidiary.

Joint venture arrangement with Shihlien China Holding Company Limited

On June 2, 2009, we entered into a joint venture agreement with Shihlien China Holding Company Limited, or Shihlien. Shihlien is associated with Taiwan Glass Company Limited which was one of the largest glass producers in the world in 2008 in terms of total production output.

Under the terms of the joint venture agreement, we and Shihlien established a joint venture company, Shihlien Yingde, in which each of us and Shihlien holds a 50% interest and is entitled to appoint 50% of the board of directors. Shihlien Yingde is a jointly controlled entity. The total investment of our Group in Shihlien Yingde is currently estimated to be approximately RMB280 million and is proposed to be contributed in the form of cash to the registered capital of Shihlien Yingde. It is intended that Shihlien Yingde or its subsidiaries would supply industrial gas products as well as provide management services to Shihlien's manufacturing facility to be established in Huai'an city, Jiangsu province.

As we own a 50% interest in Shihlien Yingde and have the right to appoint 50% of its board of directors, we do not control Shihlien Yingde. Therefore, we do not account for Shihlien Yingde as our subsidiary.

We are currently engaged in discussions with Shihlien with respect to our proposed investment in this project and our joint venture arrangement with Shihlien. Such discussions may result in the joint venture agreement and the gas supply contract with Shihlien being terminated. Given the uncertainty arising from these ongoing discussions, we exclude the Shihlien Project when presenting the number of our production facilities currently under development and the expected total installed oxygen capacity upon completion of those production facilities currently under development. Accordingly, any such references in this document do not include this Shihlien project.

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The reasons for the potential termination of the joint venture agreement with Shihlien include: (i) uncertainty regarding the fulfilment of and timing for fulfilment of conditions precedent; and (ii) the potential impact on the overall timetable for the Shihlien Project given the uncertainty involved.

We have already made an initial investment of US\$1.66 million in the Shihlien Project in the form of our contribution to the registered capital of Shihlien Yingde as at the Latest Practicable Date. Given Shihlien Yingde has not started to engage in any business activity, our Company does not expect any material impediment for us to recover the investment made by us in the event that the joint venture agreement is terminated.

Logistics and Transportation

We deliver our industrial gas products to our customers through the following two main methods:

- On-site delivery — This method involves piping the industrial gas products produced directly from our production plants to the customers’ facilities. Where our production plants are located on-site or in proximity to our customers’ facilities, pipeline is the main method for delivery of our industrial gas product.
- Road tanker delivery — This method involves using road tanker trucks to deliver our industrial gas products to the customers’ storage facilities through road transportation.

In our on-site gas distribution operations, we produce and deliver most of our industrial gas products to our on-site customers directly and do not generally store the produced industrial gas products, except for a reserve for emergency situations. In our merchant gas distribution operations, we generally use liquid tanks to store the produced industrial gas products before we deliver to our merchant customers. Yingde Logistics, our wholly-owned subsidiary, was established on October 15, 2008 in the PRC and commenced engaging in the transportation of industrial gas products to our customers in the second half of 2008. We maintain a fleet of road tankers as well as engage third-party road tanker truck operators to service our customers in our merchant operations.

In addition, we maintain back-up gas supply reserves in liquid form at all of our on-site industrial gas production plants to provide security for stable and reliable gas supplies to our on-site customers in the event of unforeseen circumstances which may result in supply breakdown to our on-site customers.

Raw Materials, Energy, Equipment and Sourcing

The raw material we currently use to produce our industrial gas products is air, which we obtain at no cost.

Our business is electricity-intensive. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, electricity expenses, being the largest component of our cost of sales, constituted approximately 83.3%, 80.1%, 86.7% and 87.5% of the aggregate of our total cost of sales, respectively. However, we have entered into contractual arrangements with all of our on-site customers pursuant to which either the prices we charge our on-site customers for our industrial gas products can be adjusted in accordance with fluctuations in the local electricity prices or the electricity price is fixed throughout the duration of the gas supply contract. Through these contractual arrangements, we are able to maintain our profitability.

The core equipment used in our industrial gas production process is the air separation unit. Please refer to the section headed “Business — Our Production Method” in this document for more details. Our production equipment is sourced from reputable international companies as well as quality companies in the PRC specializing in the manufacturing of industrial gas production equipment. We generally had three major equipment and component suppliers in relation to each of our major equipment or component supplies during the Track Record Period. We use high standards in selecting

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our equipment and component suppliers and we only source our equipment and component supplies from those whose products are of acceptable standard and quality. By sourcing some of our equipment and most of our component supplies domestically in China, we are able to reduce our costs and thus, be more competitive on our pricing and maintain our profitability. Our directors confirm that we did not experience difficulties in the procurement of equipment and components during the Track Record Period.

As we obtain our major raw material, air, at no cost, electricity, which comprises over 80% of our total cost of sales, is therefore the largest item of our total purchases. As we normally secure our electricity supply for our on-site operations through contractual arrangements with our on-site customers, our current five largest suppliers are all our on-site customers. We generally obtain electricity from our on-site customers at the market rate set by state-owned electricity grid companies. The electricity is usually supplied to our on-site customers by the local electricity companies which are state-owned enterprises. We did not experience electricity supply shortage during the Track Record Period. As we generally collect our receivables from our on-site customers and make payment to on-site customers for our electricity usage at or around the same time, their payments to us are generally netted off to take into account our electricity expenses to our on-site customers. Our five largest suppliers together accounted for approximately 98.4%, 74.6%, 80.2% and 73.7%, respectively, of our total purchases for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our largest supplier accounted for approximately 27.8%, 17.5%, 29.3% and 29.3% of our total purchases, respectively. Our directors confirm that, as at the Latest Practicable Date, all of our five largest suppliers are independent third parties and none of our directors or their associates or our existing shareholders who, to the knowledge of our directors, owns more than 5% of our issued share capital, has any interest in any of our five largest suppliers.

Customers

Our five largest customers together accounted for approximately 82.1%, 65.3%, 62.8% and 66.9% of our total revenues for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our largest customer accounted for approximately 21.9%, 15.1%, 21.5% and 24.3% of our total turnover, respectively. Our directors confirm that, as at the Latest Practicable Date, all of the above five largest customers are independent third parties and none of our directors or their associates or our existing shareholders who, to the knowledge of our directors, owns more than 5% of our issued share capital, has any interest in any of our five largest customers. The payment terms we extend to our on-site customers generally range from 30 to 45 days. We grant extended credit terms to certain on-site customers depending on the credit assessment carried out by our management on a case-by-case basis. We generally receive payment from our merchant customers on or prior to delivery.

Innovation

We emphasize innovation in order to strengthen further our leading position and enhance our competitiveness. Our innovation focuses on the development of engineering solutions to improve our production processes. We have a team of engineers based in our various production plants across China who focus on design solutions and development.

We intend to continue to focus our engineering and design efforts on the development and implementation of more advanced, efficient and lower cost production processes and technology.

Marketing and Pricing

Our on-site gas supply operations are generally obtained through a competitive tender process. When responding to a potential on-site customer's request for a proposal, we establish a dedicated

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project team comprising both technical and business personnel, who will design and develop customized solutions in accordance with the potential on-site customer's needs.

All of the customers of our on-site gas distribution operations have entered into long-term contractual arrangements with us in relation to the minimum off-take volume that they undertake to purchase from us. Our long-term contractual arrangements with our on-site customers generally range from 15 to 25 years. We charge our on-site customers the same unit price in the event they require gas supplies exceeding the minimum off-take volume. In addition, these long-term take-or-pay gas supply contracts generally provide for remedies available to us in the event that our on-site customers terminate the long-term take-or-pay gas supply contracts prior to the contract expiry date. Most of our gas supply contracts would require our on-site customers to pay us a specified amount of compensation if they are responsible for the termination due to their breach of the gas supply contract.

In relation to our merchant gas distribution operations, our customers mostly consist of distributors, who purchase various industrial gas products from us at or in proximity to our production plants. We generally sell our industrial gas products at spot market prices. However, we also enter into gas supply contracts with a selected number of merchant customers who have a stable and regular demand for our industrial gas products pursuant to which we supply gas products on a regular basis during the term of the relevant gas supply contracts.

Customer Service

We are committed to providing customer service of the highest quality, as we believe it to be the key to building and expanding our loyal customer base, and ultimately our success. From the outset, we seek to ascertain the specific gas supply needs of each on-site customer. We demonstrate flexibility and innovation in our endeavor to develop creative and customized solutions to meet our on-site customers' needs.

Our on-site services include giving suggestions to our on-site customers on equipment selection and operation, in order to increase the efficiency of their gas use. Where our on-site customers encounter technical difficulties, we are generally able to assist them to evaluate the situation and then formulate appropriate solutions. We provide our on-site services to our on-site customers as part of our on-site operation and as such, our Company does not receive any separate or additional income or fees from our on-site customers.

Competition

The industrial gas supply industry in China is highly competitive. Participants generally compete for new customers on product price, supply lead-time, and supply stability and reliability. Based on the research information in the SAI Report, there are more than 1,000 participants in the industrial gas supply industry in China as at March 20, 2009, including gas plants affiliated with large steel and chemical projects, domestic cylinder gas companies, centralized gas suppliers in industrial zones and international and domestic gas companies providing on-site gas services. The top five players' total market share in 2008 in the China outsourcing on-site industrial gas market was approximately 87% in aggregate. We are the largest domestic independent supplier of on-site industrial gases in China in terms of total revenue as at the end of 2008 based on the research information in the SAI Report.

We have in the past obtained most of our on-site businesses through competitive tender processes, and we expect that a significant portion of our future on-site businesses will be obtained in the same way. In order to obtain new on-site businesses in the competitive tender process, we compete on the length of supply lead-time as well as on pricing. There are certain barriers to entry into the outsourcing on-site industrial gas supply industry, including: (1) industry experience and track record, (2) capital intensity, and (3) relationship with large-scale on-site customers.

In 2008, the demand of the Chinese industrial gas market grew to approximately US\$4.7 billion, based on the research information in the SAI Report. Several international industrial gas supply

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companies, such as Linde, Praxair, APCI, Messer and Air Liquide, mainly compete for large-scale projects, while quite a number of smaller private domestic industrial gas supply companies compete mainly for smaller-scale projects and steel cylinder supply market across different regions in the PRC.

We believe that the large international industrial gas suppliers have certain advantages in competing for large-scale projects, including established brand history and a global customer network while the small domestic industrial gas suppliers have advantages in establishing local customer connections in the region in which they operate. We consider that our main competitors are large international industrial gas suppliers.

We distinguish ourselves from our competitors through our proven record of successfully constructing and operating various industrial gas production plants to meet the needs of our on-site customers. Our historical shortest gas production plant supply lead-time was 12 months. We believe that our commitment to providing flexible, innovative, timely and customized solutions to meet our on-site customers’ needs sets us apart from our competitors.

QUALITY, SAFETY AND ENVIRONMENTAL PROTECTION

We are committed to achieving a high standard of quality in the provision of products and services to our customers. We have designated quality control technicians in each of our industrial gas production plants responsible for monitoring the quality of our industrial gas products and operating our advanced quality control systems. In addition, we control the quality of our industrial gas products through the use of technological equipment and advanced online analysis systems which can analyze, detect and report any quality defects, such as purity and pressure level issues, in order to ensure our gas supplies comply with national standards and meet customers’ requirements. We believe we have established a reputation for product quality and reliability.

Industrial health and safety is also a very important focus for our Company. We have taken measures to comply with the applicable laws and regulations relevant to social responsibility, health and safety. We are subject to various labor and safety laws and regulations in the PRC including the PRC Labor Law (中華人民共和國勞動法), the Regulation of Insurance for Labor Injury (工傷保險條例), the Unemployment Insurance Law (失業保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), and the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例). We have adopted a series of measures to ensure health and safety of our employees. We also provide our employees with welfare schemes including, among other things, injury insurance and medical insurance. For more information on insurance for our employees, please see the section headed “Insurance” below.

We have designated personnel for our industrial gas production plants who are responsible for regulating our labor, hygiene and safety conditions. In addition, we provide induction and regular safety education programs to our employees through the provision of safety instruction manuals, training seminars and regular safety knowledge and response testing. As our personnel control and monitor the daily operation of our production facilities from computerized operation control rooms, we provide a healthy and safe workplace for our personnel. Therefore, we do not generally encounter any health and safety issues. There is also no requirement imposed by our on-site customers in relation to social, health and safety aspects of our operation. Our directors confirm that except as disclosed in this document, as at the Latest Practicable Date, we have complied with all relevant safety and health regulations and have not been subject to fines or penalties during the Track Record Period. We do not generally incur any additional annual compliance costs in relation to health and safety on an ongoing basis.

As our gas production process essentially involves the separation of air into its constituent ingredients such as oxygen, nitrogen and argon, we understand industrial gas production is generally not regarded as a polluting industry and we do not produce any air pollution during our production process. The environmental issues arising in our production process consist of cooling water discharge

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and noise reduction. During our production process, we require water for facility cooling purposes and in order to achieve an effective and better cooling effect, we add chemicals into our cooling water, which is an industry-wide practice. We recycle our cooling water for continuous use, but we need to discharge a small volume of cooling water periodically in order to maintain chemical concentration at an optimal level. The water is returned to the factory and treated by the on-site customers and reused. We have obtained all wastewater discharge permits from the relevant government authorities for our production plants currently in operation or have complied with the local wastewater discharge requirements pursuant to the confirmation issued by the local government authority. In respect of the facility operated by Huai'an Yingda, as our wastewater is disposed of through the site of our on-site customer, we are not required to obtain the wastewater discharge permit and such view is confirmed by our PRC legal advisors.

In addition, we emit noise as part of our production process. We are usually subject to the requirements of our on-site customers or the relevant laws applicable to where our production facility is located in relation to the maximum level of noise we are allowed to emit. In order to reduce the level of noise we emit, we endeavor to use quality noise reduction and absorption materials when constructing our production facilities. In addition, we endeavor to design our new production facility and repair and maintain our existing production facilities periodically to minimize any noise that may be created. We closely monitor our wastewater discharge and noise issues and we carry out regular internal inspections.

We generally incur one-off equipment purchase costs in relation to our wastewater discharge facilities and noise reduction and absorption materials at the time of constructing our new production facilities. The level of costs we incur varies depending on factors such as the location of our production facility, local applicable laws and whether our on-site customers provide a wastewater discharge facility. We do not generally incur any annual ongoing compliance costs, but may purchase new equipment voluntarily at our own initiative or due to a change in any of the factors described above.

Environmental impact studies for all of our production facilities are completed and submitted for examination by the relevant Environment Protection Bureaus in the regions in which we operate as part of the approval process for the establishment of each of our production plants. We believe that our safety control systems, environmental protection systems and facilities are adequate to comply with applicable PRC national and local regulations.

Based on the confirmation issued by the local Municipal Environmental Protection Bureaus in the regions in which we operate, we have complied with the PRC state environmental regulatory requirements during the Track Record Period. Our directors confirm that except for those disclosed in this document, as at the Latest Practicable Date, we have complied with all relevant environmental, safety and health regulations and have not been subject to fines or penalties during the Track Record Period.

EMPLOYEES

Employees

Our accomplishments to date are closely linked to the successful implementation of our growth strategies by our experienced, dedicated and innovative employees. We are committed to recruiting, training and retaining skilled and experienced people throughout our operations to better serve our customers. We intend to do this through our remuneration packages, including discretionary bonuses and Share Option Schemes, as well as an emphasis on employee training.

As at June 30, 2009, our Group had a total of 920 full-time employees, the majority of whom have attended technical schools or obtained higher education qualifications.

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As at June 30, 2009, our total number of employees by function were as follows:

<u>Functions</u>	<u>Number of people</u>
Senior Management	7
Operations	478
Finance and accounting	47
Sales	83
Business development	98
Human resources, administration and technical support	207
Total	<u>920</u>

We have not experienced any strikes, work stoppages or significant labor disputes and we have not experienced any significant difficulties in recruiting and retaining qualified staff during the Track Record Period.

Remuneration

We review the performance of our employees annually, the results of which are used in employee salary reviews and promotion appraisals. Key employees are considered for an annual bonus based on various performance criteria and their assessment results. We review our staff's remuneration packages from time to time. We conduct research on remuneration packages offered for similar positions in our industry, which we believe allows us to remain competitive in the labor market.

Certain of our employees are also eligible to participate in our employee Share Option Scheme subject to their performance and the discretion of our directors, details of which are more fully set out in Appendix VI of this document.

We incurred total employees compensation (including wages, salaries and other benefits) of approximately RMB19.9 million, RMB38.9 million, RMB51.0 million and RMB35.8 million for the three years ended, December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively, representing 4.1%, 5.0%, 3.6% and 3.9%, respectively, of our total revenue for the relevant periods.

Training

We place emphasis on the training and development of our staff. We invest in continuing education and training programs for our management staff and employees in order to regularly upgrade their skills and knowledge. We provide internal and external training programs to our employees in areas such as technical skills, safety, sales and marketing and customer service, depending on their needs. All new employees are required to attend induction courses to ensure that they are equipped with the necessary skills to perform their duties. We provide on-the-job training and mentoring programs, as well as self-study resources for our employees.

OUR PROPERTIES

Under PRC law, we are required to obtain two main permits for the construction of a production plant (both on-site and merchant production plants), namely: (i) construction planning permit (pursuant to the PRC Urban Planning Law); and (ii) construction permit (pursuant to the PRC Construction Law).

Our PRC legal advisors advised that the absence of construction planning permits or construction permits for our production facilities does not affect the validity of the safe production permits and production permits for industrial products of the relevant facilities and thus the absence of construction planning permits or construction permits would not lead to safe production permits and production permits being revoked after they have been granted.

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For our on-site operations, pursuant to the definitive long-term gas supply contracts, our on-site customers are generally responsible for providing or securing land for us to construct our production plants. After a gas supply contract is executed, we commence preparations for construction. Upon completion of construction, we commence gas supply to our on-site customer in accordance with the gas supply contract. We do not commence construction before signing a gas supply contract with an on-site customer. In exceptional cases, we will purchase land with valid title, which has capital appreciation potential and is in close proximity to our on-site customer to construct our plants. However, owning the land we occupy is not critical to our operations.

The majority of our on-site production facilities currently in operation or under development are situated on parcels of land which have been provided or secured by our on-site customers for our use, pursuant to the requirements of the gas supply contracts with our on-site customers. However, certain of our on-site customers have failed to provide or secure land with proper titles to us which has resulted in our facilities being subject to certain legal risks. In addition, we have not obtained the construction planning permits and/or the construction permits in respect of certain of our other on-site production facilities which also subjects these facilities to certain legal risks. As we do not own any property interest in these parcels of land, we generally require the assistance and co-operation of the on-site customers (who in most cases are also the title owners) in applying for the relevant construction planning permits and construction permits. We believe that we have not obtained these permits because (a) the necessary assistance from the on-site customers to undertake the application process was not forthcoming; and/or (b) the on-site customers considered that it was not necessary for us to apply for the relevant permits in connection with the construction of our production facilities as our rights are sufficiently protected under the gas supply contracts.

Most of our gas supply contracts require our on-site customers to pay us a specified amount of compensation or pay us compensation according to a specific method or scope, should our on-site customers be responsible for the termination due to their breach of the gas supply contract, which would include circumstances where we were forced to vacate the land which our facilities occupy due to defective title of such land. The compensation provided under those on-site gas supply contracts generally entitles us to recover, at a minimum, the net book value of the assets and facilities constructed by us for the project, and the long-term gas supply contracts have factored in the capital expenditure involved in the construction of the production facilities. For these reasons, the parcels of land without proper titles outlined below are not crucial to our business. Our PRC legal advisors advised that under the gas supply contracts, we would not be able to claim against our on-site customers for losses and expenses incurred if the failure to obtain construction planning permits or construction permits were only due to the failure of the relevant on-site customer to provide the necessary cooperation as the gas supply contracts do not require our on-site customers to obtain these permits on our behalf.

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Non-compliance issues relating to our properties

The table below summarizes the material non-compliance matters relating to our properties and the corresponding potential legal implications to us:

<u>Our subsidiary</u>	<u>Nature of non-compliance</u>	<u>Legal implications</u>	<u>Remedial actions taken / to be taken</u>	<u>Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and June 30, 2009 (Note)</u>
Hebei Yingde	Defective title of land for Phase I provided or procured by on-site customer.	Facilities on the land are subject to the risk of demolition or relocation due to the defective land title.	Our PRC legal advisors confirm that under the relevant gas supply contract and supplemental agreement, Hebei Yingde is entitled to claim compensation from the on-site customer for losses resulting from forced relocation or demolition.	- Revenue contributions: nil, 4.4%, 11.5% and 11.9% (representing nil, RMB34.6 million, RMB162.6 million and RMB109.4 million respectively). - Net profit contributions: -1%, 4%, 13.3% and 9.2%.
Zibo Yingde	Defective title of land provided or procured by on-site customer.	Facilities on the land are subject to the risk of demolition or relocation due to the defective land title.	- The administrative commission of the relevant local development zone has confirmed that it will not request the relocation or demolition of the plant operated by Zibo Yingde. - Notwithstanding the above, our PRC legal advisors confirm that under the relevant gas supply contract, Zibo Yingde is entitled to claim compensation from the on-site customer for loss resulting from forced relocation or demolition.	- Revenue contributions: nil, 1.9%, 1.9% and 5.0% (representing nil, RMB15.1 million, RMB26.9 million and RMB45.6 million respectively). - Net profit contributions: -2%, 0.4 %, -1.3% and -1.9%.

Note:

The revenue and net profit contributions of the relevant subsidiaries during the Track Record Period have eliminated intra group transaction value.

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Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Laiwu Yingde	Defective title of land provided or procured by on-site customer.	- Facilities on the land are subject to the risk of demolition or relocation due to the defective land title. - Possible fine of approximately RMB200,000 for the absence of construction permit which was later obtained on November 24, 2008. This amount is covered by an indemnity provided by certain of our existing Shareholders.	Our PRC legal advisors confirm that under the relevant gas supply contract and the supplemental agreement, Laiwu Yingde is entitled to claim compensation from the on-site customer for losses resulting from forced relocation or demolition.	- Revenue contributions: nil, nil, 6.7% and 11.1% (representing nil, nil, RMB95 million and RMB101.7 million respectively). - Net profit contributions: nil, nil, 8.0% and 18.4%.

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Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Tianjin Yingde	- Land with proper title leased from on-site customer's parent company, which lease has not been registered with relevant authority. - Absence of construction planning permit. - Absence of construction permit.	- Our PRC legal advisors confirm that the non-registration of the lease does not affect the legality, validity and enforceability of the lease agreement. - Potential maximum penalties for the absence of construction planning permit and construction permit are approximately RMB2.6 million and RMB0.3 million, respectively. These amounts are covered by an indemnity provided by certain of our existing Shareholders.	- Registration of the lease requires co-operation of the lessor, and the lessor indicated that it has no intention to register the lease. - Absence of construction planning permit and construction permit cannot be rectified given the length of time that has lapsed since construction.	- Revenue contributions: 19.5%, 17.8%, 9.4% and 7.1% (representing RMB94.6 million, RMB139.8 million, RMB132.1 million and RMB64.8 million respectively) - Net profit contributions: 103%, 34%, 8.0% and 5.9%

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Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Hunan Yingde	- Absence of construction planning permit. - Absence of construction permit.	- Potential maximum penalties for the absence of construction planning permit and construction permit are approximately RMB42 million and RMB0.2 million, respectively. The RMB42.2 million exposure is covered by an indemnity provided by certain of our existing Shareholders. - Based on the confirmation letter issued by the relevant local planning bureau, our PRC legal advisors advise that Hunan Yingde is not exposed to any fine or penalty for the absence of construction planning permit by the local competent government.	Absence of construction planning permit and construction permit cannot be rectified given the length of time that has lapsed since construction.	- Revenue contributions: 11.0%, 11.4%, 5.9% and 4.2% (representing RMB53.4 million, RMB89.4 million, RMB83.3 million and RMB38.8 million, respectively) - Net profit contributions: 27%, 50%, 2.4% and 1.2%

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Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Shaanxi Yingde (Phase II: commenced production in September 2007)	- Absence of construction planning permit. - Absence of construction permit.	- Facilities on the land are subject to the risk of demolition or relocation due to the absence of construction permit and construction planning permit. - On the basis that our Group was not responsible for the construction of the facility, our PRC legal advisors advise that our Group will not be subject to any fines or penalties for absence of construction permit and construction planning permit. - Our PRC legal advisors confirm that our Group is able to claim against the transferor of the facilities for any loss or damage arising from absence of the permits.	- Encouraged constructing party to apply for relevant permits. - As we are not the constructing party, we are not able to rectify these defects by applying for the permits. - Our Group has taken into account the possibility, although remote, that the facilities may be ordered to be demolished by increasing the capacity of nearby facilities. Design of facilities allows for relocation or use in the construction of new facilities.	- Revenue contributions: nil, nil, 2.0% and 1.5% (Note). - Net profit contributions: nil, nil, 3.5% and 2.3% (Note).

Note:

These figures only represented the revenue and net profit contributions of Phase II facilities operated by Shaanxi Yingde, which have been determined by multiplying the revenue and profit contributions of Shaanxi Yingde to our Group with the ratio of the capacity of such Phase II facilities (and also taking into account the utilisation rate of such facilities during the relevant periods) over the total capacity of all the facilities operated by Shaanxi Yingde.

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Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Hengyang Yingde	- Absence of construction planning permit. - Absence of construction permit.	- Facilities on the land are subject to the risk of demolition or relocation due to the absence of construction permit and construction planning permit. - On the basis that our Group was not responsible for the construction of the facility, our PRC legal advisors advise that our Group will not be subject to any fines or penalties for absence of construction permit and construction planning permit. - our PRC legal advisors confirm that our Group is able to claim against the transferor of the facilities for any loss or damage arising from absence of the permits.	- Encouraged constructing party to apply for relevant permits. - As we are not the constructing party, we are not able to rectify these defects by applying for the permits. - Our Group has taken into account the possibility, although remote, that the facilities may be ordered to be demolished by increasing the capacity of nearby facilities. Design of facilities allows for relocation or use in the construction of new facilities.	- Revenue contributions: nil, nil, nil and 1.6% (representing nil, nil, nil and RMB14.3 million respectively). - Net profit contributions: nil, nil, nil and 1.6%.

Impact on our Group

Our directors confirm that, as at the Latest Practicable Date, none of our relevant subsidiaries or facilities has been subject to any fine, request for suspension of production or construction or request

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for relocation from the local governments or the title holders (as appropriate) by reason of the absence of project construction planning permits and/or construction permits or occupation of land with defective land titles as specified above.

All of our production facilities currently in operation operate with a buffer capacity. Should there be suspension of production at any of our production facilities, the committed gas supply to that on-site customer can be met by (i) utilizing the buffer capacity and the inventory from our other facilities, and/or (ii) direct purchase from third parties in the merchant market.

It is feasible to substitute the on-site gas supply with a buffer capacity from off-site by transporting gas products from surrounding facilities by road tankers. This is similar to our merchant business whereby we generally deliver gas products to customers or the customers collect gas products from our merchant facilities. We understand that our on-site customers can use gas products in the same manner, irrespective of the mode of delivery. Transportation costs are insignificant as our network enables surrounding facilities in relative close proximity to provide buffer capacity to one another.

As at the Latest Practicable Date, we have not been subject to any claim from the local government authorities or the relevant on-site customers (or the relevant land title holders) in respect of buildings and units we constructed on those parcels of land provided by our on-site customers. Please refer to Items (3) to (10) and (12) to (14) of “Group I – Property interest held and occupied by the Group in the PRC” in “Appendix IV – Property Valuation” for details in respect of buildings and units we constructed on those parcels of land provided by our on-site customers and Items (15) and (16) of “Group II – Property interest held under development by the Group in the PRC” in “Appendix IV – Property Valuation” to this document for details in respect of buildings and units we are currently constructing on those parcels of land provided by our on-site customers.

Nanjing Xingang

Our Nanjing Xingang merchant production facility only requires the installation of an air separation unit at an existing facility of our cooperative partner, a petroleum and petrochemical company, which is a subsidiary of one of the largest state-owned petrochemical companies in China. Accordingly, this facility does not occupy any land. This differs from the other merchant production facilities operated by Yangzhou Yingde and Zhangjiagang Yingde which occupy parcels of land for which we hold proper title. Unlike the usual arrangement between us and our on-site customers, under the cooperation agreement, the cooperative partner is not under an obligation to provide land for use by Nanjing Xingang. We confirm that our cooperative partner installed the equipment provided by Nanjing Xingang at its own facility. Our PRC legal advisors advised that, on this basis, the cooperative partner is responsible for obtaining the construction planning permit and construction permit for the overall project which should include all of its relevant facilities as well as the equipment provided by Nanjing Xingang and that Nanjing Xingang does not need to obtain the construction planning permit and construction permit as our cooperative partner carried out the installation works for the facility. In the event of Nanjing Xingang’s relocation, the air separation unit may be removed at insignificant cost and be installed in an alternative location to maintain argon gas production for our Group. We have not yet identified an alternative location for such equipment but, should this evacuate, it may potentially be used by other companies as well as by our Group’s own facilities.

A company belonging to the same group of companies as our cooperative partner has obtained relevant title to the land on which our cooperative partner is located. For this reason, we believe that there is no real risk that the land title holder would raise objection to the use of the land by the cooperative partner. Our PRC legal advisors advised that there would be no real risk that the Nanjing Xingang facility would be subject to relocation or demolition provided that the land owner did not raise objection on the use of land. Jun He Law Offices have further advised that, under PRC law, Nanjing Xingang may claim losses and damages from the cooperative partner if, because of the cooperative partner’s actions or omissions, Nanjing Xingang could not continue to operate as provided under the cooperation agreement.

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Zhangjiagang Yingde

One of our subsidiaries, Zhangjiagang Yingde, owns a parcel of land which was acquired by Zhangjiagang Yingde before we acquired a 75% interest in Zhangjiagang Yingde resulting in it becoming a member of our Group. When we acquired Zhangjiagang Yingde, we were aware that Zhangjiagang Yingde had contracted to purchase a parcel of land from the government. Shortly after we acquired Zhangjiagang Yingde, Zhangjiagang Yingde was granted the land title certificate evidencing its title to the land. However, we subsequently discovered that Zhangjiagang Yingde had in fact entered into another contract with a different government department for the acquisition of the same parcel of land for a consideration which is approximately RMB4 million more than the consideration under the previous contract. We are not aware of the reasons for or circumstances relating to having two contracts for the purchase of the same parcel of land. Our PRC legal advisors advised that, although Zhangjiagang Yingde has been granted the land title certificate, given the existence of this other contract, there remains a legal risk that the government may claim the outstanding land grant fee of RMB4 million. We have accordingly made a provision for the additional land grant fee of RMB4 million in our financial statements. The directors of our Company consider that such treatment is appropriate and sufficient to address the legal risk presented to our Group and there is no further material impact on the profitability or financial results of our Group.

Hebei Yingde, Zibo Yingde and Laiwu Yingde

In respect of the parcels of land occupied by the facilities operated by Hebei Yingde, Zibo Yingde and Laiwu Yingde, the relevant on-site customers have failed to provide or procure land with proper titles for use by us. We understand from our on-site customer in Laiwu that the on-site customer has obtained approval from the Laiwu government authority for the conversion of the land into construction/industrial land, pending final approval from the Shandong provincial government authority. According to the gas supply agreements and relevant supplemental agreements entered into between each of Hebei Yingde and Laiwu Yingde and the respective on-site customers, the relevant subsidiary is eligible to claim against the on-site customer for any losses or costs arising from the deficiencies of the land provided or procured by the on-site customer, including but not limited to: (i) fines imposed by any relevant authorities; (ii) loss of profit as a result of being ordered to suspend production (if applicable); (iii) the construction cost of the project if it is ordered to be demolished; (iv) all the costs, fees or losses resulting from the relocation. Our PRC legal advisors advised that under PRC law, pursuant to the gas supply contract between the parties, Zibo Yingde may claim against the on-site customer for losses and damages arising from deficiencies in the title of the land, which the on-site customer has provided or procured.

As the facilities operated by Hebei Yingde, Zibo Yingde and Laiwu Yingde are situated on land with defective titles provided or procured by our on-site customers, they are subject to the potential risk of demolition or relocation. Whilst the eventuality of such risk may require us to utilize the buffer capacity of other plants to support these plants, we believe that if we were forced to demolish or relocate by the local authority due to defective land title, the on-site customer's facilities would also be subject to the same request. Therefore, we may not be able to continue to supply gas to the on-site customer. However, in such case, as advised by our PRC legal advisors, we would have the right to claim compensation from the on-site customers for losses and costs arising from the demolition or relocation associated with the defective land title under the gas supply contracts and/or supplemental agreements between the parties.

The parcel of land occupied by the production facilities operated by Laiwu Yingde and provided by our on-site customer is for agricultural use. Our PRC legal advisors advised that pursuant to the relevant PRC laws, the improper land usage can be rectified by obtaining approval for the conversion of “agricultural land” into “construction land” (建設用地) (which includes usage for industrial purposes). Our PRC legal advisors advise that the process can be commenced by an application for conversion by the on-site customer to acquire the land for construction/industrial purposes. We understand from the on-site customer that it has applied for the conversion of the agricultural land into construction/industrial land, and that the formalities for this conversion are under way and will be completed following the approval of the Shandong government authority.

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Buildings and units

The buildings and units for certain of the facilities operated by Hunan Yingde, Tianjin Yingde, Yangzhou Yingde, Shaanxi Yingde, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Laiwu Yingde, Jiangsu Yingde, Huai'an Yingde, Guizhou Yingde, Hengyang Yingde and Zhuzhou Yingde are built on parcels of land provided or secured by our on-site customers. Since these parcels of land are not registered under our name, our PRC legal advisors, we are not permitted to obtain the relevant building title certificates under applicable PRC laws and regulations

Our PRC legal advisors advised that our use of these buildings and units is subject to potential claims by the local government authorities or the relevant land right holders. Therefore, we may be required to relocate those buildings and units that we have constructed or they could be demolished pursuant to local government order or claim from land rights holders. However, we do not consider that the risk presented to our Group is material, for the following reasons:

- (1) as at the Latest Practicable Date, we have not received any such claims from local authorities or property owners and we are not aware of any intention of local authorities or property owners to make such claims;
- (2) according to the relevant gas supply contracts, our on-site customers are required to supply or secure the supply of such parcels of lands for building our offices and units. Our PRC legal advisors advised that we have a right to claim compensation from the on-site customers under the gas supply agreement if the on-site customers fail to provide such land with proper title and, as a result, our Group suffers loss and damage; and
- (3) the buildings and units are only used for auxiliary purposes (for example, back office and staff quarters) and can be relocated. We consider any suspension of our Group's use of such buildings and units and, any relocation required will not affect the operations and business of our Group in any material respects.

Leased properties

Yingde Logistics leased a parking lot and several offices from the relevant land owner. Hengyang Yingde leased several houses from the relevant land owner. We understand that these parcels of land do not have all the relevant land title certificates. Accordingly, our use of these buildings is subject to claims from local government authorities or the property owners (if any). Our Company's PRC legal advisors advised that, in the event our Company suffers losses or damage from demolition or relocation of the related properties, we have a right to claim compensation from the landlords under the tenancy agreements. In addition, as the properties are only used for auxiliary purposes, we consider any suspension of our Group's use of such properties and any relocation required will not affect the operations and business of our Group in any material respects.

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Our gas supply contracts with our on-site customers generally provide that we and our on-site customers shall be liable for the losses and damage to the properties or persons on the respective sites occupied by us or our on-site customers. Our PRC legal advisors advised that under PRC law, we may be liable for losses, damage or injury caused to third parties (including our on-site customers) or their properties by an accident caused by us, unless such accident is shown to be intentionally caused by such third parties. We manage our risk by constructing our production facilities according to the safety standards required by the PRC government in order to pass safe production inspections and obtain safe production permits from the PRC government. We believe our adherence to PRC government safety standards reduces the risk of accidents occurring at our production facilities. We generally maintain property insurance coverage to cover our main fixed assets and plant and equipment, which is tailored for individual production facilities and covers the damages and losses arising from incidents including accidents (whether self-inflicted or caused by a third party), natural disasters and other force majeure events. However, we do not maintain third party insurance in respect of our operations. Our PRC legal advisors advise that it is not a mandatory requirement under PRC laws to obtain such insurance and we understand that it is not industry practice to do so.

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We also contribute to social insurance for our employees as required by the PRC social security regulations, such as pension contribution plan, medical insurance plan, unemployment insurance plan and work related injury insurance plan for our employees as required by local government. We believe that our insurance coverage is sufficient for our present purposes and is consistent with coverage for other companies in our industry in China.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

We may be involved in certain legal proceedings arising from the ordinary course of our business, including as the plaintiff or defendant in litigation or arbitration proceedings in relation to disputes in connection with our gas supply contracts, such as late or non-payment by our customers. As at the Latest Practicable Date, there are no current litigation or arbitration proceedings and, to the knowledge of our directors, there are no pending or threatened litigation or arbitration proceedings against us or any of our directors that could have a material adverse effect on our financial condition or results of operations.

We set out below the historical legal or regulatory non-compliance matters which may be considered material to our operations:

(a) In March 2006, as we did not accurately estimate the length of time required for the relevant local PRC regulatory authorities to review our application for the renewal of our business license and to obtain a production permit for industrial products in connection with our production facility in Hunan province (being our first production facility in operation since our establishment), the operation of that facility was temporarily suspended for a period of approximately five months and we incurred losses in terms of labor costs, overhead costs and penalty imposed by the government authority in the amount of RMB1.4 million. In addition, we suffered a loss of revenue which could have been generated but for this temporary suspension. After this period, the relevant business license and production permit for industrial products were successfully renewed and issued by the relevant local PRC regulatory authorities, and production was resumed. There were no substantive regulatory compliance issues raised by the relevant local PRC regulatory authorities. Since the occurrence of this incident, we have been very cautious and adopted proactive communications with other production facilities to ensure that the relevant employees promptly submit all applications for renewal of any regulatory licenses and permits for our production facilities across the PRC to avoid similar incidents from recurring. As at the Latest Practicable Date, we have not experienced any discontinuation of operations due to non-renewal of any regulatory permit or license other than the incident described above. Our PRC legal advisors are of the opinion that we will not be subject to any further legal action from the government.

(b) In October 2007, we paid a penalty of RMB1.1 million for failing to obtain prior customs approval for the pledge of duty free imported machines by Jiangsu Yingde to secure a loan provided by the Industrial and Commercial Bank of China Limited, in breach of applicable PRC customs laws and regulations. Our PRC legal advisors are of the opinion that we will not be subject to any further action from the relevant local authority.

(c) Our subsidiary, Zhuhai Yingde, commenced production before filing an application for environmental acceptance inspection and pollutant discharge. The late application was due to the failure to file the application for environmental acceptance inspection with the relevant local PRC authority within the required period. Our PRC legal advisors advise that Zhuhai Yingde may be subject to a fine of RMB20,000 to RMB100,000 for the delay in completing the environmental acceptance inspection and pollutant discharge application. However, given that Zhuhai Yingde has passed the environmental acceptance inspection and obtained the requisite pollutant discharge permit on January 21, 2008 and October 6, 2008, respectively advise that in practice, the possibility for the exposure to the abovementioned legal consequences is low.

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(d) Our subsidiary, Hunan Yingde, received tax refund from the Loudi city government pursuant to an official approval issued by the Loudi city government dated April 26, 2004. According to the opinion of our PRC legal advisors the national government has revoked the right of local governments to grant tax refund without the approval of the central government. Accordingly, this was a local government practice which was not due to any action or omission of our Group. We received tax refund in the amount of RMB1,037,000, RMB987,000 and RMB1,346,000 from the Loudi city government for the three years ended December 31, 2006, 2007 and 2008, respectively. Our PRC legal advisors confirm that, in practice, the possibility of our being required to return such tax refund is low.

(e) Our subsidiary, Shaanxi Yingde, acquired a production facility with a installed capacity of 6,500 Nm³/hr from an independent third party. We understand from the seller that it did not obtain certain relevant government approvals/permits (environment approval, construction planning permit and construction permit) in respect of the production facility. Our PRC legal advisors have advised that this facility is therefore subject to the potential risk of suspension orders from relevant governmental authorities. However, as advised by our PRC legal advisors in the event we suffer losses and damages from the suspension of the facility, we would have a right to claim compensation from the seller under the sale and purchase agreement between the parties.

(f) Pursuant to the terms of the joint venture agreement, our Company and Hengyang Valin have jointly established Hengyang Yingde in which our Company and Hengyang Valin hold a 70% and 30% interest, respectively. Hengyang Valin has transferred the ownership of two production facilities with a combined installed capacity of 9,800 Nm³/hr to Hengyang Yingde as its capital contribution. We understand from Hengyang Valin that it did not obtain certain government approvals/permits (environment approval, construction planning permit and construction permit) in respect of the two production facilities. Our PRC legal advisors have advised that these facilities are therefore subject to the potential risk of suspension orders from relevant governmental authorities. However, as advised by our PRC legal advisors, in the event we suffer losses and damages from the suspension of the two facilities, we would have a right to claim compensation from Hengyang Valin under the joint venture agreement between the parties.

Under PRC law, we are required to obtain two permits to produce and sell industrial gases, namely: (i) safe production permit issued by the State Administration of Work Safety or its local counterpart; and (ii) production permit for industrial products issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC or its local counterpart. Our PRC legal advisors advised that under PRC law, we are not required to obtain separate hazardous chemical production licenses in respect of the production activities at our production facilities.

We set out below certain matters concerning the safe production permits and production permits for industrial products in connection with the facilities operated by Zibo Yingde, Hebei Yingde, Huai'an Yingda, Laiwu Yingde, Zhuzhou Yingde, Rizhao Yingde and Hengyang Yingde, respectively, during the Track Record Period:

- Phase I of the production facilities operated by Zibo Yingde commenced production in September 2007. However, Zibo Yingde only filed the application for safe production permit and production permit for industrial products after having commenced production in September 2007. Zibo Yingde obtained permission from the relevant government authority for trial production covering the period from January 8, 2008 to February 20, 2008. The legal implications are a possible fine in the range of RMB100,000 to RMB500,000 and a possible fine ranging from one to three times of the price of products produced and confiscation of products and earnings in respect of operation prior to the commencement of the trial production period.

Zibo Yingde successfully obtained the safe production permit on April 10, 2008 and the production permit for industrial products on August 1, 2008.

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- Phase I of the production facilities operated by Hebei Yingde commenced production in September 2007. Hebei Yingde obtained permission from the relevant government authority for trial production which covered the period from September 2, 2007 to March 2, 2008, however Hebei Yingde continued to operate after the expiration of this period. The legal implications are a possible fine in the range of RMB100,000 to RMB500,000, and confiscation of earnings and incomes in respect of operations after the expiry of the trial production period for the absence of safe production permit; and a possible fine ranging from one to three times of the price of products produced, confiscation of products and earnings (both in respect of operations after the expiry of the trial production period) and risk of forced suspension or termination of production for the absence of production permit for industrial products.

Hebei Yingde obtained confirmations from the relevant local government authorities which, according to the opinion of our PRC legal advisors, the principal administrative and enforcement authorities concerning these two permits. These confirmations stated that, notwithstanding the absence of the relevant permits, the current operations of the facilities operated by Hebei Yingde are in accordance with the relevant requirements and therefore, it would not be subject to any administrative penalty such as suspension of operation or fines. On the basis of these confirmations, our PRC legal advisors advised that Hebei Yingde is not exposed to any fine or other penalties by such authorities for the absence of safe production permit and production permit for industrial products.

Hebei Yingde successfully obtained the safe production permit on June 30, 2008 and the production permit for industrial products on September 12, 2008, for its Phase I facility.

Prior to the commencement of trial production at Hebei Yingde's Phase II facility, our Group had already reported the intended trial production to the relevant authority and was engaged in discussions with the relevant authority regarding the materials required to apply for the trial production permit. After the trial production commenced in September 2008, due to an operational problem which occurred at the facility, operation of the facility was suspended in October 2008. After the problem was fixed, the facility resumed operation in November 2008 and accordingly the trial production permit was issued stating that the trial production commenced in November 2008.

- The facility operated by Huai'an Yingda commenced production in March 2008. Huai'an Yingda obtained permission from the relevant government authority for trial production on February 25, 2008 covering a period of six months from March 1, 2008.

Huai'an Yingda successfully obtained the safe production permit on June 26, 2008 and the production permit for industrial products on July 25, 2008.

- The facility operated by Laiwu Yingde commenced production in July 2008. Laiwu Yingde obtained permission by the relevant government authority for trial production on June 4, 2008 covering a period of six months from the date of commencement of gas supply.

Laiwu Yingde successfully obtained the safe production permit on November 18, 2008 and the production permit for industrial products on March 13, 2009.

- The facility operated by Zhuzhou Yingde commenced trial production in December 2008. Zhuzhou Yingde obtained permission from the relevant government authority for trial production on December 23, 2008 covering a period of six months from the date commencement of trial gas supply. On June 19, 2009, Zhuzhou Yingde obtained permission from relevant government authority to extend the trial production period to the end of July 2009. On July 20, 2009, Zhuzhou Yingde passed the safety inspection and obtained the opinion upon completion of the safety inspection which permitted Zhuzhou Yingde to commence production.

- Prior to the commencement of trial production at Rizhao Shandong Phase III in October 2008, we reported our trial production proposal to the relevant authority and were engaged in discussions with the relevant authority regarding the documentation required to apply for

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the trial production permit. Whilst the trial production permit granted on January 12, 2009 did not specify a commencement date for trial production, our PRC legal advisors advised that, given that the relevant government authority had been notified of the starting date of the trial production of Rizhao Shandong Phase III, the trial production of Rizhao Shandong Phase III starting from October 2008 has been permitted by the relevant government authority. On August 21, 2009, Rizhao Safe Production Supervision and Administration Bureau issued a written confirmation stating that the permitted trial production period for Rizhao Shandong Phase III commenced in October 2008.

- The Phase I facilities of Hengyang Yingde were transferred from Hengyang Valin to the joint venture company Hengyang Yingde as part of Hengyang Valin's contribution to the joint venture. As a result of this transfer, Hengyang Yingde was required to obtain the relevant permits in its own name. The relevant government authorities have issued written confirmations stating that Hengyang Yingde has applied for the new safe production permit and production permit for industrial products, and that while such application is under consideration, the relevant permits held by Hengyang Valin remain effective for the operation of the relevant production facilities by Hengyang Yingde. We expect that the new production permits to be granted in October 2009, however the actual time will depend on the response time from the relevant authorities. In view of the confirmations by the relevant authority, we do not consider there to be any material risk to the continued operations of the facilities. We believe that the Phase I facilities of Hengyang Yingde satisfy the relevant safety requirements. Our PRC legal advisors are of the view that there is no legal impediment to Hengyang Yingde obtaining the relevant safe production permit and the production permit for industrial products.

Our directors confirm that the operations of the facilities operated by Zibo Yingde, Hebei Yingde, Huai'an Yingda, Laiwu Yingde and Zhuzhou Yingde during the trial production period as mentioned above have been within the scale reported by us in the application for trial production and confirmed by the relevant government authorities.

Our PRC legal advisors confirm that defects in the title of those parcels of land occupied by the production facilities operated by Zibo Yingde and Hebei Yingde shall not invalidate or cause revocation of the safe production permit and the production permit for industrial products that we have obtained. In addition, our PRC legal advisors confirm that our use of land occupied by the production facility operated by Laiwu Yingde shall not invalidate or cause revocation of those permits after they have been obtained. Our PRC legal advisors have advised that their views are based on the following reasons: (i) pursuant to the relevant PRC laws, a valid land use rights certificate is not a compulsory pre-requisite for the application and the grant of a safe production permit or production permit for industrial products; and (ii) the safe production permit or production permit for industrial products application and approval process is overseen by government departments different from the government authority in charge of land administration.

We will not be able to obtain the following permits prior to [●], namely:

- construction planning permits for the facilities operated by Hunan Yingde and Tianjin Yingde; and
- construction permits for the facilities operated by Hunan Yingde and Tianjin Yingde, in each case due to the length of time that has elapsed since construction.

We will use our best endeavors to obtain the relevant permits and to comply with regulations relating to the construction of our production facilities. We have been in active communication with the relevant government authorities in this regard and are committed to taking effective measures to comply with regulatory requirements.

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Our Internal Control Measures

In order to address and prevent the occurrence of future legal and regulatory non-compliance matters, our Group has adopted the following measures:

- (a) With a view to formulate detailed internal control policies, procedures and guidelines, our Group has engaged a professional consultancy firm, Protiviti Shanghai Co., Ltd., or Protiviti, a leading international provider of independent internal audit and business and technology risk consulting services, to appraise the internal control systems and identify risk areas presented to the operations and control environment of our Group.

The table below sets out the key findings and recommendations of Protiviti, the actions we have taken to implement such recommendations:

	Key Findings	Recommendations	Actions we have taken
1.	Lack of a unitary accounting manual to standardize accounting treatment across our Group	i) Develop a comprehensive accounting manual to cover all of the possible business activities that our Group would engage. ii) Provide training to each accounting and finance personnel on the accounting manual. iii) Post-training follow-up alongside with implementation of the accounting manual.	i) Engaged Protiviti to develop a customized accounting manual for our Group. ii) We have finalized the accounting manual. iii) Engaged Protiviti to provide training to each accounting and finance personnel on November 10, 2008.
2.	Lack of written policy of approval procedure and authorization matrix	Develop approval procedure and authorization matrix to define the approval authority at different levels, including shareholders' meeting, board meeting, senior management and plant management.	i) Developed a full scale authorization matrix and approval procedure. ii) Our relevant department will also be responsible for the implementation of the authorization matrix.
3.	Lack of written policy to direct new plant investment activities and to ensure compliance with procedures in the application and the obtainment of various permits	Develop comprehensive capital expenditure and procedural policies including due diligence on potential customers, investment budgeting, investment return analysis, construction bidding procedure, post capital expenditure audit and relevant permits application.	i) With Protiviti's guidance, we have developed a full scale capital expenditure policy to define each of these procedures. ii) Set up the compliance department and the compliance committee on May 8, 2008, with specified roles and responsibilities to handle and monitor the compliance matters of our Group. iii) Our relevant department is also responsible to provide assistance in the implementation of the above measures.

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Key Findings	Recommendations	Actions we have taken
4. Lack of written policy for material contract management	i) Formulate policy to standardize contract drafting, reviewing and filing procedure. ii) Standardize contract template. iii) In-house counsel and external legal counsel (on a case by case basis and if necessary) to review material contracts.	i) Formulated a policy on contract management. ii) Our compliance department is also responsible for contract management.
5. Lack of anticorruption mechanism	i) Introduce an employee code of conduct. ii) Establish an anticorruption reporting channel for employees and third parties to report corruption.	i) Developed an employee code of conduct. ii) Code of conduct has been incorporated into our standard employment contract as an integral appendix. iii) Established an anticorruption reporting hotline/email on our corporate website which will be monitored by our audit committee.

The following paragraphs set out the details of some of our internal control measures identified in the above table as well as other internal control measures which we have implemented.

- (b) We have formulated a comprehensive internal control policy which covers various major areas of our operations including approval process and authority, compliance risk management, capital investment management and contract management. A brief explanation of the policy is as follows:
- (i) **approval process and authority** — our senior management is granted approval rights to manage our day-to-day inventory management, material and fixed assets procurement, sales, human resources, general expenses and reimbursements. Different level of approval authority has been set up and the level of approval required is commensurate with the value involved. The approval matrix has taken into account the needs for segregation of duties and the joint approval of more than one member of the senior management which may be required for substantial transactions;
 - (ii) **compliance risk management** — we have established a compliance structure with a compliance department primarily responsible for handling the compliance matters of our Group at the operational and daily management level. The compliance department will report to the compliance committee. The compliance committee and ultimately the board of directors of our Company are responsible for monitoring the compliance status of our Group and ensure compliance with applicable legal and regulatory requirements. Please see below for further details of the roles and responsibilities of the compliance department and the compliance committee, respectively;
 - (iii) **capital investment management** — we have formulated a detailed capital investment management policy aimed at capital investment for new projects. The policy contains guidelines and procedures for acquisition of land and construction thereon, acquisition and

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construction of facilities and plants, purchase of equipment and material office supplies, purchase of quality control facilities and safety and environmental protection equipments. Details of responsibilities and delineation of duties of the control department, the business development department and the technical and engineering department are stipulated in the policy. Early involvement of the compliance department and the finance department in project development to ensure proper budgeting and planning for capital investment and application for the necessary permits and certificates for the construction and operation of the new plants and facilities; and

- (iv) **contract management** — we have established a system whereby the responsible person for a particular new project and the heads of the relevant business department, finance department and compliance department shall review a proposed contract. Our general manager will then review a proposed contract. Material contracts will be subject to the approval of the board of directors of our Company and, where necessary, external legal advisors will be involved in the drafting or review of material contracts;
- (c) We have established a compliance department which is responsible for monitoring legal and regulatory compliance and the control environment at the group level as well as the subsidiary level. The compliance department comprises our legal and company secretarial teams and is headed by Mr. Zhongguo Sun, our chairman and executive director. The compliance department directly reports to the compliance committee on a monthly basis and is also required to provide periodic reports on our Group's compliance status to our board of directors.

The primary responsibilities of our compliance department are as follows:

- (i) to ensure the relevant legal and regulatory approvals, permits and licenses, concerning a new project are obtained in a timely manner in accordance with applicable requirements and ensure that these approvals, permits and licenses remain valid and subsisting and ensure our permit application process and timing comply with our production and construction policies;
- (ii) in respect of new plant construction projects, to examine and assess the requisite local requirements and ascertain the approvals, permits and licenses required and to undertake the necessary processes and procedures to apply for such approvals, permits and licenses in a timely manner. The compliance department will be involved in the early stage of a new project and work closely with the business development team. If necessary, the compliance department will also seek appropriate expert advice;
- (iii) in respect of plants that are in operation, to carry out regular compliance examination regarding compliance with contract terms, legal requirements for various areas such as labor, social welfare, licensing and environmental protection, as well as compliance with PRC safety standards concerning our operations on a monthly basis in order to reduce the risk of accidents occurring at our production facilities;
- (iv) to identify, correct and eliminate in a timely manner any inadequacies in compliance with laws and regulations regarding the operations and/or construction of plants;
- (v) to provide (or, if appropriate, engage an external party to provide) training to our directors and relevant staff regarding updates on legal and regulatory requirements as well as the improvements and updates on our internal control measures;
- (vi) to work closely with other departments, in particular the finance department, to ensure compliance with applicable rules and requirements when our Group enters into a material contract or makes a material investment; and
- (vii) to work closely with external legal advisors, compliance advisors and financial advisors engaged from time to time to improve internal control system;

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- (d) We have established a compliance committee, a committee of the board of directors, which consists of Mr. Zhongguo Sun (chairman), Mr. Zhao Xiangti and Mr. Zheng Fuya. The compliance committee's terms of reference set out its duties and obligations for ensuring compliance with regulatory matters and corporate governance and the committee will provide quarterly reports to the board of directors. The primary responsibilities of the compliance committee are as follows:
- (i) to devise mechanisms and procedures and make recommendations on improving the control environment and to revise the effectiveness of our internal control policies and make recommendations on its improvements;
 - (ii) to oversee and monitor the compliance status of our Group's business and operations based on the applicable legal and regulatory requirements as well as our own internal control policies and procedures (including our production and construction policies);
 - (iii) to devise appropriate measures and actions if any aspect of our operations is presented with a risk of non-compliance or delay in compliance to minimize liability exposure of our Group;
 - (iv) to review and assess the qualification and competence of any professional parties to be engaged or re-engaged by our Group (other than external auditors) and to recommend to the board of directors the approval of such engagement or re-engagement;
 - (v) to review regular and special reports submitted by the compliance department and require the compliance department to prepare specific reports dealing with particular internal control or compliance issues for review; and
 - (vi) to hold regular meetings to discuss, investigate and make plans for our Group's legal and compliance matters.
- (e) In order to address the potential legal implications in respect of the lack of proper title for parcels of land to be provided or procured by each potential on-site customer for use by our Group, a condition precedent will be included in our future gas supply contracts requiring our on-site customer to provide proof of proper land title. Our future gas supply contracts will also require our on-site customer to provide all reasonable assistance to our Group to obtain the construction planning permit and construction permit in respect of the facility to be constructed and we would only be obliged to construct such facility once we have seen proof of proper land title and have obtained the requisite construction planning permit and construction permit. If our on-site customer fails to provide the required assistance, we may terminate the gas supply contract without prejudice to our right to claim for expenses and costs suffered as a result of the on-site customer's breach of contract.
- (f) The implementation of a construction policy on June 15, 2008 requiring that no construction will commence for our future production facilities unless we have obtained the necessary construction planning permit and construction permit. Our directors are of the view that we have complied with the construction policy since its implementation.
- (g) The implementation of a production policy on June 15, 2008 requiring our future production facilities to commence production only after we have (i) obtained the necessary permission from the relevant government authority for trial production; or (ii) obtained safe production permit and production permit for industrial products after the expiration of the trial production period or any extension thereof. In respect of the permits that are subject to a validity period, we will apply for renewal at a sufficient time prior to the expiry of such permits as permitted under applicable laws to ensure that our permits could be renewed on or prior to the expiry of such permits. In the event that the renewal cannot be obtained prior to the expiry date of the existing permit, our facilities will suspend operations until the requisite permits have been renewed. Our directors are of the view that we have complied with the production policy since its implementation.

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- (h) We have established an audit committee comprising two independent non-executive directors and one non-executive director to be responsible for overseeing the internal control procedures of our Group, discussing with the management of our Group regarding the system of internal control and ensuring that management has discharged its duty to maintain an effective internal control system. We will be able to draw upon the experience and knowledge of the independent non-executive directors who are acting or have acted as directors of other listed companies or listed groups to assist our Group in formulating the principles and direction of effective internal control systems. Please refer to the section headed "Directors, Senior Management and Employees" in this document for details of the experience and qualifications of the members of our audit committee.
- (i) We may engage a PRC law firm to act as external legal advisor from time to time. The legal advisor will assist our Group in handling legal and regulatory compliance matters and advise our Group on legal and regulatory issues on a case-by-case basis as and when they arise. The external legal advisor will be involved in the drafting and amendment of material contracts for our Group. Upon our request, the legal advisor will also provide training to our directors, senior management and staff addressing topics of concern.
- (j) Reference is made to the paragraph headed "Further Information on Torch" in the section headed "Our History and Reorganization" of this document. We have designed certain of our internal control measures to, among other things, prevent the non-compliance matters that affected Torch from occurring within our Group:
- Development of a comprehensive accounting manual as described above. Our accounting manual will also require our financial reports to be reviewed and approved by the audit committee, the majority of which consists of independent non-executive directors;
 - Establishment of a compliance department and the compliance committee as described above which would be responsible for handling and monitoring the compliance matters of our Group, respectively. Please refer to the section headed "Directors, Senior Management and Employees" in this document for details of the experience and qualifications of Ms. Wong.

With Protiviti's assistance, we have implemented the major internal control measures identified in this section. We expect that the implementation of the steps and measures described above will assist our Company effectively and efficiently to rectify the current non-compliance issues and prevent the recurrence of similar non-compliance in the future by ensuring closer compliance monitoring and requiring that construction and production activities will only commence after the relevant permits and certificates have been obtained.

In order to assist the shareholders and investors in understanding and scrutinizing the effectiveness of our Group's internal control, we engaged Protiviti to conduct an assessment over the implementation of the internal control measures of our Group and Protiviti subsequently issued its report dated March 12, 2009 to us. In its report, Protiviti advised that if our Group consistently implements the internal control measures recommended by Protiviti, the past non-compliance matters of our Group can be effectively prevented. Protiviti confirmed that it is satisfied that we have effectively implemented the internal control measures concerning the previous non-compliance matters of our Group.

The directors of our Company are of the view that the internal control measures adopted by us as disclosed in this document are effective in improving the regulatory compliance of our Group.

Indemnity from Baslow, Bubbly Brooke, Rongton and Peace & Smooth

Our PRC legal advisors advise that based on the current applicable PRC laws and regulations, the total maximum penalties that our Group is subject to in connection with: (a) the absence of construction permit and construction planning permit for the production facilities operated by Hunan Yingde and

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Tianjin Yingde; and (b) the absence of construction permit for Laiwu Yingde which was subsequently obtained on November 24, 2008, collectively amount to RMB45.3 million as at the Latest Practicable Date. Baslow, Bubbly Brooke, Rongton and Peace & Smooth (collectively, the “Indemnifying Parties”) have agreed to jointly and severally indemnify and keep our Group indemnified against the penalties that may be imposed by the PRC government authorities in connection with (a) and (b) above as at the Latest Practicable Date, to a maximum amount of RMB45.3 million. The indemnity provided by the Indemnifying Parties will remain valid: (1) during a period of five years from [●], and subject to the Indemnifying Parties receiving a written notice from our Company prior to the expiry of such five-year period giving details of the claim, and any such claim should (if not previously satisfied, settled or withdrawn) be deemed to have been waived or withdrawn at the expiry of a period of six months after the fifth anniversary of [●] unless proceedings for such claim have been commenced by our Company against the Indemnifying Parties; and (2) [●].

Based on the opinion of our PRC legal advisors, we have obtained all material licenses and permits for the operation of our production facilities that are currently in operation and have passed inspections to obtain or renew our licenses and permits during Track Record Period in all material respects save as disclosed in the sections headed “Our Properties”, “Legal Proceedings and Regulatory Compliance” and “Quality, Safety and Environmental Protection” of this document.

CONTINUING CONNECTED TRANSACTIONS

Background

On November 28, 2008, our Company entered into a joint venture agreement with Hengyang Valin to establish a joint venture industrial gas supply company, Hengyang Yingde, in Hengyang city, Hunan province. As we own 70% interest in Hengyang Yingde and have the right to appoint two out of three members of its board of directors, we have control of Hengyang Yingde. Therefore, our Company accounts for Hengyang Yingde as our subsidiary. Hengyang Valin owns the remaining 30% interest in Hengyang Yingde.

As Hengyang Valin is a substantial shareholder of our Company’s subsidiary, Hengyang Valin is a connected person of our Company pursuant to the relevant rules and regulations. Therefore, any transaction between our Company and Hengyang Valin (including its associates) are connected transactions of our Company pursuant to the relevant rules and regulations which will be subject to the requirements under the relevant rules and regulations.

Description of the transactions

Hengyang Gas Supply Contract

On November 28, 2008, Yingde BVI (on behalf of Hengyang Yingde) entered into a gas supply contract with Hengyang Valin, or the Hengyang Gas Supply Contract, pursuant to which Yingde BVI agreed to transfer the benefits and obligations under the Hengyang Gas Supply Contract to Hengyang Yingde upon its establishment, and Hengyang Yingde would supply and Hengyang Valin would purchase a specified minimum volume of industrial gases. The industrial gases supplied to Hengyang Valin by Hengyang Yingde include oxygen, nitrogen and argon which are the major industrial gas products offered by our Company. The duration of the Hengyang Gas Supply Contract is 20 years. The end date of the gas supply contract is October 30, 2029. Under the Hengyang Gas Supply Contract, Hengyang Valin is required to provide utilities (such as electricity) to Hengyang Yingde for its gas production facilities located on the site of Hengyang Valin. Hengyang Yingde would in turn be required to pay Hengyang Valin for those costs of gas production, such as the utility costs and rents for occupation of the site.

Gas Supply Transactions and Supply-related Transactions

The gas supply transactions from Hengyang Yingde to Hengyang Valin are referred to as the Gas Supply Transactions. The basis of pricing of the Gas Supply Transactions was reached between our

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Company and Hengyang Valin through arm's length negotiations taking into account factors including the price offered by competitors, our Company's investment in capital expenditure, the costs of gas production (including the costs charged by Hengyang Valin for the Supply-related Transactions described below), reputation and quality of Hengyang Valin, and the likely return to the shareholders of our Company.

In connection with the Gas Supply Transactions, our Group will enter into certain related transactions with Hengyang Valin. These transactions involve payment of expenses (including but not limited to electricity expense, steam expense and rental expense) from Hengyang Yingde to Hengyang Valin under the Hengyang Gas Supply Contract, or the Supply-related Transactions. The basis of pricing of the Supply-related Transactions was reached between our Company and Hengyang Valin through arm's length negotiations taking into account factors including the price charged by the local utility companies and the rentals charged by landlords of adjacent properties.

Historical transaction amounts and the proposed annual caps

Prior to the commencement of gas supplies by Hengyang Yingde to Hengyang Valin in April 2009, there have been no transactions between our Group and Hengyang Valin and therefore, there were no historical transaction amounts for the three years ended December 31, 2006, 2007 and 2008.

The amount for the Gas Supply Transactions for each of the months since the commencement of gas supply by Hengyang Yingde to Hengyang Valin in April 2009 to July 31, 2009 was approximately RMB3.5 million, RMB4.7 million, RMB5.2 million and RMB5.2 million, respectively. The historical amount for the Supply-related Transactions for each of the months since the commencement of gas supply by Hengyang Yingde to Hengyang Valin in April 2009 to July 31, 2009 was approximately RMB1.8 million, RMB2.5 million, RMB2.7 million and RMB2.6 million, respectively. These amounts are generated by the Phase I facilities of Hengyang Yingde which were transferred from Hengyang Valin to Hengyang Yingde (as the joint venture company).

The directors of our Company currently estimate that the proposed annual caps of the Gas Supply Transactions will not exceed RMB82.5 million for the year ending December 31, 2009 and thereafter RMB110 million per annum and the Supply-related Transactions will not exceed RMB34 million for the year ending December 31, 2009 and thereafter RMB45 million per annum during the 20-year duration of the Hengyang Gas Supply Contract until October 30, 2029.

Basis for the annual caps

In arriving at the annual caps set out above, the directors of our Company have taken into account:

- (a) the agreed unit price for each of oxygen, nitrogen and argon specified in the Hengyang Gas Supply Contract;
- (b) the minimum gas supply volume for each of oxygen, nitrogen and argon specified in the Hengyang Gas Supply Contract;
- (c) potential additional gas supplies above the minimum gas supply volume that Hengyang Valin may purchase from Hengyang Yingde due to future expansion of production of Hengyang Valin, on the basis of the capacity of the existing Phase I facilities of Hengyang Yingde and the Phase II facilities of Hengyang Yingde which are expected to commence gas supply in November 2009; and
- (d) possible increase in the costs of gas production to be charged by Hengyang Valin (such as electricity) which will also be reflected in the increased sales prices of gas products.

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Directors' confirmation

The board of directors of our Company considers that:

- (a) the Gas Supply Transactions and Supply-related Transactions disclosed above; and
- (b) the term of the Hengyang Gas Supply Contract exceeding three years,

are entered into on normal commercial terms, are entered into in the ordinary and usual course of the business of our Company, are fair and reasonable and in the interests of our Company's shareholders as a whole.

Save as disclosed above, we do not have any continuing connected transactions as at the Latest Practicable Date.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our board currently consists of seven directors, comprising three executive directors, one non-executive director and three independent non-executive directors. We have entered into service contracts with each of our executive directors. Certain information in respect of the members of our board are set out below:

Executive Directors

Mr. Zhongguo Sun, aged 45, was appointed the chairman and an executive director of our Company on November 12, 2007. Mr. Sun was one of the founders of our Group and has been a director and the general manager of our Group since 2001 responsible for the overall management and strategy of our Group. Mr. Sun is also currently a director of each of the subsidiaries of our Group (except for Yingde Logistic). Mr. Sun has more than ten years experience in the industrial gas industry. Prior to establishing our Group, Mr. Sun was the business manager of applied gas solution at BOC Gases. Mr. Sun received a Master of Science in Mechanical Engineering from the University of Pittsburgh in 1989.

Mr. Zhao Xiangti (趙項題), aged 51, was appointed an executive director of our Company on November 12, 2007. Mr. Zhao was one of the founders of our Group and has participated in our management, business development and expansion since October 2001. Mr. Zhao is responsible for domestic finance planning and support in the PRC within our Group. Mr. Zhao is also currently a director of each of the subsidiaries of our Group (except Zhangjiagang Yingde and Yingde Logistic). Mr. Zhao has more than six years experience in the industrial gas industry. Mr. Zhao was previously a supervisor of Torch. Mr. Zhao ceased to be a member of Torch’s management team in April 2007. Please refer to the paragraphs headed “Further Information on Torch” in the section headed “History and Reorganization” of this document for further information on Mr. Zhao’s previous positions with Torch. Mr. Zhao also previously served as chairman and general manager of QYSD. Mr. Zhao received a Bachelor of Engineering from Hebei Science and Technology University in 1982.

Mr. Chen Yan (陳岩), aged 42, was appointed an executive director on December 18, 2008, and is a vice president of our Company. Mr. Chen is responsible for our Company’s business planning, business structuring and restructuring, overseeing legal matters and investor relations. Mr. Chen joined our Group in June 2006. Mr. Chen has more than ten years experience in the industrial sector. Prior to joining our Group, Mr. Chen was the deputy director of the international division of Torch. Mr. Chen also previously held the position of director at Shanghai Dragon Bat Wines & Spirits Limited, a subsidiary of Bacardi & Company (China) Limited, and at Avant-Garde City Group. Mr. Chen received a Bachelor of Electrical Engineering from Shanghai Jiao Tong University in 1990 and two Masters of Science degrees in Engineering from the University of Pennsylvania in 2000 and 2002.

Non-executive Director

Mr. Chen Dar Cin (陳達信), aged 43, was appointed a non-executive director of our Company on July 15, 2008. Baring appointed Mr. Chen to the board of our Company pursuant to its special right as the holder of Preferred Shares. Mr. Chen has 19 years of experience in the private equity and banking industries in Asia and the United States, and is currently a managing director at Baring Private Equity Asia Limited. Prior to joining Baring Private Equity Asia Limited, he was an assistant director with Prudential Asset Management Asia in Hong Kong, and a principal with Banc of America Securities Asia Limited in Hong Kong. Mr. Chen received a Bachelor of Arts from the University of California at Berkeley in 1990.

Independent non-executive Directors

Mr. Xu Zhao (徐昭), aged 40, was appointed an independent non-executive director of our Company on September 12, 2009. Mr. Xu is currently the chairman of Cathay Life Insurance Company

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Limited (國泰人壽保險有限責任公司), which is a joint venture in the PRC between China Eastern Air Holding Company and Cathay Life Insurance Company Limited (國泰人壽保險股份有限公司), a publicly listed company in Taiwan. Mr. Xu is also currently the chief financial officer of China Eastern Air Holding Company and a supervisor of China Eastern Airlines Corporation Limited, a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange. Please also refer to the paragraphs headed “Further Information on Torch” in the section headed “History and Reorganization” of this document for further information on Mr. Xu’s previous positions with one of Torch’s subsidiaries. Mr. Xu has more than ten years experience in the accounting and finance areas. Mr. Xu received a Bachelor degree in Molding from Chongqing University in 1991 and a Master degree in Professional Accountancy from The Chinese University of Hong Kong in 2005. Mr. Xu is a certified public accountant in the PRC. Given Mr. Xu’s professional work experience and educational background, Mr. Xu possesses the appropriate accounting and financial management expertise, which satisfy the relevant rules and regulations.

Mr. Zheng Fuya (鄭富亞), aged 43, was appointed an independent non-executive director of our Company on September 12, 2009. Mr. Zheng was a director of Comtech Group, Inc., a company listed on the NASDAQ and has since January 1, 2008 served as the chief financial officer of the same company. Mr. Zheng was previously vice president of travel service at eLong, Inc., one of the leading online travel service companies in China and listed on the NASDAQ, where Mr. Zheng was responsible for the overall operation of eLong Inc.’s travel services. Mr. Zheng has more than ten years experience in the service industry. Mr. Zheng received a Bachelor of Business Administration majoring in accounting from City University of New York in 1994.

Mr. Kam Son Leong (梁金羨), aged 54, was appointed an independent non-executive director of our Company on September 12, 2009. Mr. Leong was previously employed at York International Corporation, a heating, ventilating, air-conditioning and refrigerating company listed on the New York Stock Exchange which was later acquired by Johnson Controls International in 2005. During his time at York International Corporation, Mr. Leong held various positions including as a general manager in Malaysia, vice-president of north east Asia and subsequently as president of Asia Pacific. In 2007, Mr. Leong co-founded KHL Partners to invest in private equity deals in China. He is an independent director of Fluidra, S.A. which is listed on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia in Spain. Fluidra, S.A. is engaged in developing applications for sustainable water use. Mr. Leong is also chairman of Henan ADD Electrical Equipment Co. Ltd., a company specializing in porcelain insulators for high voltage transmission lines. Mr. Leong received a Bachelor of Science and a Master of Science in Mechanical Engineering from Iowa State University in 1980 and 1981, respectively.

SENIOR MANAGEMENT

Mr. Trevor Raymond Strutt, aged 58, is the chief operating officer of our Company. Mr. Strutt was one of the founders of our Group and has been the deputy general manager responsible for the overall operational aspects of our Group since establishment. Mr. Strutt has more than 20 years experience in the industrial gas industry. Prior to establishing our Group, he held various positions at BOC Gases. Mr. Strutt received a Bachelor of Science with Honors in Materials Science from the University of Sussex in 1975 and a Master of Business Administration from the University of Leeds in 2001. Mr. Strutt is a member of the Institute of Materials, Minerals and Mining, and is a registered member of the United Kingdom Engineering Council – Chartered Engineer.

Mr. Yang Yonggang (楊永剛), aged 43, is a vice president of our Company. Mr. Yang was one of the founders of our Group who has participated in our management, business development and expansion since November 2001. Mr. Yang acted as a director on the board of our subsidiaries where he participated in making important and strategic decisions. Mr. Yang utilized his business contacts and network to assist our Group to reach out to potential customers. Mr. Yang has more than six years experience in the industrial gas industry. Mr. Yang was previously a director of QYSD. Mr. Yang received a Bachelor of Engineering from the China Mining University in 1989. Please also refer to the

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paragraphs headed "Further Information on Torch" in the section headed "History and Reorganization" of this document for further information on Mr. Yang's previous positions with one of Torch's subsidiaries.

Mr. Xu E (徐鐸), aged 39, is the chief financial officer of our Company and is responsible for the overall financial planning, internal control, treasury and taxation. Mr. Xu joined our Group in January 2007. Mr. Xu has more than 15 years experience in the accounting and finance fields. Prior to joining our Group, Mr. Xu was the finance director of the non-carbonated beverages unit of PepsiCo Inc.'s China operations. Mr. Xu worked for the China operations of both ABN AMRO Bank N.V. and Johnson & Johnson prior to joining PepsiCo Inc. Mr. Xu received a Bachelor of International Trade from Shanghai University in 1992 and a Master of Business Administration from Webster University in 2000.

JOINT COMPANY SECRETARIES

Ms. Wong Sze Wing (黃斯穎), aged 30, joined our Group on July 1, 2008 as the deputy chief financial officer and was appointed a joint company secretary of our Company on February 17, 2009. Ms. Wong has over eight years of accounting experience in the industrial sector. Prior to joining our Company, Ms. Wong was the group chief financial officer of Orange Sky Entertainment Group (International) Holdings Limited, an investment holding company with subsidiaries engaging in media business in the PRC. She was previously employed as the financial controller of Avex China Company Limited, a PRC joint venture company established by Orange Sky Entertainment (International) Holdings Limited and Avex Group Holdings Inc. Avex Group Holdings Inc. is a company listed on the Tokyo Stock Exchange. Ms. Wong was also previously employed as a manager at PricewaterhouseCoopers. Ms. Wong holds a Bachelor of Business Administration from the University of Hong Kong. Ms. Wong became a chartered member of the Hong Kong Institute of Certified Public Accountants in 2003.

Mr. Ngai Wai Fung (魏偉峰), aged 47, was appointed as a joint company secretary of our Company on February 17, 2009. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee. Mr. Ngai is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Ngai holds a Master of Corporate Finance degree from the Hong Kong Polytechnic University, a Master of Business Administration degree from Andrews University of the United States and a Bachelor of Laws (with Honors) degree from the University of Wolverhampton, the United Kingdom. He is also undertaking a PhD course (thesis stage) in Finance at the Shanghai University of Finance and Economics.

MANAGEMENT PRESENCE IN HONG KONG

We conduct all our operations in the PRC. Most of our directors reside in the PRC, with both of our executive directors ordinarily resident in the PRC. Each of our directors possesses valid travel documents to Hong Kong. We do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong.

COMPLIANCE ADVISOR

We have appointed a compliance advisor pursuant to the relevant rules and regulations. Pursuant to the relevant rules and regulations, the compliance advisor will advise us among others, on the following matters:

- (i) the publication of any regulatory announcement, circular or financial report;

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- (ii) where a transaction, which might be a notifiable or connected transaction is contemplated including share issues and share repurchases; and
- (iii) where its business activities, developments or results deviate from any forecast, estimate, or other information in this document;

BOARD COMMITTEES

Audit committee

We have established an audit committee with written terms of reference pursuant to the relevant rules and regulations. The audit committee consists of three members, namely Mr. Xu Zhao, Mr. Zheng Fuya and Mr. Kam Son Leong. The chairman of the audit committee is Mr. Xu Zhao, an independent non-executive director.

The primary duties of the audit committee are to make recommendations to the board of our Company on the appointment and removal of the external auditors, review the financial statements, oversee and provide material advice in respect our financial reporting system and oversee the internal control procedures of our Company.

Remuneration committee

We have established a remuneration committee with written terms of reference pursuant to the relevant rules and regulations. The remuneration committee consists of three members, namely Mr. Xu Zhao, Mr. Zheng Fuya and Mr. Kam Son Leong. The chairman of the remuneration committee is Mr. Kam Son Leong, an independent non-executive director. The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of our directors and senior management and evaluate, make recommendations on our retirement scheme and our performance assessment system and bonus and commission policies.

Nomination committee

We have established a nomination committee. The nomination committee consists of three members, namely Mr. Xu Zhao, Mr. Zheng Fuya and Mr. Kam Son Leong. The chairman of the nomination committee is Mr. Zheng Fuya, an independent non-executive director. The primary functions of the nomination committee are to make recommendations to our board regarding candidates to fill vacancies on our board.

Compliance committee

We have established a compliance committee. The compliance committee consists of three members, namely Mr. Zhongguo Sun, Mr. Zhao Xiangti and Mr. Zheng Fuya. The chairman of the compliance committee is Mr. Zhongguo Sun, our Company’s chairman and an executive director. The primary functions of the compliance committee are to ensure compliance on regulatory matters and corporate governance.

RETIREMENT SCHEMES

Our employees in the PRC participate in various pension schemes organized by the relevant municipal and provincial government under which we are required to make monthly contributions to these plans. The local government is responsible for the planning, management and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees.

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The total amount of contributions we made for such employee pension schemes for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009 were approximately RMB0.3 million, RMB1.3 million, RMB2.8 million and RMB1.5 million respectively.

As at the Latest Practicable Date, our PRC legal advisors, are of the opinion that we comply with applicable PRC statutory requirements on retirement contributions in all material respects.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. For details of the Share Option Scheme, please refer to the section headed "Share Option Scheme" in Appendix VI to this document. As at the Latest Practicable Date, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

COMPENSATION OF DIRECTORS AND MANAGEMENT

Our executive directors, who are also our employees, receive compensation in the form of salaries, bonuses, other allowances and benefits in kind, including our contribution to the pensions scheme for our executive directors, in their capacity as employees, according to PRC law.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid by our Group to the directors for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009 were approximately RMB1.8 million, RMB2.6 million, RMB3.1 million and RMB1.2 million, respectively.

Our remuneration committee will make recommendations on the remuneration of our directors taking into account the performance of our directors and market standards and the remuneration will be subject to approval by our shareholders. Accordingly, the historical remuneration to our directors during the Track Record Period may not reflect the future levels of remuneration of our directors.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid by our Group to the five highest paid individuals excluding two, one, one and one director(s) during the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, were approximately RMB1.2 million, RMB6.5 million, RMB6.1 million and RMB2.2 million, respectively.

No remuneration was paid by our Group to the directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. Further, none of our directors had waived any remuneration during the Track Record Period.

MANAGEMENT SERVICE AGREEMENT

Yingde BVI entered into a management service agreement with Baslow on June 20, 2006 pursuant to which Baslow provided management services to us including: (1) liaising with target clients in relation to development and cooperation opportunities; (2) assisting with equipment and material procurement; (3) developing advanced technology; and (4) providing facility installation expertise. Pursuant to the agreement, Yingde BVI issued 200 ordinary shares to Baslow as consideration, accounting for approximately 1.4% of the then issued share capital of Yingde BVI. This management service agreement was terminated on November 11, 2007. Please also refer to Note 25 of the Accountants' Report set out in Appendix I to this document for details on the management services agreement.

SUBSTANTIAL SHAREHOLDERS

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

All of our Controlling Shareholders are investment holding companies whose only assets are the Shares and do not conduct any business activities. Other than as disclosed in this document, our Company currently does not have any business dealings with our Controlling Shareholders or their respective associates nor does our Company currently have any financing arrangements provided by the Controlling Shareholders or their respective associates.

None of our Controlling Shareholders, our directors and their respective associates have an ownership interest in any business which competes or is likely to compete, either directly or indirectly, with our Company's business.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained herein is incomplete and subject to change and it must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company as at the Latest Practicable Date:

As at the Latest Practicable Date

	US\$
Authorized share capital:	
50,000,000,000 shares of US\$0.000001 each divided into 49,800,000,000 ordinary shares of US\$0.000001 each and 200,000,000 preferred shares of US\$0.000001 each.	50,000
Issued share capital:	
1,270,000,000 Shares of US\$0.000001 each	1,270
200,000,000 Preferred Shares of US\$0.000001 each	200

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Latest Practicable Date.

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You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our combined financial information and related notes included in the Accountants' Report set out in Appendix I to this document. The combined financial information have been prepared in accordance with IFRS. The following discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see the section headed "Forward-looking Statements" in this document.

RESULTS OF OPERATIONS

The following tables set forth a summary of our combined statements of comprehensive income, combined balance sheets and combined cash flow statements for the periods presented, which are derived from the Accountants' Report in Appendix I to this document.

Summary Data of Combined Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Turnover	485,054	783,717	1,411,713	619,960	917,163
Cost of sales	(256,566)	(464,166)	(828,156)	(351,722)	(586,072)
Gross profit	228,488	319,551	583,557	268,238	331,091
Other revenue	1,037	987	1,352	499	208
Selling expenses	(8,909)	(9,933)	(15,088)	(7,727)	(7,834)
Administrative expenses	(40,718)	(58,603)	(79,946)	(25,739)	(45,448)
Profit from operations	179,898	252,002	489,875	235,271	278,017
Finance income	5,307	27,899	36,469	12,979	2,771
Interest income	268	2,350	5,291	2,701	1,798
Finance income on receivables under finance lease	—	—	1,555	742	796
Termination gain on conversion of Convertible Loans ⁽¹⁾	—	12,478	—	—	—
Fair value adjustment on Convertible Redeemable Preferred Shares ⁽¹⁾	—	—	21,301	1,724	—
Foreign currency exchange gain	5,039	13,071	8,322	7,812	177
Finance costs	(161,201)	(95,963)	(58,492)	(26,563)	(44,030)
Interest on bank and other loans	(12,509)	(42,575)	(66,184)	(30,454)	(34,510)
Finance charges on obligations under finance lease	(2,318)	(2,675)	(2,633)	(1,317)	(1,244)
Interest on the liability component of Convertible Loans and Convertible Redeemable Preferred Shares	(11,190)	(10,555)	(9,148)	(4,555)	(4,373)
Fair value adjustments on Convertible Loans and Convertible Redeemable Preferred Shares ⁽¹⁾	(78,899)	(50,810)	—	—	(10,953)
Loss on modification of terms of Convertible Redeemable Preferred Shares ⁽¹⁾	(55,041)	—	—	—	—
Termination loss on conversion of Convertible Loans ⁽¹⁾	(1,117)	—	—	—	—
Foreign currency exchange loss	(163)	(2,191)	(2,727)	(869)	(163)
Capitalized borrowing costs	36	12,843	22,200	10,632	7,213
Profit before taxation	24,004	183,938	467,852	221,687	236,758
Income tax	—	(8,055)	(39,192)	(21,489)	(4,234)
Profit and total comprehensive income for the year/period	24,004	175,883	428,660	200,198	232,524
Attributable to:					
Equity holders of our Company	(6,729)	177,049	430,133	200,721	232,487
Minority interests	30,733	(1,166)	(1,473)	(523)	37

Notes:

- (1) For more details on the financial impact of the Convertible Loans and the Preferred Shares, please refer to Notes 22 and 23 of Section C of the Accountants' Report set out in Appendix I to this document.

FINANCIAL INFORMATION

Summary Data of Combined Balance Sheets

	As at December 31,			As at June 30, 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment, net	611,025	1,123,091	1,751,968	2,176,570
Construction in progress	14,948	291,874	488,655	391,293
Other non-current assets	103,787	123,410	174,986	119,012
Total non-current assets	729,760	1,538,375	2,415,609	2,686,875
Current assets				
Trade and other receivables	82,089	167,786	126,676	284,463
Pledged bank deposits	37,652	154,530	227,422	231,546
Cash and cash equivalents	119,347	169,562	28,463	232,824
Other current assets	5,564	14,914	11,648	18,925
Total current assets	244,652	506,792	394,209	767,758
Current Liabilities				
Bank and other loans	157,334	316,754	500,262	560,115
Trade and other payables	117,031	317,092	572,710	515,064
Convertible Loans and Convertible Redeemable Preferred Shares	223,981	161,668	141,224	156,500
Dividends payable	26,930	—	—	—
Other current liabilities	4,740	5,822	10,020	15,307
Total current liabilities	530,016	801,336	1,224,216	1,246,986
Net current liabilities	(285,364)	(294,544)	(830,007)	(479,228)
Total assets less current liabilities	444,396	1,243,831	1,585,602	2,207,647
Non-current liabilities				
Bank and other loans	130,000	417,760	400,350	746,780
Obligations under finance lease	30,477	29,952	29,385	30,515
Deferred tax liabilities	—	—	10,991	16,952
Total non-current liabilities	160,477	447,712	440,726	794,247
Net assets	283,919	796,119	1,144,876	1,413,400
Total equity attributable to equity holders of the Company	269,533	782,899	1,133,129	1,365,616
Minority interests	14,386	13,220	11,747	47,784
Total equity	283,919	796,119	1,144,876	1,413,400

Summary Data of Combined Cash Flow Statements

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Net cash generated from operating activities	182,182	214,503	513,801	264,546	185,813
Net cash used in investing activities	(416,868)	(815,043)	(741,011)	(370,475)	(384,968)
Net cash generated from financing activities	334,090	651,499	86,122	15,562	403,590
Net increase/(decrease) in cash and cash equivalents	99,404	50,959	(141,088)	(90,367)	204,435
Cash and cash equivalents at beginning of year/period	20,095	119,347	169,562	169,562	28,463
Effect of foreign exchange rate changes	(152)	(744)	(11)	(77)	(74)
Cash and cash equivalents at end of year/period	<u>119,347</u>	<u>169,562</u>	<u>28,463</u>	<u>79,118</u>	<u>232,824</u>

FINANCIAL INFORMATION

OVERVIEW OF OUR OPERATIONS

We are the largest domestic independent industrial gas supplier specializing in on-site gas supply in China in terms of total revenue as at the end of 2008, based on the research information in the SAI Report.

We produce, supply and distribute a variety of industrial gas products to our on-site and merchant customers across different regions in the PRC, with oxygen, nitrogen and argon being our main gas products. Through our on-site gas supply operations, we design, construct, operate and maintain gas production facilities on or in close proximity to our on-site customers' production sites, and supply our on-site customers with industrial gas products. We believe the close proximity of our gas production facilities to our on-site customers' production sites enables us to ensure the reliability and stability of our industrial gas supplies to our on-site customers. Our on-site customers are primarily iron and steel companies, which use our gas products as part of their production processes. We also supply our gas products to customers in the chemical and non-ferrous metals industries. We enter into long-term take-or-pay gas supply contracts with our on-site customers generally with a duration of between 15 to 25 years, which allows us to generate stable and long-term earnings.

In addition, we maintain a merchant gas operation for which we have three dedicated production facilities (one in operation and two under development) in the PRC, located in Nanjing, Yangzhou and Zhangjiagang. Gases that are sold through our merchant operation can be applied in the solar, electronics, glass, food, automotive and construction industries. Any remaining available capacity from our on-site gas production facilities is also utilized to produce gases for selling to the merchant market, which allows us to take advantage of our production capacity to help maximize sales revenue.

For further information on our operations, please refer to the section headed "Business" in this document.

BASIS OF PRESENTATION

For the purpose of the combined financial information for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009, as set out in Appendix I to this document, since the companies taking part in the Reorganization were controlled by the Controlling Shareholders before and after the Reorganization, there was a continuation of the risks and benefits to the Controlling Shareholders. As a result, the combined financial information have been prepared using the merger basis of accounting as if our Group has always been in existence. The net assets of the combining companies are combined using their existing book values from the Controlling Shareholders' perspective. The interests of equity holders other than the Controlling Shareholders in the combining companies have been presented as minority interests in our Group's combined financial information.

The combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of our Group for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009, as set out in Section B of the Accountants' Report in Appendix I to this document, include the results of operations of the companies now comprising our Group as if the current group structure had been in existence and remained unchanged throughout the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009, or since the dates of their incorporation or establishment where this is a shorter period. The combined balance sheets of our Group as at December 31, 2006, 2007 and 2008, and June 30, 2009, as set out in Section B of the Accountants' Report in Appendix I to this document, have been prepared to present the combined assets and liabilities of the companies now comprising the Group as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

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Before February 2006, our Group had 48% effective equity interest in Hunan Yingde. Notwithstanding this, Hunan Yingde has been accounted for as a subsidiary because the Controlling Shareholders had the power to govern the financial and operating policies of Hunan Yingde through the control of majority voting rights in the board of directors of Hunan Yingde. In February 2006, the Controlling Shareholders acquired additional 4% equity interest in Hunan Yingde from other than - shareholders of Hunan Yingde, and accordingly, our Group's effective equity interest in Hunan Yingde was increased from 48% to 52%. In June 2006, our Group further acquired 48% equity interest in Hunan Yingde from the minority shareholder of Hunan Yingde. Thereafter, Hunan Yingde has become a wholly-owned subsidiary of our Group. The interests of equity holders other than the Controlling Shareholders in Hunan Yingde from January to June 2006 have been presented as minority interests in our Group's combined financial information.

Before February 2006, our Group had 60%, 60%, 73%, 59% and 60% effective equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde respectively, in which 36%, 36%, 19%, 36% and 36% effective equity interests were held through Hunan Yingde and the remaining interests were held through certain members of the Controlling Shareholders. Our Group also had the power to govern the financial and operating policies of these subsidiaries through the control of majority voting rights in the board of directors of Hunan Yingde as mentioned above. After the acquisitions of the minority interests in Hunan Yingde by our Group in February and June 2006 respectively, these entities have become wholly-owned subsidiaries of our Group. The interests of equity holders other than the Controlling Shareholders in these subsidiaries from January to June 2006 have been presented as minority interests in our Group's combined financial information.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below:

Production Capacity, Supply Lead-time and Ramp-up Period

We generate our turnover by producing and supplying industrial gas products to our customers from our production facilities located in various regions across the PRC. Therefore, our production capacity has had and will continue to have an impact on our ability to generate turnover and on our results of operations. As of the Latest Practicable Date, we had 20 industrial gas production facilities in operation and 12 industrial gas production facilities under development. Please refer to the section headed "Business – Our Production Facilities" for more details on our production facilities currently in operation and under development. Upon completion of these production facilities, we expect to increase our total installed capacity to approximately 848,800 Nm³/hr, in terms of installed oxygen production capacity, representing an expected 135.1% increase from our total installed capacity of 361,000 Nm³/hr at the end of 2008.

We have experienced and will continue to experience various lengths of supply lead-time - the time from our signing of the gas supply contract with our on-site customers to commencement of supplying our industrial gas products - in relation to the establishment and construction of our new production facilities. Upon completion of the construction of our production facilities, we have also experienced and will continue to experience a ramp-up production period between completion of construction of production facilities and operation of production facilities at full capacity which leads to under-utilization of production facilities in the intervening period. Therefore, the length of supply lead-time and customer demand ramp-up period has had and will continue to have an impact on our revenues.

In addition, we have been building new production facilities with greater capacity than existing demand because to do so does not require significant additional investment. As such, we may experience a longer ramp-up period to cater for a potential increase in demand. Nonetheless, once the customer demand ramp-up periods come to an end or demand increases from merchant customers in the relevant local markets, we expect to be able to fully utilize our total installed capacity.

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Competition and Pricing

The on-site and merchant industrial gas industries in the PRC are highly competitive. We compete against several major international industrial gas suppliers and numerous local industrial gas suppliers across different regions in the PRC. The degree of competition in our on-site and merchant businesses has affected and is expected to continue to affect our results of operations and financial condition. Please refer to the section headed "Business – Competition" for more details.

In addition, we have in the past obtained most of our on-site business through competitive tender processes, and we expect that a significant portion of our future on-site business will be obtained in the same way. We compete based on pricing and the length of supply lead-time. Moreover, we generally make most of our merchant sales by selling our industrial gas products in regional markets at market spot prices. As a result, the results of operations from our merchant sales have been and will continue to be affected by fluctuations in the market spot prices of industrial gas products in regional markets where we make our merchant sales.

Cost of Electricity

The cost of electricity constitutes a significant part of our total cost of sales and has had and will continue to have a significant impact on our results of operations. Electricity accounted for 83.3%, 80.1%, 86.7% and 87.5%, respectively, of our total cost of sales in 2006, 2007, 2008 and the six months ended June 30, 2009. While electricity prices rose during 2006 and 2007, negatively impacting our cost of sales and, accordingly, our gross profit margin, electricity prices remained generally stable during 2008 and the six months ended June 30, 2009. Nonetheless, for our on-site business, we were generally able to pass on the cost of utilities to our on-site customers, and for our merchant business, the increase in the cost of utilities was largely off-set by the increased spot price for our products sold to merchant customers. Driven by rising fuel cost and increasing demand, the cost of utilities, especially electricity, has risen in the past few years and is expected to continue to rise globally. In China, as a result of strong GDP growth in the past two decades, the consumption of electricity has increased from 623 billion KWh in 1990 to 3,450 billion KWh in 2008, representing a CAGR of 10.0%. More importantly, as fuel cost, especially the price of coal, has increased significantly in recent years and is expected to continue to remain at a high level, the price of electricity is expected to continue to rise or remain at a high level.

We have entered into contractual arrangements with all of our on-site customers pursuant to which substantially all of them will secure utilities for us and the prices we charge all of them for industrial gas products are adjusted in accordance with fluctuations in the local utility costs. This arrangement with our on-site customers would to an extent allow any increase in electricity cost to be matched by a corresponding increase in turnover. In addition, as our on-site customers charge us based on the actual amount of utilities we consume, we can improve our gross profit margin if we can reduce the unit consumption of electricity in our production facilities. However, we do not have similar contractual arrangements with respect to our production facilities which are dedicated to our merchant businesses.

Expenditures Relating to Our Expansion Strategies

Our capital expenditures primarily relate to the acquisition and construction of new production plants and equipment to develop our additional industrial gas production facilities. These capital expenditures have resulted in significant depreciation expenses during the Track Record Period. Our depreciation expenses were RMB32.1 million in 2006, RMB48.6 million in 2007, RMB75.9 million in 2008 and RMB53.0 million for the six months ended June 30, 2009.

We also incur business development expenses in connection with the expansion of our businesses, which are accounted as selling, general and administrative expenses. These expenditures and expenses relating to our expansion strategies have affected and will continue to affect our results of operations and financial condition.

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Finance Costs

We finance a portion of our business operations and expansion projects with short-term and long-term bank loans and other loans. As at June 30, 2009, our outstanding short-term and long-term bank loans and other loans amounted to RMB1,306.9 million. The range of interest rates per annum on our bank loans and other loans during the Track Record Period were as set forth below:

	December 31,			June 30,
	2006	2007	2008	2009
Short-term loans	5.9-7.0%	3.6-7.5%	2.5-9.7%	1.7-7.9%
Long-term loans	6.1-10.4%	6.3-10.4%	5.7-10.4%	5.4-10.4%

See the section headed “Financial Information – Indebtedness” for more details.

In addition, we may also utilize other financing methods from time to time, such as issuing capital market instruments, in order to finance our future expansion needs which may increase our interest expenses. Therefore, the total balance of our total borrowings and the total amount raised through other financing methods, as well as any interest rate fluctuations, have had and will continue to have an impact on our finance costs, which in turn could affect our results of operations and financial condition.

Taxation

Prior to January 1, 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Zhuhai Yingde, being an entity located in a designated Special Economic Zone, was entitled to a preferential income tax rate of 15%. Nanjing Xingang and Tianjin Yingde, being entities located in the old urban districts in which Economic and Technological Development Zones are located, were entitled to a preferential income tax rate of 24%. In addition, certain of our Group's PRC subsidiaries, being production-oriented foreign investment enterprises under the Foreign Enterprise Income Tax law and its implementation rules, were each entitled to a tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from their respective first profit-making year after off-setting accumulated tax losses, if any (“2+3 Tax Holiday”).

The new Corporate Income Tax Law of the PRC became effective on January 1, 2008. As a result of the new tax law, the statutory income tax rate in the PRC was reduced from 33% to 25%. Detailed rules for implementation of the new tax law and the grandfathering relief under the new tax law were announced in December 2007 and February 2008. The grandfathering relief allows entities which were established before March 16, 2007 and which were entitled to the 2+3 Tax Holiday under the then-effective tax laws and regulations to continue to enjoy the 2+3 Tax Holiday until they expire. It also requires any 2+3 Tax Holiday which has not already commenced to commence from January 1, 2008. Accordingly, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Huai'an Yingda and Laiwu Yingde started their 2+3 Tax Holiday on January 1, 2008.

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The table below sets out the applicable enterprise income tax rate of our operating subsidiaries in the PRC for the years indicated:

Subsidiary ⁽³⁾	Applicable tax rate (%)							2013 - thereafter
	2006	2007	2008	2009	2010	2011	2012	
Hunan Yingde	15	15	25	25	25	25	25	25
Zhuhai Yingde	(2)	7.5	12.5	12.5	25	25	25	25
Jiangsu Yingde	15	15	12.5	25	25	25	25	25
Nanjing Xingang	(1)	(2)	(2)	12.5	12.5	12.5	25	25
Shaanxi Yingde	15	15	12.5	15	25	25	25	25
Tianjin Yingde	(2)	(2)	12.5	12.5	12.5	25	25	25
Rizhao Yingde	(1)	(1)	(2)	(2)	12.5	12.5	12.5	25
Zibo Yingde	(1)	(1)	(2)	(2)	12.5	12.5	12.5	25
Hebei Yingde	(1)	(1)	(2)	(2)	12.5	12.5	12.5	25
Huai'an Yingda	(1)	(1)	(2)	(2)	12.5	12.5	12.5	25
Laiwu Yingde	(1)	(1)	(2)	(2)	12.5	12.5	12.5	25
Zhuzhou Yingde	(1)	(1)	(1)	25	25	25	25	25
Yingde Logistics	(1)	(1)	25	25	25	25	25	25
Hengyang Yingde	(1)	(1)	(1)	25	25	25	25	25

Notes:

- (1) These subsidiaries had not been established, commenced operations or had accumulated losses for taxation purpose during the relevant years.
- (2) Exempted from paying tax during the year.
- (3) The table does not include Zhangjiagang Yingde, Yangzhou Yingde and Guizhou Yingde, which are scheduled to commence operation after June 30, 2009. We expect our income tax expenses on a consolidated basis will gradually increase in the future after the 2+3 Tax Holiday we currently enjoy phases out and an increasing number of our PRC subsidiaries become subject to the PRC income tax.
- (4) The enterprise income tax rates from 2010 to 2013 and thereafter are rates expected by our Directors as of the Latest Practicable Date.

In addition, Hunan Yingde, Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde, Tianjin Yingde, Hebei Yingde, and Zibo Yingde are entitled to income tax credits from the purchase of domestically produced equipment in the PRC. According to the PRC tax circular Caishui [2000] No. 49 《關於外商投資企業和外國企業購買國產設備投資抵免所得稅有關問題的通知》, a foreign investment enterprise ("FIE") is entitled to off-set 40% of the purchase cost of domestic equipment against the amount of income tax payable in the year of purchase in excess of that [paid] in the previous tax year. We confirm that the relevant subsidiaries of our Company had obtained the relevant approvals for all the tax credits we received from the purchase of domestically produced equipment in the PRC. In the opinion of our PRC legal advisors the tax authorities that issued the approvals of such income tax credits were the proper authorities to grant such income tax credits to our Group. Pursuant to a notice issued by the State Taxation Administration on May 16, 2008, such tax credit policy ceased to be effective since January 1, 2008. During the six months ended 30 June 2009, certain subsidiaries were allowed by the relevant local tax authorities to utilize unused tax credit of RMB18.5 million granted prior to December 31, 2007.

Under the new PRC Enterprise Income Tax Law and its relevant regulations in the PRC, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or a place of business in the PRC are subject to withholding tax at the rate of 10%, unless reduced by a treaty or agreement on certain incomes derived from sources in the PRC, such as dividends. However, distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. Deferred tax liabilities relating to the post-2008 distributable profits of our subsidiaries in the PRC that are expected to be distributed in the foreseeable future amounted to RMB17.0 million as at June 30, 2009.

For the year ended December 31, 2006, as all of our PRC subsidiaries were either entitled to full income tax exemption or obtained income tax credits to off-set the income tax payable, we did not incur any income tax expense. For the year ended December 31, 2007, our total income tax expense was

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RMB8.1 million. For the year ended December 31, 2008, our total income tax expense was RMB39.2 million. For the six months ended June 30, 2009, our total income tax expense was RMB4.2 million.

The application of PRC tax laws (including any termination or revision of the preferential tax treatment that we currently enjoy) has had and will continue to have an impact on our tax expenses and thus, our results of operations and financial condition. Please also see the section headed “Risk Factors – There is no guarantee that we will continue to receive the preferential tax treatment or other tax incentives currently enjoyed by us” in this document for further details.

General Economic Conditions of the PRC

The success of our expansion plan and our current and future results of operations and financial condition have been and will continue to be significantly affected by the performance of our customers and the general economy in the PRC. Most of our current and target customers are industrial companies in industries such as iron and steel, chemical and non-ferrous metals, whose businesses are cyclical in nature, and the success of which are dependent on China’s economic conditions and the economic measures implemented by the PRC government. China has experienced rapid economic growth over the past two decades, which has resulted in an increase in industrial sector activities and a larger industrial sector economy, however, growth in the PRC has slowed since the second half of 2008 and global capital and credit markets have been experiencing extreme volatility and disruption. Concerns over the world economy and particularly the United States market have contributed to unprecedented levels of market volatility and diminished expectations for the global economy. These events have led a number of economists to predict the PRC economy will experience a slowdown thereby potentially affecting our customers and consequently, our results of operations and financial condition. Please refer to the section headed “Risk Factors – We are exposed to the cyclical nature of our major customers’ industries and the general economic conditions of the PRC economy” in this document.

FACTORS AFFECTING COMPARABILITY

Fair Value Adjustments and Termination Gains or Losses Arising From Derivative Financial Instruments

Our profit or loss for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009, were affected by the fair value adjustments and termination gains/losses arising from certain financial instruments described below.

(a) US\$6 million Convertible Loan

On June 23, 2006, Yingde BVI received a US\$20.2 million loan facility from Proper Sonic Finance Limited which included a US\$6.0 million convertible loan facility. We incurred a financial cost on the fair value adjustment on the derivative component of this US\$20.2 million loan in the amount of approximately RMB2.5 million for the year ended December 31, 2006. The US\$20.2 million loan facility was subsequently transferred to Baring who is an affiliate of Proper Sonic Finance Limited. On December 29, 2006, the convertible loan and the interest accrued thereon were converted into 502 ordinary shares of Yingde BVI. As a result, a termination loss of RMB1.1 million was recognized for the year ended December 31, 2006.

(b) US\$2 million Subscription Agreement

On December 29, 2006, Yingde BVI and Baring entered into a US\$2.0 million subscription agreement in respect of the subscription of ordinary shares in Yingde BVI by Baring. The subscription amount of US\$2.0 million was accounted for as a hybrid financial instrument containing both a

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derivative component and a liability component. The derivative component is carried at fair value while the liability component is carried at amortized cost. Any fair value adjustments on the derivative component have been recognized as part of our finance costs for the two years ended December 31, 2006 and 2007. On June 29, 2007, Yingde BVI issued 102 ordinary shares to Baring upon completion of the US\$2.0 million subscription agreement. A termination gain of RMB12.5 million was recognized for the year ended December 31, 2007.

(c) Preferred Shares

On June 23, 2006, Yingde BVI issued 2,000 Preferred Shares to Baring for a cash consideration of US\$14.0 million pursuant to a convertible redeemable preferred shares subscription agreement. The Preferred Shares have been accounted for in the combined financial information as hybrid financial instruments containing both a derivative component and a liability component. The derivative component was recognized as a financial liability and carried at fair value while the liability component is carried at amortized cost.

On December 31, 2006, the parties to the convertible redeemable preferred shares subscription agreement entered into a supplemental agreement to amend certain terms contained in the original agreement due to, among other reasons, the transfer by Baring of its interest in Yingde BVI from its original investment vehicle to another company within its group. Pursuant to the supplemental agreement, the exchange rate regarding the conversion, redemption and other matters relating to the Preferred Shares was fixed at US\$1:RMB7.999. Since there was a material modification of terms of the original subscription agreement, we derecognized the balances relating to the original subscription agreement and accounted for the modified subscription agreement as a new financial instrument. We recognized this new financial instrument as a hybrid instrument containing a derivative component, a liability component and an equity component. As a result of the modification of the subscription agreement, a net loss of RMB55.0 million was recognized for the year ended December 31, 2006, the details of which are as follows:

	Liability Component	Derivative component/ currency swap	Equity component	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amounts of the original subscription agreement as at December 31, 2006	85,600	108,578	—	194,178
Hybrid financial instruments recognized in respect of the modified subscription agreement as at December 31, 2006	<u>122,627</u>	<u>20,048</u>	<u>106,544</u>	<u>249,219</u>
Net gain/(loss) recognized on December 31, 2006	<u>(37,027)</u>	<u>88,530</u>	<u>(106,544)</u>	<u>(55,041)</u>

The fair value adjustments on the derivative component have been recognized as part of our finance costs for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009.

For the purpose of this document, the US\$6.0 million convertible loan facility and the US\$2.0 million subscription agreement are collectively referred to as the Convertible Loans.

For further information on the impact of the fair value adjustments and termination gains/losses of the derivative financial instruments described above on our results of operations, please refer to Notes 4(a), 22 and 23 of the Accountants' Report set out in Appendix I to this document, and the breakdown of the finance costs for the periods presented set out in the section headed "Financial Information – Results of Operations – Summary Data of Combined Statements of Comprehensive Income" for more details.

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Minority Interests

Prior to the Reorganization in 2006, Torch held a minority interest in Hunan Yingde, which is our subsidiary. This minority interest of Torch was purchased by Yingde BVI as part of the Reorganization and to the best of our directors’ knowledge, Hunan Yingde has never been treated as a subsidiary of Torch in its consolidated financial statements. In addition, we acquired minority equity interests in certain of our Group companies from the other shareholders of those companies as part of the Reorganization in 2006. Please refer to the section headed “History and Reorganization” in this document for further details. These transactions had the effect of decreasing the profits attributable to our minority interests and correspondingly increasing profits attributable to the equity holders of our Company over the Track Record Period. As a result of the Reorganization, we own 100% equity interest in all of our subsidiaries, except for Zhangjiagang Yingde and Hengyang Yingde, where we own 75% and 70% equity interest, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our combined financial information. Our significant accounting policies, which are important for an understanding of our results of operations and financial condition, are set forth in detail in Note 1 Section C of the Accountants’ Report in Appendix I to this document. Critical accounting policies are those that are (i) important to the portrayal of our results of operations and financial condition and (ii) requires, subjective, or complex judgement, which often result from the need to make estimates that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management’s current estimates and judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our combined financial information.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

Impairment of assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered “impaired”, and an impairment loss may be recognized in our combined income information. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales revenue and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

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Derivative financial instruments

Fair value adjustments and termination losses arising from derivative financial instruments involve considerable judgement. As there are no quoted prices in an active market, the fair value of the derivative financial instruments are established by using valuation techniques. These techniques include using recent arm's length transactions, with reference to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. Considerable judgment is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Please refer to Notes 22 and 23 of Section C of the Accountants' Report in Appendix I to this document for further details regarding the components to the financial instruments, how each component is recognized, and the fair value adjustments made, including the methodologies and inputs used to determine their fair value.

Determining whether an arrangement contains a lease

During the Relevant Period, our Group have entered into long-term gas supply contracts with on-site customers for periods generally of 15 to 25 years. The on-site facilities are built on or in close proximity to the on-site customers for the supply of industrial gases to such customers. Our Group receives fixed annual amounts over the term of the long-term gas supply contracts plus variable charges based on the quantity of industrial gases supplied. Our Group also sells gas products produced from the on-site facilities to merchant customers.

In determining whether the arrangement contains a lease, our Group has considered the terms of the long-term gas supply contracts. Pursuant to the terms of the long-term gas supply contracts, the on-site customers do not have the right to operate or control physical access to the on-site facilities. In addition, gas products produced from the on-site facilities are also sold to merchant customers. The amounts sold to the merchant customers are more than an insignificant amount of the total gas products produced from the on-site facilities. Accordingly, our Group concluded that the arrangement of long-term gas supply contracts does not contain any lease.

PRINCIPAL COMPONENTS OF PROFIT FOR THE YEAR/PERIOD

Turnover

Our turnover consists of proceeds from the sale of industrial gas products. Our turnover is recognized when our gas products are delivered to the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. The turnover figures represent the aggregate of the invoiced value of goods sold, net of value-added tax and is after deduction of any trade discounts.

The table below sets forth our turnover generated from our on-site and merchant customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000 unaudited	(%)	RMB'000	(%)
Turnover										
On-site	399,470	82.4	625,929	79.9	1,137,167	80.6	494,594	79.8	818,969	89.3
Merchant	85,584	17.6	157,788	20.1	274,546	19.4	125,366	20.2	98,194	10.7
Total	485,054	100.0	783,717	100.0	1,411,713	100.0	619,960	100.0	917,163	100.0

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Volume and average price of gases sold through our merchant operations

The table below sets out the volume of gases sold to our merchant customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	Volume (millions Nm ³)		Volume (millions Nm ³)		Volume (millions Nm ³)		Volume (millions Nm ³)		Volume (millions Nm ³)	
	% total		% total		% total		% total		% total	
Oxygen	57.0	67.8%	68.2	58.6%	105.4	55.2%	50.3	58.0%	66.7	60.3%
Nitrogen	6.5	7.7%	15.9	13.7%	33.8	17.7%	10.7	12.3%	19.7	17.8%
Argon	20.6	24.5%	32.3	27.7%	51.7	27.1%	25.7	29.7%	24.2	21.9%
Total volume	84.1	100.0%	116.4	100.0%	190.9	100.0%	86.7	100.0%	110.6	100.0%

The table below sets out the volume weighted average price of gases sold to our merchant customers for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	Unit price (RMB/Nm ³)				
Oxygen	0.77	0.90	0.79	0.89	0.69
Nitrogen	0.97	0.88	0.76	1.18	0.68
Argon	1.77	2.55	3.21	2.64	1.60
Total volume weighted average price:	1.03	1.36	1.44	1.45	0.89

The main factors affecting the prices of the gases sold to our merchant customers include the local market spot prices, local supply and demand and local economic conditions.

The pricing of our products sold to our on-site customers is determined on a case-by-case basis in accordance with the pricing arrangements in the gas supply contracts. The main factors affecting the price of gases sold to our on-site customers include the competitiveness of our pricing, the installed capacity of our facilities and the expected utility charges by the on-site customer.

Cost of sales

Our cost of sales comprises utility expenses, depreciation expenses for property, plant and equipment related to production, staff costs for our production team and other expenses. Utility expenses, mainly consisting of electricity expenses, generally comprised over 80% of our total cost of sales for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009. Depreciation and amortization expenses relate primarily to property, plant and equipment we own and are calculated on a straight-line basis over the estimated useful lives of these assets. Staff costs mainly relate to salaries, bonuses, benefits and contributions we pay to our employees or make for the benefit of our employees of our production team. Other expenses primarily consist of other consumables and repair and maintenance.

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The table below sets forth a breakdown of our total cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000 unaudited	(%)	RMB'000	(%)
Cost of sales										
Utility expenses	215,912	84.2	376,373	81.1	723,149	87.3	307,247	87.4	516,746	88.2
Depreciation expenses	30,414	11.9	44,976	9.7	71,564	8.6	31,270	8.9	49,658	8.5
Staff costs	5,152	2.0	7,528	1.6	15,796	1.9	4,983	1.4	7,678	1.3
Other expenses	5,088	1.9	35,289	7.6	17,647	2.2	8,222	2.3	11,990	2.0
Total	256,566	100.0	464,166	100.0	828,156	100.0	351,722	100.0	586,072	100.0

Other revenue

Other revenue mainly includes refunds of value-added tax arising from the tax incentives provided by certain local bureaus of finance in the PRC where we have business operations, the refund and timing of which are subject to various factors beyond our control such as local government tax planning policies and the discretionary power of the local authorities.

Selling expenses

Our selling expenses primarily consist of freight charges for distribution and logistics, travelling expenses and staff costs in connection with hiring and maintaining our sales team across different regions in the PRC.

The table below sets forth a breakdown of our selling expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Staff cost	862	1,030	1,937	588	1,626
Depreciation	392	429	734	258	933
Travelling	997	949	841	321	425
Freight charges	6,299	7,103	10,852	6,525	4,133
Others	359	422	724	35	717
Total	8,909	9,933	15,088	7,727	7,834

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Administrative expenses

Our administrative expenses primarily consist of staff costs in connection with hiring and maintaining our management and administrative staff at the headquarters and production plant level, travel and entertainment, external consulting fees and impairment loss on trade receivables and other non-current assets.

The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Depreciation	1,282	3,196	3,605	1,589	2,392
Amortization	924	1,065	994	480	512
Auditors' remuneration	1,606	93	108	66	79
Consulting fee	4,614	5,666	1,540	232	119
Operating lease charges	2,911	2,233	4,437	2,172	2,235
Net loss/(gain) on disposal of property, plant and equipment	—	21	104	—	(10)
Entertainment	1,304	1,368	3,384	767	2,285
Penalty	1,405	1,252	111	81	—
Provision/(write-back) of claims ⁽¹⁾	1,800	700	(2,020)	(2,020)	—
Equity settled share-based transactions	6,187	7,589	—	—	—
Staff costs	7,692	22,703	33,223	16,344	26,480
Travelling	4,798	4,956	11,097	1,482	5,087
Impairment loss					
Trade and other receivables	—	—	10,721	—	—
Prepayment for equipment	—	—	2,395	—	—
Office expenses and others	6,195	7,761	10,247	4,546	6,269
Total	40,718	58,603	79,946	25,739	45,448

Note:

- (1) Claim related to the inability of Nanjing Xingang to deliver sufficient argon gas to one of our customers due to a shortage of argon fraction. The customer filed a claim against us for breach of contract thereby causing us to make provisions of RMB1.8 million in 2006 and RMB0.7 million in 2007 for possible compensation based on the advice of our PRC counsel. However, after further negotiation the customer agreed to terminate the contract in June 2008 for a one time termination fee of RMB0.5 million. Accordingly, we wrote back part of the provisions of RMB2.0 million in 2008, which was credited to our profit or loss for the year.

Finance income

Our finance income mainly consists of interest income from bank deposits, termination gain on conversion of convertible loan, fair value adjustment on the Preferred Shares and foreign currency exchange gain.

Finance costs

Our finance costs primarily consist of interest payments for our loans with banks and other financial institutions; finance charges on obligations under finance lease; interest on the liability component of derivative financial instruments; fair value adjustments on derivative financial instruments and termination loss on conversion of derivative financial instruments and foreign currency exchange loss.

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Tax

We are not taxed on a consolidated basis. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, our Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands. The new PRC Enterprise Income Tax Law and its Implementation Rules came into effect on January 1, 2008, repealing prior laws. Under the PRC Enterprise Income Tax Law, in general, FIEs and domestic companies are subject to a uniform tax rate of 25%. The PRC Enterprise Income Tax Law and its related regulations provide certain grandfathering relief for those enterprises which were enjoying preferential tax treatment under the previous tax laws, and such treatment will continue until its expiration. However, where the preferential tax treatment has not commenced because of losses or accumulated losses, such preferential tax treatment shall be deemed to commence from January 1, 2008. Before December 31, 2007, certain subsidiaries in the PRC obtained the approval of income tax credit for purchasing qualified domestic equipment from the local tax authorities in accordance with the relevant tax regulations issued by the State Administration of Taxation. Pursuant to Guoshuifa [2008] No. 52 issued by the State Administration of Taxation in May 2008, such tax credit policy ceased to be effective from January 1, 2008. During the six months ended June 30, 2009, certain subsidiaries utilised the unused tax credit of RMB18,494,000 granted by the relevant local tax authorities prior to December 31, 2007. Please refer to the paragraph headed "Taxation" above and Note 5 of the Accountants' Report in Appendix I to this document for further information on our income tax expenses and the effect of the new PRC Enterprise Income Tax Law on our Group.

ITEMS OF PROFIT FOR THE YEAR/PERIOD AS A PERCENTAGE OF TURNOVER

The following table sets forth our principal components of profit for the year/period as a percentage of turnover for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009:

	Year ended December 31,			Six months ended June 30	
	2006	2007	2008	2008	2009
	(% of turnover)			unaudited	
Turnover	100.0	100.0	100.0	100.0	100.0
Cost of sales	(52.9)	(59.2)	(58.7)	(56.7)	(63.9)
Gross profit	47.1	40.8	41.3	43.3	36.1
Other revenue	0.2	0.1	0.1	—	—
Selling expenses	(1.8)	(1.3)	(1.1)	(1.2)	(0.9)
Administrative expenses	(8.4)	(7.5)	(5.6)	(4.2)	(4.9)
Profit from operations	<u>37.1</u>	<u>32.1</u>	<u>34.7</u>	<u>37.9</u>	<u>30.3</u>

As our Group operates dedicated merchant production facilities and utilizes remaining available capacities of our on-site production facilities across different regions in the PRC to conduct sales to regional merchant customers, it is very difficult for us to identify and separate the costs associated with sales from on-site operations and merchant operations. As such, a discussion on gross profit for our Group's on-site and merchant operations is not possible nor reliable. Please refer to the section headed "Financial Information — Principal Components of Profit for the Year/Period — Turnover" in this document for the turnover generated from our Group's on-site and merchant operations for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009.

REVIEW OF HISTORICAL OPERATING RESULTS

Our results of operations for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009 have been affected by certain finance costs, including fair value adjustments on the Convertible Loans and Preferred Shares. Accordingly, such line items are not

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necessarily comparable from period to period. Please refer to the section headed “Financial Information — Factors Affecting Comparability” in this document for additional information. The following discussion is based on our historical results of operations. Due to the factors affecting our results of operations and factors affecting comparability described above, our historical results of operations may not be indicative of our future operating performance.

Six months ended June 30, 2009 compared to six months ended June 30, 2008

Turnover

Our turnover increased by 47.9% from RMB620.0 million for the six months ended June 30, 2008 to RMB917.2 million over the same period in 2009. The increase was primarily due to:

- Four new production facilities coming into operation during the first half of 2009. The production facilities that came into operation during the first half of 2009 include: Hancheng Shaanxi Phase III operated by Shaanxi Yingde (March 2009), two production facilities under Hengyang Hunan Phase I operated by Hengyang Yingde (April 2009), and Zhuzhou Hunan operated by Zhuzhou Yingde (June 2009).
- Three new production facilities coming into operating during the second half of 2008. The production facilities that came into operation over the second half of 2008 include: Laiwu Shandong, operated by Laiwu Yingde (July 2008), Rizhao Shandong Phase III, operated by Rizhao Yingde (October 2008), and Shijiazhuang Hebei Phase II, operated by Hebei Yingde (November 2008).
- Huai'an Jiangsu, operated by Huai'an Yingda, was only partially in operation for the first half of 2008 as compared to being fully operational for the first half of 2009.

This increase was partially off-set by a decrease in our merchant sales. Our merchant sales decreased to RMB98.2 million in the first half of 2009 from RMB125.4 million over the same period in 2008 primarily due to the global economic downturn driving down demand for, and the production of, industrial products that use our gases in the PRC. Despite greater overall volume sales of our three key gases, oxygen, nitrogen and argon, the volume weighted average price of these three gases sold to our merchant customers decreased significantly from RMB1.45/Nm³ in the first half of 2008 to RMB0.89/Nm³ in the first half of 2009. In particular, the volume weighted average price of argon gas decreased from RMB2.64/Nm³ in the first half of 2008 to RMB1.60/Nm³ in the first half of 2009. As a result, contribution of argon gas to total merchant sales value decreased from approximately 54% in the first half of 2008 to approximately 40% in the first half of 2009.

Cost of sales

Cost of sales increased by 66.6% from RMB351.7 million in the first half of 2008 to RMB586.1 million in the first half of 2009 mainly driven by greater turnover. However, cost of sales as a percentage of turnover increased from 56.7% in the first half of 2008 to 63.9% in the first half of 2009 mainly due to a significant decrease in contribution to total turnover by merchant sales, whose production cost is insignificant given that such sales are driven by remaining available capacity at our on-site facilities. Historically, merchant sales represented approximately 20% of total turnover, but such sales decreased to approximately 10.7% over the first half of 2009 as a result of the economic downturn as discussed above. Electricity prices remained stable in the first half of 2009 as compared to the same period in 2008.

Gross profit and gross profit margin

Gross profit increased by 23.4% from RMB268.2 million in the first half of 2008 to RMB331.1 million in the first half of 2009. Our gross profit margin, however, decreased from 43.3% in the first half of 2008 to 36.1% in the first half of 2009 primarily reflecting decreased contribution of merchant sales to total turnover as described above.

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Other revenue

Other revenue decreased from RMB0.5 million in the first half of 2008 to RMB0.2 million in the first half of 2009 mainly because there was no value-added tax refunds in the first half of 2009.

Selling expenses

Selling expenses increased slightly by 1.3% from RMB7.7 million in the first half of 2008 to RMB7.8 million in the first half of 2009 mainly reflecting increased staff costs and the initial setup costs of our subsidiary, Yingde Logistics, partially off-set by a decrease in freight costs as we no longer needed to transport gas products from our Tianjin facility to support our Zibo Shandong Phase I facility during its production suspension from February 2008 to November 2008.

Administrative expenses

Administrative expenses increased 76.6% from RMB25.7 million in the first half of 2008 to RMB45.4 million in the first half of 2009 primarily as a result of increased staff and travel costs for our head office and new production facilities as we expanded our business operations. In addition, we incurred a non-recurring write-back of claims of RMB2.0 million for the first half of 2008 that was not applicable for the first half of 2009. For further details on this write-back of claims, please see “Financial Information — Principal Components of Profit for the Year/Period — Administrative Expenses”.

Operating profit and operating profit margin

As a result of the foregoing, our operating profit increased by 18.2% from RMB235.3 million in the first half of 2008 to RMB278.0 million in the first half of 2009. Operating profit margin decreased from 37.9% in the first half of 2008 to 30.3% in the first half of 2009 primarily due to decreased merchant sales as a result of the economic downturn.

Finance income

Finance income decreased 78.5% from RMB13.0 million in the first half of 2008 to RMB2.8 million in the first half of 2009 mainly due to a significant decrease in foreign exchange gains and fair value adjustment on Preferred Shares. For the first half of 2008, we incurred a foreign exchange gain of RMB7.8 million as compared to RMB0.2 million for the same period in 2009. The foreign exchange gain over the first half of 2008 related to the retranslation of our liabilities denominated in US dollars as the Renminbi depreciated against the US dollar during this period. In addition, fair value adjustments for our Preferred Shares were RMB1.7 million in the first half of 2008 as compared to a loss on fair value adjustment (see Finance costs below) for the same period in 2009.

Finance costs

Finance costs increased 65.4% from RMB26.6 million in the first half of 2008 to RMB44.0 million in the first half of 2009 primarily as a result of increased interest expenses and fair value adjustment. Interest expenses on bank and other loans (net of borrowing costs capitalized) increased by RMB7.5 million from period to period, primarily driven by a higher average loan balance to support our expansion and increased capital expenditures. In addition, we incurred RMB11.0 million in costs in the first half of 2009 relating to fair value adjustment on Preferred Shares, whereas a gain on fair value adjustment (see Finance income above) were recognized in the first half of 2008. For further details, please see “Financial Information – Factors Affecting Comparability” and Note 4(a) of Section C of the Accountants’ Report in Appendix I to this document.

Income tax expenses

Income tax expenses decreased 80.5% from RMB21.5 million in the first half of 2008 to RMB4.2 million in the first half of 2009 primarily due to the utilization of tax credits of RMB18.5 million for

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domestic equipment purchases. During the six months ended June 30, 2009, certain subsidiaries were allowed by the relevant local tax authorities for the utilization of unused tax credit of RMB18,494,000 that were granted prior to December 31, 2007. No such credits were recognised in the first half of 2008.

Profit attributable to the equity shareholder of our Company

As a result of the foregoing, our profit attributable to our equity holders increased 15.8% from RMB200.7 million in the first half of 2008 to RMB232.5 million in the first half of 2009.

Profit attributable to the minority interests

The minority interests at June 30, 2009 represented the 25% effective equity interest in Zhangjiagang Yingde and 30% effective equity interest in Hengyang Yingde held by the minority shareholder. Loss attributable to minority interests decreased from RMB0.5 million in the first half of 2008 to RMB37,000 in the first half of 2009.

Year ended December 31, 2008 compared to year ended December 31, 2007

Turnover

Our turnover increased by 80.1% from RMB783.7 million in 2007 to RMB1,411.7 million in 2008. This increase was primarily due to:

- Four new production facilities coming into operation during 2008. The production facilities that came into operation in 2008 include: Huai'an Jiangsu operated by Huai'an Yingde (March 2008), Laiwu Shandong operated by Laiwu Yingde (July 2008), Shijiazhuang Hebei Phase II operated by Hebei Yingde (November 2008) and Rizhao Shandong Phase III operated by Rizhao Yingde (October 2008).
- Five production facilities that were operational in part of 2007 became fully operational or otherwise achieved greater utilization in 2008. These include: Rizhao Shandong Phase I operated by Rizhao Yingde (May 2007), Zibo Shandong Phase I operated by Zibo Yingde (September 2007), Shijiazhuang Hebei Phase I operated by Hebei Yingde (September 2007), Hancheng Shaanxi Phase II operated by Shaanxi Yingde (September 2007) and Rizhao Shandong Phase II operated by Rizhao Yingde (November 2007). Zibo Shandong Phase I temporarily suspended production in February 2008 and resumed operations in November 2008 after obtaining relevant permits.
- Merchant sales increased from RMB157.8 million in 2007 to RMB274.5 million in 2008. In addition to greater overall volume sales of our three key gases, oxygen, nitrogen and argon, the volume weighted average price of these three types of gas sold to our merchant customers increased from RMB1.36/Nm³ in 2007 to RMB1.44/Nm³ in 2008 mainly due to an increase in price of argon gas. In particular, the volume weighted average price of argon gas increased from RMB2.55/Nm³ in 2007 to RMB3.21/Nm³ in 2008 primarily reflecting our ability to exert greater pricing power for argon gas. Such ability was mainly attributable to our improved distribution network and limited competition in those regions. However, this was partially off-set by lower average selling prices for our oxygen and nitrogen gas products in 2008 compared to 2007.

Cost of sales

Cost of sales increased by 78.4% from RMB464.2 million in 2007 to RMB828.2 million in 2008 primarily due to increased sales. Electricity prices remained stable in 2008, however, electricity costs as a percentage of turnover increased from 47.5% in 2007 to 50.9% in 2008 mainly due to (i) our significantly smaller purchases of liquified gas from third-parties for on-sale to our customers thereby increasing the need for us to consume electricity to produce such products for sale and (ii) our strategic decision to build facilities with greater capacity at more competitive pricing for some of our on-site customers.

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Gross profit and gross profit margin

Gross profit increased by 82.6% from RMB319.6 million in 2007 to RMB583.6 million in 2008 and our gross profit margin increased slightly from 40.8% in 2007 to 41.3% in 2008 primarily due to our decrease in purchase of liquified gas as discussed above.

Other revenue

Other revenue increased from RMB1.0 million in 2007 to RMB1.4 million in 2008 which was mainly due to an increase in the refund of value-added taxes.

Selling expenses

Selling expenses increased 52.5% from RMB9.9 million in 2007 to RMB15.1 million in 2008 primarily as a result of increased freight costs relating to distribution and logistics expenses as we (i) increased our merchant sales; and (ii) transported our industrial gas products from our Tianjin production facility to support our Zibo Shandong Phase I production facility during its production suspension from February 2008 to November 2008. Production was suspended at the Zibo Shandong Phase I production facility as our trial production permit expired. Although we received the necessary permits to restart production in August 2008, our facilities were being revamped and we did not restart production until November 2008.

Administrative expenses

Administrative expenses increased 36.3% from RMB58.6 million in 2007 to RMB79.9 million in 2008 primarily as a result of increased staff and travel costs for our headquarter offices. In order to support our growth, and to attract and retain qualified personnel, our headcount almost doubled in 2008 while average salary also increased slightly. In addition, we recognized an impairment loss of RMB13.1 million in 2008 whilst no such expenses were incurred in 2007. The impairment loss related to a customer receivable and the balance was not expected to be recoverable due to the customer's financial difficulties. Administrative expenses as a percentage of turnover decreased from 7.5% in 2007 to 5.6% in 2008 mainly as a result of economies of scale.

Operating profit and operating profit margin

As a result of the foregoing, our operating profit increased by 94.4% from RMB252.0 million in 2007 to RMB489.9 million in 2008 and operating profit margin increased slightly from 32.1% in 2007 to 34.7% in 2008.

Finance income

Finance income increased 30.8% from RMB27.9 million in 2007 to RMB36.5 million in 2008 mainly due to fair value adjustment on Preferred Shares. In 2007, a termination gain on conversion of convertible loan resulted in RMB12.5 million in finance income, whereas, in 2008, a gain on fair value adjustment on Preferred Shares of RMB21.3 million was recognized.

Finance costs

Finance costs decreased 39.1% from RMB96.0 million in 2007 to RMB58.5 million in 2008. Interest expenses on bank and other loans (net of borrowing costs capitalized) increased by RMB14.3 million was driven by a higher average loan balance to support our expansion and increased capital expenditures, however, this increase in interest expense was more than off-set by the significant changes to fair value adjustments.

In 2007, fair value adjustments on our financial instruments resulted in RMB50.8 million in finance costs, whereas no such costs were recognized in 2008. For further details, please refer to “Financial Information – Factors Affecting Comparability” and Note 4(a) of Section C of the Accountants’ Report in Appendix I to this document.

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Income tax expenses

Income tax expenses increased from RMB8.1 million in 2007 to RMB39.2 million in 2008 and our effective tax rate also increased from 4.4% in 2007 to 8.4% in 2008, as no tax credits on domestic equipment purchases were utilised in 2008 and an accrual of withholding tax for expected profit distributions in respect of 2008.

Profit attributable to the equity shareholders of our Company

As a result of the foregoing, our profit attributable to our equity holders increased 143.0% from RMB177.0 million in 2007 to RMB430.1 million in 2008.

Profit attributable to minority interests

The minority interests at December 31, 2008 represented the 25% effective equity interest in Zhangjiagang Yingde held by the minority shareholder. Loss attributable to minority interests increased from RMB1.2 million in 2007 to RMB1.5 million in 2008 as Zhangjiagang Yingde incurred higher operating expenses during the development stage.

Year ended December 31, 2007 compared to year ended December 31, 2006

Turnover

Our turnover increased by 61.6% from RMB485.1 million in 2006 to RMB783.7 million in 2007. This increase was primarily due to:

- Five new production facilities coming into operation during 2007. The production facilities that came into operation in 2007 include: Rizhao Shandong Phase I operated by Rizhao Yingde (May 2007), Zibo Shandong Phase I operated by Zibo Yingde (September 2007), Shijiazhuang Hebei Phase I operated by Hebei Yingde (September 2007), Hancheng Shaanxi Phase II operated by Shaanxi Yingde (September 2007) and Rizhao Shandong Phase II operated by Rizhao Yingde (November 2007).
- Increase in merchant sales from RMB85.6 million in 2006 to RMB157.8 million in 2007. In addition to greater overall volume sales of our three key gases, oxygen, nitrogen and argon, the volume weighted average price of these three gases sold to our merchant customers increased from RMB1.03/Nm³ in 2006 to RMB1.36/Nm³ in 2007 mainly due to a increase in price of argon and oxygen gases. In particular, the volume weighted average price of argon gas increased from RMB1.77/Nm³ in 2006 to RMB2.55/Nm³ in 2007 primarily due to favorable market demand for argon gas. However, this was partially off-set by lower average selling prices for our nitrogen products as compared with 2006.
- Lower than normal turnover at our production facility in Hunan province (Loudi Hunan operated by Hunan Yingde) mainly due to the temporary suspension of operations at such facility for approximately five months in 2006.

Cost of sales

Cost of sales increased by 80.9% from RMB256.6 million in 2006 to RMB464.2 million in 2007 primarily due to increased sales. As a percentage of turnover, cost of sales increased from 52.9% in 2006 to 59.2% in 2007 mainly due to increased electricity costs as a result of an increase in the average price of electricity in 2007 and our need to directly purchase liquefied gases from third-parties in 2007 in order to meet additional customer requirements at certain facilities. However, electricity costs as percentage of total cost of sales decreased from 83.3% in 2006 to 80.1% in 2007 mainly resulting from our aforementioned direct purchase of liquefied gases from third-parties amounting to RMB26.6 million, thereby lowering our need to consume electricity to produce the same.

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Gross profit and gross profit margin

Gross profit increased by 39.9% from RMB228.5 million in 2006 to RMB319.6 million in 2007 mainly due to increased sales, however, our gross profit margin decreased from 47.1% in 2006 to 40.8% in 2007 primarily due the increase in the average price of electricity in 2007 and our need to directly purchase liquefied gases from third-parties. Gross profit margin was also affected by the ramp-up period of customer demand for new production facilities where such customer's facilities' capacity had yet to be fully utilized. Furthermore, the simultaneous increases in turnover and cost of sales associated with the pass-on of electricity price increases for Jiangsu Yingde, while not affecting our gross profit, had a further adverse impact on our gross profit margin in 2007.

Other revenue

Other revenue of RMB1.0 million in 2007 was related to the refund of value-added taxes.

Selling expenses

Selling expenses increased by 11.2% from RMB8.9 million in 2006 to RMB9.9 million in 2007 primarily as a result of increased freight costs relating to distribution and logistics expenses from an increase in merchant sales. Selling expenses as a percentage of turnover decreased slightly from 1.8% in 2006 to 1.3% in 2007 mainly as a result of economies of scale as revenue increased at a faster rate than certain fixed costs.

Administrative expenses

Administrative expenses increased by 44.0% from RMB40.7 million in 2006 to RMB58.6 million in 2007 primarily as a result of increased staff costs for our headquarter as we hired additional management and administrative personnel in order to support our growth. Administrative expenses as a percentage of turnover decreased from 8.4% in 2006 to 7.5% in 2007 mainly as a result of economies of scale as revenue increased at a faster rate than certain fixed costs such as office rent.

Operating profit and operating profit margin

As a result of the foregoing, our operating profit increased by 40.1% from RMB179.9 million in 2006 to RMB252.0 million in 2007. Operating profit margin decreased from 37.1% in 2006 to 32.1% in 2007 mainly due to an increase in electricity prices partially off-set by lower selling and administrative expenses as a percentage of revenue due to economies of scale.

Finance income

Our finance income increased by 426.4% from RMB5.3 million in 2006 to RMB27.9 million in 2007 primarily due to a termination gain of RMB12.5 million on conversion of a USD2,000,000 subscription agreement in 2007 and foreign currency exchange gain from the retranslation of our liabilities denominated in US dollars as the Renminbi appreciated against the US dollar during 2007.

Finance costs

Finance costs decreased 40.4% from RMB161.2 million in 2006 to RMB96.0 million in 2007. Interest expenses on bank and other loans (net of borrowing costs capitalized) increased by RMB17.3 million driven mainly by a higher average loan balance to support our expansion and capital expenditures, however, this increase in interest expenses was more than off-set by the significant decrease in expenses relating to fair value adjustments.

Fair value adjustments and termination loss on our financial instruments resulted in RMB135.1 million in finance costs in 2006, whereas such costs were RMB50.8 million in 2007. The RMB135.1 million in finance costs in 2006 reflects the fair value loss on Convertible Loans and the Preferred

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Shares of RMB78.9 million and a loss of RMB56.2 million on termination of the US\$20,200,000 loan facility and modification of the Preferred Shares. The RMB50.8 million in finance costs in 2007 reflects fair value loss on Convertible Loans and the Preferred Shares. For further details, please see “Financial Information – Factors Affecting Comparability” and Note 4(a) of Section C of the Accountants’ Report in Appendix I to this document.

Income tax expenses

Income tax expenses increased from nil in 2006 to RMB8.1 million in 2007 as the tax credits we received for purchasing domestic equipment were not sufficient to off-set our income tax expenses in 2007.

Profit attributable to the equity holders of our Company

As a result of the above, the profit attributable to our equity holders increased from a loss of RMB6.7 million in the year ended December 31, 2006, to RMB177.0 million in 2007.

Profit attributable to minority interests

The minority interests at December 31, 2007 represented the 25% effective equity interest in Zhangjiagang Yingde held by the minority shareholder.

Profit attributable to minority interests was RMB30.7 million in the year ended December 31, 2006, compared to a loss of RMB1.2 million in 2007, primarily as a result of our subsidiary in Zhangjiagang, which was the only non-wholly-owned subsidiary of our Group during the year ended December 31, 2007, incurring a loss resulting from operating expenses incurred during the development stage.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other capital requirements principally from equity provided by our shareholders, cash provided by operations, cash at hand and borrowings from related parties, while raising the remainder of our requirements primarily through short-term and long-term debt and borrowings from banks, some of which were secured by guarantees provided by our related parties. However, as at the date of this document, we no longer had any loans outstanding which were secured by guarantees provided by our related parties.

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Cash flow data

The following table presents selected cash flow data from our combined cash flow statements for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Net cash generated from operating activities	182,182	214,503	513,801	264,546	185,813
Net cash used in investing activities	(416,868)	(815,043)	(741,011)	(370,475)	(384,968)
Net cash generated from financing activities	334,090	651,499	86,122	15,562	403,590
Net increase/(decrease) in cash and cash equivalents	99,404	50,959	(141,088)	(90,367)	204,435
Cash and cash equivalents at beginning of year/period	20,095	119,347	169,562	169,562	28,463
Effect of foreign exchange rate changes	(152)	(744)	(11)	(77)	(74)
Cash and cash equivalents at year/period end	<u>119,347</u>	<u>169,562</u>	<u>28,463</u>	<u>79,118</u>	<u>232,824</u>

Cash flow from operating activities:

Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation, amortization and finance income and finance costs, including fair value adjustments for the financial instruments, and the effects of changes in trade and other receivables, trade and other payables, and interest payment, and income tax payment.

Six months ended June 30, 2009

Net cash generated from operating activities for the six months ended June 30, 2009 was RMB185.8 million, while our profit before taxation was RMB236.7 million. The difference of RMB50.9 million was primarily due to non-cash transaction of depreciation, amortization and fair value adjustment for financial instruments amounting to RMB68.8 million, off-set by an increase in trade and other receivables of RMB111.0 million, a decrease in trade and other payables of RMB4.3 million, and net income tax payment of RMB3.2 million. The increase in trade and other receivables was mainly due to (i) increased sales as more plants were in operation in the first half of 2009 as compared to the same period in 2008 and (ii) our strategic decision to extend credit to certain on-site customers in order to promote increased business with them.

Year ended December 31, 2008

Net cash generated from operating activities for the year ended December 31, 2008 was RMB513.8 million, while our profit before taxation was RMB467.9 million. The difference of RMB45.9 million was primarily due to the non-cash transaction of depreciation and amortisation and interest on and fair value adjustment for financial instruments amounting to RMB56.5 million, decrease in trade and other receivables of RMB22.6 million, increase in trade and other payables of RMB7.6 million, and net income tax payment of RMB17.8 million. The decrease in trade and other receivables was mainly a result of our improved collections of trade receivables, resulting from the frequent follow-ups with customers who had significant outstanding balance. The increase in trade and other payable was mainly due to the accrual of performance bonuses for employees in 2008.

Year ended December 31, 2007

Net cash generated from operating activities for the year ended December 31, 2007, was RMB214.5 million, while our profit before taxation was RMB183.9 million. The difference of RMB30.6 million was primarily due to non-cash transaction of depreciation, amortisation and interest on and fair

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value adjustment for financial instruments of RMB88.9 million, increase in trade and other receivables of RMB64.9 million, increase in trade and other payables of RMB26.7 million and net income tax payment of RMB10.1 million. The increase in trade and other receivables was mainly the result of: (i) business expansion, which increased our sales volume; (ii) prepayment to an agent who had been engaged to search for potential investment; and (iii) prepayment of certain other expenses. The increase in trade and other payables was mainly due to the purchase of liquefied gas products for the ramp up period of our new facilities and freight charges to third parties for selling products, and the accrual for performance bonuses for employees in 2007.

Year ended December 31, 2006

Net cash generated from operating activities for the year ended December 31, 2006, was RMB182.2 million, while our profit before taxation was RMB24.0 million. The difference of RMB158.2 million was primarily due to non-cash transaction of depreciation, amortization and interest on and fair value adjustment for financial instruments of RMB170.8 million, increase in trade and other receivables of RMB32.2 million, increase in trade and other payables of RMB11.3 million, and net income tax payment of RMB4.1 million. The increase in trade and other receivables was mainly caused by the additional credit limit extended to the on-site customer of RMB30.0 million and the prepayment of RMB10.0 million to our agent who had been engaged to search for potential investment.

Six months ended June 30, 2009 vs. June 30, 2008

Net cash generated by operating activities decreased by RMB78.7 million in the first half of 2009 as compared to the same period in 2008 mainly as a result of our strategic decision to extend credit to certain on-site customers, which has resulted in longer collection periods in 2009 and an increase in our trade and other receivables. This was partially off-set by the increase in cash inflows from profits that were generated from operations mainly due to increased sales as a result of more facilities becoming operational in the first half of 2009 as compared to the same period in 2008.

Year ended December 31, 2008 vs. December 31, 2007

Net cash generated from operating activities increased by RMB299.3 million between 2007 and 2008 mainly due to an increase in profits before taxation and improved trade receivable collections. The increase in profit before taxation was mainly due to the operation of new facilities in 2008 and the full year operation of certain facilities which commenced operation in 2007.

Year ended December 31, 2007 vs. December 31, 2006

Net cash generated from operating activities increased by RMB32.3 million between 2006 and 2007 mainly due to an increase in profits before taxation, interest payments and net income tax payments. The increase in profit before taxation was mainly due to the operation of new facilities. Payment for interest expenses increased mainly due to additional borrowings for funding the new facilities.

Cash flow from investing activities:

Our net cash used in investing activities for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009 was, RMB416.9 million, RMB815.0 million, RMB741.0 million and RMB385.0 million, respectively. Our expenditures for investing activities from January 1, 2006 to June 30, 2009 were primarily due to: (i) our expansion of production facilities and the related purchase of property, plant and equipment; (ii) the increase in construction and progress; (iii) acquisition of the 48.5% equity interest in Hunan Yingde by Yingde BVI from Torch in 2006; and (iv) the increase in pledged bank deposit for issuing bills for equipment purchase from suppliers. See “Business – Our Production Facilities” for more details on our production facilities, “Capital Expenditures” “Property, Plant and Equipment” and “Construction in Progress” below for more details on our uses of capital.

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Cash flow from financing activities:

Our net cash generated from financing activities for the six months ended June 30, 2009 was RMB403.6 million. The cash inflow was due to new bank loans and other loans of RMB773.2 million, partially off-set by the repayment of bank and other loans of RMB369.6 million.

Our net cash generated from financing activities for the year ended December 31, 2008 was RMB86.1 million. The cash inflow was primarily due to new bank loans and other loans of RMB580.7 million, partially off-set by the repayment of bank loans of RMB414.7 million and the payment of dividends to equity holders of our Company of RMB79.9 million.

Our net cash generated from financing activities for the year ended December 31, 2007 was RMB651.5 million. The cash inflow was primarily due to: (i) new bank loans and other loans of RMB644.0 million; (ii) loans from shareholders and exercise of share options of RMB83.6 million; and (iii) capital injections from shareholder of our Company of RMB290.4 million. The cash outflow was primarily attributable to: (i) the repayment of bank loans of RMB194.1 million; (ii) dividend payment of RMB20.2 million; (iii) repayment of shareholders' loan and advance from shareholders of RMB88.8 million; and (iv) repayment of convertible loans of RMB65.6 million.

Our net cash generated from financing activities for the year ended December 31, 2006 was RMB334.1 million. The cash inflow was primarily due to new bank and other loans of RMB226.0 million and proceeds from issuing convertible loans and the Preferred Shares of RMB289.3 million. The cash outflow was primarily attributable to the repayment of bank loans and the convertible loan of RMB181.2 million in total.

NET CURRENT LIABILITIES

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Inventories	1,463	5,013	9,646	6,775
Trade and other receivables	82,089	167,786	126,676	284,463
Receivables under finance lease	—	928	1,872	1,872
Income tax recoverable	4,101	8,973	130	10,278
Pledged bank deposits	37,652	154,530	227,422	231,546
Cash and cash equivalents	119,347	169,562	28,463	232,824
Total current assets	<u>244,652</u>	<u>506,792</u>	<u>394,209</u>	<u>767,758</u>
Current liabilities				
Bank and other loans	157,334	316,754	500,262	560,115
Trade and other payables	117,031	317,092	572,710	515,064
Obligations under finance leases	2,963	2,963	2,963	3,077
Convertible loans	81,306	—	—	—
Convertible redeemable preferred shares	142,675	161,668	141,224	156,500
Dividends payable	26,930	—	—	—
Income tax payable	—	2,859	7,057	12,230
Amount due to a shareholder	1,777	—	—	—
Total current liabilities	<u>530,016</u>	<u>801,336</u>	<u>1,224,216</u>	<u>1,246,986</u>
Net current liabilities	<u>(285,364)</u>	<u>(294,544)</u>	<u>(830,007)</u>	<u>(479,228)</u>

We had net current liabilities of RMB285.4 million, RMB294.5 million, RMB830.0 million and RMB479.2 million as at December 31, 2006, 2007, 2008, and June 30, 2009, respectively. We finance our working capital requirements principally from cash generated from operations and cash at hand, while raising the remainder of our requirements primarily through short-term and long-term debt and

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borrowings. Our net current liabilities position as at December 31, 2006, 2007, 2008, and June 30, 2009, was primarily due to the use of bills and other payable, and short-term borrowings to finance our long-term capital expenditures, as well as the effect of the Convertible Loans and the Preferred Shares. As at August 31, 2009, which is the latest practicable date such information is available to us, our net current liabilities amounted to RMB519.9 million. The key components of our current assets as of such date included trade and other receivables of RMB269.3 million, pledged bank deposits of RMB250.3 million and cash and cash equivalents of RMB193.6 million. The key components of our current liabilities included bank and other loans of RMB695.3 million, trade and other payables of RMB462.9 million and Convertible Redeemable Preferred Shares of RMB157.0 million.

Our trade and other payables were RMB117.0 million, RMB317.1 million, RMB572.7 million and RMB515.1 million as at December 31, 2006, 2007, 2008, and June 30, 2009, respectively. Other payables include bills payable, payable for property, plant and equipment and accrued expenses. Our trade payables remained low at RMB0.6 million, RMB9.5 million, RMB5.7 million and RMB10.2 million as at December 31, 2006, 2007, 2008, and June 30, 2009, respectively due to our Group's business model of generally collecting our receivables from our on-site customers and making payment to them for our electricity usage at or around the same time. Bills payable and payable for property, plant and equipment amounted to RMB85.3 million, RMB271.9 million and RMB519.9 million and RMB466.6 million as at December 31, 2006, 2007 and 2008, and June 30, 2009, respectively. The increase in bills payable and payable for property, plant and equipment was primarily due to the construction of additional production facilities for our business expansion and the related purchase of additional production equipment for those new production facilities.

We have relied, and currently rely, on short-term bank borrowings to fund our working capital and capital expenditures. Our current portion of bank and other loans, including the short-term portion of long-term debt, were RMB157.3 million, RMB316.8 million, RMB500.3 million and RMB560.1 million as at December 31, 2006, 2007 and 2008, and June 30, 2009, respectively. Our non-current portion of bank and other loans were RMB130.0 million, RMB417.8 million, RMB400.4 million and RMB746.8 million as at December 31, 2006, 2007 and 2008, and June 30, 2009, respectively. Please refer to Note 19 of Section C of Accountants' Report in Appendix I to this document for details of our bank and other loans as at December 31, 2006, 2007 and 2008 and June 30, 2009.

We have not experienced any significant problems with our cash flow despite our increase in capital expenditures for expansion purposes and our significant increase of construction projects for the following reasons:

- We have, and continue to, obtain new our short-term bank loans in the PRC without difficulty and we believe this is due to our good credit history and our established strong relationships with commercial banks. During the first half of 2009, we repaid RMB369.6 million in bank and other loans, and successfully obtained RMB773.2 million in new loans.
- We have, and continue to have, strong cash flow from operating activities. Our cash flow from operating activities increased from RMB182.2 million in 2006 to RMB214.5 million in 2007 and further to RMB513.8 million in 2008. Cash flow from operating activities for the first half of 2009 was RMB185.8 million.
- Our net current liability position is improving. As at June 30, 2009, our net current liabilities have decreased to RMB479.2 million from RMB830.0 million at December 31, 2008 mainly due to an increase in trade and other receivables and improved cash position. Our cash and cash equivalents as at June 30, 2009 increased to RMB232.8 million from RMB28.5 million as at December 31, 2008.

In 2006, our Company issued certain financial instruments which impacted on our net current liabilities as at December 31, 2006, 2007 and 2008. On June 23, 2006, Yingde BVI received a US\$20.2 million loan facility from Proper Sonic Finance Limited which included a US\$6.0 million convertible loan facility. On December 29, 2006, Yingde BVI and Baring entered into a US\$2.0 million subscription agreement in respect of the subscription of ordinary shares in Yingde BVI by Baring. On

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June 23, 2006, Yingde BVI issued 2,000 Preferred Shares to Baring for a cash consideration of US\$14.0 million pursuant to a convertible redeemable preferred shares subscription agreement. Current liabilities relating to the above financial instruments amounted to RMB224.0 million, RMB161.7 million and RMB141.2 million and RMB156.5 million as at December 31, 2006, 2007 and 2008 and June 30, 2009, respectively. Please refer to the section headed "Financial Information — Factors Affecting Comparability" of this document for further details.

As at June 30, 2009, we had net current liabilities of RMB479.2 million, of which current assets amounted to RMB767.8 million. Current assets primarily consists of trade and other receivables, pledged deposits and cash and cash equivalents. Current liabilities amounted to RMB1,247.0 million, comprising primarily trade and other payables, bank and other loans and Preferred Shares.

The amount of the Preferred Shares recorded as current liabilities was RMB156.5 million as at June 30, 2009. If the Preferred Shares were converted as at June 30, 2009, the net current liabilities of our Group would be reduced by the same amount as the liability of the Preferred Shares would be transferred to the equity of our Company.

While we may continue to have net current liabilities in future, we will manage our working capital and financing requirements in a prudent manner to facilitate the expansion of our business. Despite our net current liabilities position, due to our ability to generate cash from operating activities through our long-term gas supply contracts with our on-site customers, our good credit standing and relationship with our principal lending banks and considering the amount of other sources of fund we expect to raise, our directors believe that we will continue to have sufficient cash resources for our operating and financing needs for at least the next 12 months from the date of this document.

CAPITAL EXPENDITURES

Capital expenditures principally comprise expenditures for the construction of new production facilities and purchase of property, plant and equipment. We historically financed our capital expenditure requirements primarily through cash provided by operations and bank borrowings. The equity provided by our shareholder and bank and other borrowings for the construction of new production facilities and purchase of property, plant and equipment form part of our capital commitment. While capital commitments consist of the whole investment for projects for which we have signed gas supply contracts, capital expenditures consist of the actual cash investment made by us to construct the production facilities for such projects.

During 2006, 2007, 2008 and the six months ended June 30, 2009, we have increased our annual total capital expenditures on the construction of new production facilities and purchase of property, plant and equipment to accommodate our expansion needs and in line with our growth strategies. Our annual total capital expenditures for 2006, 2007, 2008 and the six months ended June 30, 2009, were RMB91.3 million, RMB698.2 million, RMB670.0 million and RMB382.0 million, respectively.

We expect that our capital expenditures will amount to approximately RMB632 million for the year ending December 31, 2009 and RMB1,726 million for the year ending December 31, 2010, which includes approximately RMB100 million relating to the Shihlien Project for both years. Our capital expenditures are currently planned to be primarily used to increase our gas production capacity via the construction of 11 gas production facilities and maintenance/replacement expenditures for our existing production facilities. Approximately RMB1,200 million of the expected capital expenditures of RMB1,726 million for the year ending December 31, 2010 relates to our development of four facilities for our Shenhua Project. The Shenhua Project is a result of our entering into an on-site agreement with the coal chemical subsidiary of China Shenhua Energy Group. The targeted supply start time for these four facilities is July 2010. Please see the section headed "Business — Our Production Facilities" in this document for further details in relation to our Shenhua Project. Our overall capital expenditures will be reduced by approximately RMB100 million should the Shihlien Project be terminated.

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Our expected capital expenditures for 2009 and 2010 are expected to be financed by a combination of our internal cash resources and operating cash flow, other sources of fund, and bank borrowings. After taking into account the other sources of fund we expect to raise, our existing cash resources, our good credit standing and relationship with our principal lending banks and the positive operating cash flow we expect to generate, our directors believe that we will have sufficient resources to finance our capital expenditures for the years ending December 31, 2009 and 2010.

Our anticipated capital expenditures are subject to change from time to time based upon evolution of our business plan, including but not limited to, the progress of our projects planned or under planning, market conditions, regulatory environment and the outlook of our future business conditions.

The table below sets forth the breakdown of our capital commitments and the projects for which such commitments mainly relate to as at the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Capital Commitments:				
Authorized and Contracted for . .	212,990	632,460	375,226	309,543
Authorized but not Contracted for . .	666,721	1,182,384	783,890	2,318,922
Total	879,711	1,814,844	1,159,116	2,628,465
Within One Year . .	663,257	636,522	638,609	1,700,640
After One Year but within Two years	65,555	598,242	260,401	603,390
After Two Years . .	150,900	580,080	260,105	374,435
Total	879,711	1,814,844	1,159,116	2,678,465
Main Capital Commitment Projects:	Nanjing Rizhao Phase I Zibo Phase I Hebei Phase I Rizhao Phase II	Rizhao Phase I Zibo Phase I Hebei Phase I Rizhao Phase II Huai'an Laiwu Hebei Phase II Rizhao Phase III Zhuhai Phase II Yangzhou Zhangjiagang Guizhou	Rizhao Phase III Zhuhai Phase II Yangzhou Zhangjiagang Guizhou Shaanxi Phase III Zhuzhou Shanxi	Zhangjiagang Guizhou Shaanxi Phase III Shanxi Hengyang Phase II Zhuhai Phase III Shenhua Shihlien

Our capital commitments during the Track Record Period were primarily directed towards the purchase of equipment for the building of our Group's production facilities (including air separation units), the construction of buildings and units used as back offices, storage and other purposes, and the installation and testing of facilities.

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WORKING CAPITAL

Our directors confirm that we have sufficient working capital for our present requirements and for the next 12 months from the date of this document. We expect to have the following sources of cash immediately following [●]:

- approximately RMB230 million, being the existing cash available on hand as at June 30, 2009;
- the additional positive operating cash flow we expect to generate during the period from July 1, 2009 to [●];
- HK\$[●] million.

Based on the above, and also on the assumption that we do not have any other major capital expenditure save for those disclosed in this document, our directors believe that we will have sufficient financial resources to meet our repayment obligation and that we would continue to have sufficient working capital and liquidity for our ongoing working capital needs.

CONVERSION OF PREFERRED SHARES

The Preferred Shares have been classified as a current liability in our combined balance sheets and accounted for as a hybrid financial instrument containing both a derivative component and a liability component. However, all of the Preferred Shares held by Baring will be automatically converted into our Shares immediately prior to [●]. Upon such automatic conversion, no Preferred Shares will be outstanding and as a result, none of the terms of the Preferred Shares will be applicable.

PROPERTY, PLANT AND EQUIPMENT

The following table sets out the net value of our property, plant and equipment for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment (net)	611,025	1,123,091	1,751,968	2,176,570

The value of our plant and machinery for production use accounts for a substantial portion of our property, plant and equipment. The increase in the value of our property, plant and equipment from December 31, 2006, to June 30, 2009 was largely due to a number of new production facilities completed over this period. For the year ended December 31, 2006, one new production facility was completed in Nanjing Jiangsu operated by Nanjing Xingang and we also acquired Hancheng Shaanxi Phase II operated by Shaanxi Yingde. For the year ended December 31, 2007, five new production facilities were completed, namely, Rizhao Shandong Phases I and II operated by Rizhao Yingde, Zibo Shandong Phase I operated by Zibo Yingde, Shijiazhuang Hebei Phase I operated by Hebei Yingde and Hancheng Shaanxi Phase II operated by Shaanxi Yingde. For the year ended December 31, 2008, four production facilities were completed, namely Huai'an Jiangsu operated by Huai'an Yingda, Laiwu Shandong operated by Laiwu Yingde, Shijiazhuang Hebei Phase II operated by Hebei Yingde and Rizhao Shandong Phase III operated by Rizhao Yingde. For the six months ended June 30, 2009, four production facilities were completed, namely Hancheng Shaanxi Phase III operated by Shaanxi Yingde, two production facilities under Hengyang Hunan Phase I operated by Hengyang Yingde, and Zhuzhou Hunan operated by Zhuzhou Yingde.

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CONSTRUCTION IN PROGRESS

The following table sets out our construction in progress for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Construction in progress	14,948	291,874	488,655	391,293

Our construction in progress consists of property, plant and equipment under construction and equipment pending installation. Our construction in progress increased from RMB14.9 million as at December 31, 2006 to RMB488.7 million as at December 31, 2008 as we increased our production facilities under development. By the end of 2008, we had six production facilities under development, namely, Hancheng Shaanxi Phase III, Fuquan Guizhou, Zhuhai Guangdong Phase II, Zhuzhou Hunan, Yangzhou Jiangsu, and Zhangjiagang Jiangsu. As of June 30, 2009, we had five production facilities under development, namely Hengyang Hunan Phase II, Fuquan Guizhou, Hancheng Shaanxi Phase III, Yangzhou Jiangsu and Zhangjiagang.

TRADE AND OTHER RECEIVABLES

The following table sets out the amount of our trade and other receivables for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	67,471	92,406	108,665	165,418
Bills receivable	798	22,069	9,216	49,883
Less: allowance for doubtful debts	—	—	(10,721)	(10,721)
	68,269	114,475	107,160	204,580
Deposits and other receivables	13,820	53,311	19,516	79,883
	82,089	167,786	126,676	284,463

The trade and other receivables consist of trade receivables, bills receivables and deposits and other receivables. Our trade receivables represent the receivables from our on-site customers netted off against the utilities costs payable by us to our customers. The payment terms for our trade receivables on-site customers are generally 30 to 45 days. Moreover, extended credit terms are granted to certain on-site customers depending on the credit assessment carried out by management on an individual basis. We generally receive payment from our merchant customers on or prior to delivery. The bills receivables are normally due within 180 days and primarily relate to bank-accepted commercial bills used by our Group's on-site customers for settlement. The deposits and other receivables primarily relate to prepayment of expenses and deposits.

During 2006 and 2007, most of our customers have paid within the relevant credit periods and no material bad debt expense was incurred in these years. The allowance for doubtful debts as at December 31, 2008 and June 30, 2009 related to one merchant customer that was adversely affected by the financial crisis and has consequently not been able to settle amounts due to us on a timely basis. As a result, we made a full provision of this receivable.

The increase in the amount of trade and other receivables from December 31, 2006 to December 31, 2007 is primarily due to an increase in sales as the number of our facilities in operations increased from six as at December 31, 2006, to 11 as at December 31, 2007, resulting in an increased amount of trade receivables.

Our trade and other receivables decreased to RMB126.7 million as at December 31, 2008 primarily due to improved trade receivables collection in Rizhao Yingde and Tianjin Yingde, notwithstanding a general increase in our trade and other receivables due to our enlarging scale of operation. Collections on trade receivables improved at Rizhao Yingde and Tianjin Yingde as we urged them to pay earlier due to their relatively larger balances and their capacity to pay.

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Our trade and other receivables increased to RMB284.5 million as at June 30, 2009 from RMB126.7 million as at December 31, 2008 primarily due to an increase in sales as the number of our facilities in operation increased from 15 as at December 31, 2008, to 19 as at June 30, 2009, resulting in an increased amount of trade receivables. In addition, we strategically extended credit to certain on-site customers in order to promote increased business with them. Bills receivable increased to RMB49.9 million as at June 30, 2009 mainly as a result of greater turnover.

Our deposits and other receivables increased from RMB13.8 million as at December 31, 2006, to RMB53.3 million as at December 31, 2007, primarily as a result of our prepayment of RMB57.6 million in 2007 to an independent agent engaged by us to search for potential acquisition opportunities in Shanghai, Jiangsu and Zhejiang for business expansion purpose, partially off-set by the repayment by such agent to us of RMB37.6 million in the same year. No acquisition opportunities were identified by our agent and the remaining RMB20 million deposit was returned to us in June and July 2008, and as such, no costs were incurred by us in this regards. On the basis of the termination agreement between our agent and Hunan Yingde, our PRC legal advisors are of the opinion that the payment made by Hunan Yingde to our agent thereunder does not amount to an advance or loan under PRC laws and the payment arrangement does not violate any PRC laws.

Our deposits and other receivables increased to RMB79.9 million as at June 30, 2009 from RMB19.5 million as at December 31, 2008 primarily due to input value-added tax incurred on the purchase of production equipment, which may be credited against the output value-added taxes with effect from January 1, 2009.

For the year ended December 31, 2006 the turnover days of our trade receivables was relatively higher than in 2007 due to our selective extension of credit terms to two of our on-site customers as one on-site customer underwent its ramp-up period while the other on-site customer provided a guarantee in respect of our bank loan. The decrease in 2007 is mainly due to the end of the extended credit term for our on-site customer at Shaanxi Yingde and the fact that we had new projects in operation in 2007 and our new customers were all granted normal credit terms. The further decrease during the year ended December 31, 2008 was due to improved trade receivables collection. Turnover of trade receivables increased slightly from 26 days in 2008 to 27 days for the six months ended June 30, 2009.

The following table sets forth the turnover of our trade receivables for the periods indicated:

	Year ended December 31,			Six months ended June 30, 2009
	2006	2007	2008	
Turnover of trade receivables (days)*	42	37	26	27

Note:

- * Calculated on the average of the beginning and ending trade receivables balances for the period, divided by revenue for the period, multiplied by 360 days for a year or 181 days for the six months ended June 30, 2009 in respect of the periods indicated.

The following table sets forth our aging analysis for the periods indicated:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Current	68,269	114,475	107,160	157,949
Less than 1 month past due	—	—	—	31,446
1 to 3 months past due	—	—	—	15,185
Amounts past due	—	—	—	46,631
	68,269	114,475	107,160	204,580

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As at June 30, 2009, we had RMB46.6 million in trade and other receivables that were past due. We have evaluated the credit situation of the specific customers for which such receivables relate to and expect to fully recover such receivables. Therefore, we believe the allowance for doubtful debts is sufficient.

TRADE AND OTHER PAYABLES

The following table sets out the amount of our trade and other payables for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable	562	9,498	5,719	10,204
Bills payable	42,952	120,000	150,123	105,259
Payables for equipment	42,392	151,878	369,792	361,318
Accrued expenses and other payables	31,125	35,716	47,076	38,283
Total	117,031	317,092	572,710	515,064

The trade and other payables consist of trade payable, bills payable, payables for equipment and accrued expenses and other payables. The trade payables primarily consist of payment for direct purchase of liquified gas from external suppliers. The bills payable and payables for equipment relate to our payables for construction costs and purchase of equipment. The normal settlement period for bills payable is approximately six months. The accrued expenses and other payables primarily relate to payable for value-added tax, prepayments by our Group's customers and the management fee payable to our cooperative partner in our production facility in Nanjing in Jiangsu province.

Bills payable primarily consists of payables for production facilities and for our purchases of additional equipment for the facilities set out below:

- Bills payable as at December 31, 2006 was primarily due to the bills issued relating to equipment purchase for Rizhao Yingde, Hebei Yingde and Zibo Yingde.
- Bills payable as at December 31, 2007 was primarily due to the bills relating to equipment purchase for Hebei Yingde, Rizhao Yingde, Zibo Yingde, Laiwu Yingde, Huai'an Yingda and Zhuzhou Yingde.
- Bills payable as at December 31, 2008 was primarily due to the bills relating to equipment purchase for Hebei Yingde, Rizhao Yingde, Laiwu Yingde, Huai'an Yingda, Yangzhou Yingde, Guizhou Yingde and Shaanxi Yingde.
- Bills payable as at June 30, 2009 was primarily due to the bills relating to equipment purchase for Hengyang Yingde, Shaanxi Yingde, Guizhou Yingde, Yangzhou Yingde, Zhangjiagang Yingde and Zibo Yingde.

The increase in the amount of payables for equipment from December 31, 2006 to June 30, 2009 is attributable to developing additional production facilities as well as our purchases of additional equipment for the facilities set out below:

- Production facilities at Hebei Yingde, Zhangjiagang Yingde, Rizhao Yingde, Huai'an Yingda, Zibo Yingde and Laiwu Yingde during the year ended December 31, 2007.
- Production facilities at Tianjin Yingde, Zhuhai Yingde, Zhangjiagang Yingde, Rizhao Yingde, Huai'an Yingda, Zibo Yingde and Laiwu Yingde during the year ended December 31, 2008.
- Production facilities at Guizhou Yingde, Hengyang Yingde, Zhuhai Yingde and Zhangjiagang Yingde for the six months ended June 30, 2009.

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INVENTORIES

Pursuant to our business model, we supply gas products to our customers on a close to real time basis. Accordingly, the gas products that we produce and sell to our on-site and merchant customers are generally stored as inventory only for a very short period of time (in hours) before they are delivered to our on-site and merchant customers.

Due to the nature of its business, our Group has minimal inventories. Due to our Group's low level of inventories, the stock turnover days have been very short during the periods concerned, including the level for the year ended December 31, 2008 and the six months ended June 30, 2009. There has been a slight increase in the stock turnover days for 2007. This was because there was an increase in our Group's inventories level resulting from the increase in the purchase of liquefied gases from external third parties to supply to our on-site customers in Rizhao Yingde Phase I and Shijiazhuang Phase I.

INDEBTEDNESS

Bank loans and other loans

Our borrowings including bank loans and other loans are set forth below as at the dates indicated:

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	96,000	165,000	329,200	412,200	454,542
Current portion of long-term loans	61,334	151,754	171,062	147,915	240,756
Long-term portion of long-term loans	130,000	417,760	400,350	746,780	645,742
Total	287,334	734,514	900,612	1,306,895	1,341,040

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans					
— unsecured	67,000	87,000	22,000	—	—
— secured ⁽¹⁾	147,000	597,286	828,442	1,254,125	1,271,442
Other loans					
— secured ⁽¹⁾	73,334	50,228	50,170	52,770	69,598
Total	287,334	734,514	900,612	1,306,895	1,341,040

Note:

- (1) As at June 30, 2009, the carrying value of assets (namely, property, plant and equipment and lease prepayment) secured for bank and other loans was RMB621.3 million. In addition, as at June 30, 2009, certain bank loans were secured by our Group's 75% equity interest in Shaanxi Yingde, Tianjin Yingde, Rizhao Yingde and Zhuhai Yingde.

The amount of our bank and other loans increased from RMB287.3 million as at December 31, 2006 to RMB1,306.9 million as at June 30, 2009, primarily due to additional borrowings for capital expenditures and general working capital in order to finance the construction of the following additional production facilities for our business expansion purposes:

- construction project in Zhangjiagang Yingde during the year ended December 31, 2006;
- construction projects in Rizhao Yingde, Zhangjiagang Yingde and Huai'an Yingda during the year ended December 31, 2007;

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- construction projects in Zhangjiagang Yingde, Laiwu Yingde, Rizhao Phase III operated by Rizhao Yingde, Zhuhai Phase II operated by Zhuhai Yingde, and Shijiazhuang Phase II operated by Hebei Yingde for the year ended December 31, 2008; and
- construction projects in Zhuzhou Yingde, Zhuhai Yingde, Zhangjiagang Yingde, and Yangzhou Yingde for the six months ended June 30, 2009.

As at June 30, 2009, our short-term and long-term bank loans and other loans were bearing interest at interest rates ranging from 1.7% to 10.4% per annum and we had a committed borrowing facility of RMB590.0 million, among which RMB385.0 were utilized by us as at June 30, 2009.

As at August 31, 2009, which is the latest practicable date for determining our indebtedness, our total borrowings amounted to RMB1,341.0 million. We had banking facilities in the aggregate amount of RMB678.1 million, among which RMB397.3 million was utilized as at August 31, 2009.

The following table sets forth the maturities of our total borrowings as at the dates indicated:

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings					
Within one year or on demand	157,334	316,754	500,262	560,115	695,298
After one year but within two years	75,000	120,410	226,590	333,140	241,121
After two years but within five years	5,000	247,350	173,760	408,640	399,621
After five years	50,000	50,000	—	5,000	5,000
Total	287,334	734,514	900,612	1,306,895	1,341,040

Our bank loans and other loans exclude the Convertible Loans and the Preferred Shares issued by Yingde BVI to Baring on June 23, 2006.

Convertible Loans and Preferred Shares

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible Loans	81,306	—	—	—	—
Convertible redeemable preferred shares	142,675	161,668	141,224	156,500	157,027

Convertible Loans consist of US\$20.2 million loan facility and US\$2.0 million subscription agreement. On June 23, 2006, Yingde BVI received a US\$20.2 million loan facility from Proper Sonic Finance Limited which included a US\$6.0 million convertible loan facility. On December 29, 2006, Yingde BVI and Baring entered into a US\$2.0 million subscription agreement in respect of the subscription of ordinary shares in Yingde BVI by Baring. In addition, on June 23, 2006, Yingde BVI issued 2,000 Preferred Shares to Baring for a cash consideration of US\$14.0 million pursuant to a convertible redeemable preferred shares subscription agreement.

Please refer to the section headed “Financial Information — Factors Affecting Comparability” and notes 22 and 23 of Section C of the Accountants’ Report in Appendix I in this document for further details.

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Pledged bank deposits

The following table sets out our pledged bank deposits as at the dates indicated:

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits	37,652	154,530	227,422	231,546	250,343

We pledge bank deposits to banks for issuing bank accepted bills and letters of credit for purchase of our equipment and components from overseas equipment and component suppliers. We generally place our order for equipment and components approximately ten months prior to the completion of our production facilities. The increase in pledged bank deposits from 2006 to 2008 and for the first half of 2009 mainly related to an increase in value of the equipment we ordered from overseas equipment suppliers. In 2007, we completed five production facilities namely, Rizhao Shandong Phase I and II operated by Rizhao Yingde, Zibo Shandong Phase I operated by Zibo Yingde, Shijiazhuang Hebei Phase I operated by Hebei Yingde and Hancheng Shaanxi Phase II operated by Shaanxi Yingde. In 2008, we completed the construction of four production facilities namely, Huai'an Jiangsu operated by Huai'an Yingda, Laiwu Shandong operated by Laiwu Yingde, Shijiazhuang Hebei Phase II operated by Hebei Yingde, and Rizhao Shandong Phase III operated by Rizhao Yingde. For the first half of 2009, we completed the construction of four production facilities, namely, Hancheng Shaanxi Phase III operated by Shaanxi Yingde, two production facilities under Hengyang Hunan Phase I operated by Hengyang Yingde, and Zhuzhou Hunan operated by Zhuzhou Yingde.

Contingent liabilities and guarantees

As at the Latest Practicable Date, we had not provided any guarantee to secure loans of third parties.

We have not obtained the construction planning permit and/or the construction permit in respect of certain production facilities during the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009. As at the Latest Practicable Date, we had not been subject to any penalty or fine from the government authorities in respect of the absence of the construction planning permits and/or construction permits. Based on the PRC legal advisor's opinion, the maximum penalty and fine to us would be approximately RMB3.3 million. We consider that any payment to be made by our Group in this regard would not be material. Accordingly, no provision has been made in our Group's combined financial information.

Off-balance sheet transactions

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

No other outstanding indebtedness

Except as disclosed in this document, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as at the Latest Practicable Date. We confirm that there has not been any material change in our indebtedness and contingent liabilities from the Latest Practicable Date to the date of this document.

Finance Leases

One of our subsidiaries, Tianjin Yingde, entered into a finance lease arrangement with Tianjin Steel Pipe Corporation pursuant to which Tianjin Yingde acquired the air separation units and certain other assets under a finance lease arrangement in 2005. According to the finance lease arrangement, the

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lease payment is RMB3.2 million per year for a period of 25 years. Our Group is responsible for the repair and maintenance of the equipment and related assets. As at August 31, 2009, the present value of our finance lease obligation was approximately RMB33.9 million.

MARKET RISKS

We are exposed to various types of market risks, including credit risk, foreign currency exchange risk and interest rate risk. Please refer to Note 29 of Section C of the Accountants' Reports set out in Appendix I to this document for more details.

Credit risk

A substantial proportion of our cash and cash equivalents are deposited with major financial institutions in the PRC, which we believe are of high credit quality. Our major on-site customers are generally iron and steel companies, which accounted for a significant portion of our total operating revenue. As at December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our Group had a concentration of credit risk as to 97%, 87%, 74% and 79% of the total trade and bills receivables, respectively, which were due from our Group's long-term contracted customers. However, we believe that we have no significant credit risk with any of these on-site customers, as we maintain stable relationships. We perform ongoing credit evaluations of our on-site customers' financial condition and generally do not require collateral on trade receivables.

Foreign currency exchange risk

All of our revenue-generating operations are located in the PRC and most of the transactions that we enter into are denominated in Renminbi. We have not used any forward contracts or currency borrowings to hedge our foreign exchange risk. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations on foreign exchange control promulgated by the PRC government.

Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt. Our debt consists of variable rate debt obligations with original maturities generally ranging from 1 to 5 years. We undertake debt obligations to support general corporate purposes including capital expenditure and working capital needs. We have not used any forward contracts or derivatives to hedge our exposure to interest rate risk.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as at July 31, 2009, and is of the opinion that the value of our property interests as to such date was an aggregate amount of RMB178.9 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this document.

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The statement below shows the reconciliation of aggregate amounts of certain properties and lease prepayments as reflected on our combined financial information as at June 30, 2009 and the valuation of these properties and lease prepayments as at July 31, 2009 as set out in Appendix IV to this document.

	<u>RMB (million)</u>
Valuation of properties (including the lease prepayments) owned by our Group as at [July 31], 2009 as set out in the property Valuation report in Appendix IV to this document	178.9
Net book value of the following properties as at June 30, 2009, as set out in Appendix I to this document:	
—Buildings	118.1
—Lease prepayments	17.1
—Construction in progress ⁽¹⁾	5.3
Net book value as at June 30, 2009	140.5
Add: Additions of properties during the period from June 30, 2009 to July 31, 2009	—
Less: Depreciation of buildings from June 30, 2009 to July 31, 2009	0.5
Less: Amortization of lease prepayments from June 30, 2009 to July 31, 2009	—
Net book value as at July 31, 2009	140.0
Net valuation surplus	<u>38.9</u>

Note:

- (1) Among the construction in progress amounting to RMB8.0 million as at July 31, 2009 is excluded from the valuation in Appendix IV to this document and is therefore also excluded from this reconciliation.

DISTRIBUTABLE RESERVES

Our Company was incorporated on September 25, 2007, but has not carried on any business up to June 30, 2009. However, the aggregate amount of distributable reserves of the companies comprising our Group as at June 30, 2009 was RMB756.7 million.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

Forecast combined profit attributable to the equity holders of our Company⁽¹⁾ not less than RMB450 million (Approximately HK\$511 million)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2009 has been prepared are set out in Appendix III.

DIVIDEND POLICY

You should not view the extent of the abovementioned as an indication of the amount of the dividends that we may declare. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our shareholders. Our future declaration and payment of dividends may or may not reflect our historical declaration and payment of dividends and will be at the absolute discretion of the board of our Company.

During the year ended December 31, 2008, dividends were declared and paid by our subsidiaries to the then shareholders in the amount of RMB79.9 million which were fully settled in April 2008. You should note that our historical dividend distributions are not indicative of our future dividend distribution policy.

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Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future.

NO SIGNIFICANT INTERRUPTIONS

Our directors confirm that there have been no interruptions in our business that may have a significant effect on our results of operations and financial position in the 12 months prior to the Latest Practicable Date.

NO MATERIAL ADVERSE CHANGE

Our directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2009.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained herein is incomplete and subject to change and it must be read in conjunction with the section headed “Warning” on the cover of this Web Proof Information Pack.

FUTURE PLANS

FUTURE PLANS

Our goal is to consolidate and further strengthen our position as the leading domestic independent on-site industrial gas supplier in the PRC. See the section headed “Business – Our Strategies” for a detailed description of our future plans.

APPENDIX I

ACCOUNTANTS' REPORT

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

[Date]

The Directors
Yingde Gases Group Company Limited
[●]

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Yingde Gases Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, together with the notes thereto (the "Financial Information").

The Company was incorporated in the Cayman Islands on 25 September 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 10 July 2009 (the "Reorganisation") as detailed in the section headed "Our History and Reorganisation" in this document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Yingde Gases Investment Limited ("Yingde BVI"), Wellsmith Investment Limited ("Wellsmith Investment"), Ace Turbo Group Limited ("Ace Turbo") and Hengyang Yingde Gases Co., Ltd. (衡陽盈德氣體有限公司, "Hengyang Yingde") as they either have not carried on any business since their respective dates of incorporation/establishment or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation/establishment. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation/establishment to 30 June 2009 for the purpose of this report.

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The statutory financial statements of the other companies now comprising the Group, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC"), were audited during the Relevant Period by the respective statutory auditors as indicated below:

Name of company (Note)	Financial period	Statutory auditors (Note)
Hunan Yingde Gases Co., Ltd. 湖南盈德氣體有限公司 ("Hunan Yingde")	Years ended 31 December 2006, 2007 and 2008	Hunan Jianye Certified Public Accountants Co., Ltd. 湖南建業會計師事務所有限公司
Zhuhai Yingde Gases Co., Ltd. 珠海盈德氣體有限公司 ("Zhuhai Yingde")	Years ended 31 December 2006, 2007 and 2008	Zhuhai Lixin Partnership Certified Public Accountants 珠海立信合夥會計師事務所
Jiangsu Yingde Gases Co., Ltd. 江蘇盈德氣體有限公司 ("Jiangsu Yingde")	Years ended 31 December 2006 and 2007	Huai'an Sanhuai Joint Certified Public Accountants 淮安三淮聯合會計師事務所
	Year ended 31 December 2008	Jiangsu Jinling Certified Public Accountants Co., Ltd. 江蘇金陵會計師事務所有限公司
Nanjing Xingang Argon Co., Ltd. 南京新港氬氣有限公司 ("Nanjing Xingang")	Years ended 31 December 2006, 2007 and 2008	Jiangsu Ruiyuan Certified Public Accountants Co., Ltd. 江蘇瑞遠會計師事務所有限公司
Shaanxi Yingde Gases Co., Ltd. 陝西盈德氣體有限公司 ("Shaanxi Yingde")	Years ended 31 December 2006 and 2007	Xi'an Jingwei Certified Public Accountants Co., Ltd. 西安涇渭會計師事務所有限責任公司
	Year ended 31 December 2008	Shaanxi Xinghua Certified Public Accountants Co., Ltd. 陝西興華會計師事務所有限責任公司
Tianjin Yingde Gases Co., Ltd. 天津盈德氣體有限公司 ("Tianjin Yingde")	Years ended 31 December 2006, 2007 and 2008	Tianjin Chengtai Certified Public Accountants Ltd. 天津誠泰有限責任會計師事務所
Zhangjiagang Yingde Gases Co., Ltd. 張家港盈德氣體有限公司 ("Zhangjiagang Yingde")	Years ended 31 December 2006, 2007 and 2008	Suzhou Tianhe Certified Public Accountants Co., Ltd. 蘇州天和會計師事務所有限公司
Yangzhou Yingde Gases Co., Ltd. 揚州盈德氣體有限公司 ("Yangzhou Yingde")	Period from 12 April 2006 (date of establishment) to 31 December 2006 and year ended 31 December 2007	Yanzhou Decheng C.P.A. Partnership 揚州德誠聯合會計師事務所
	Year ended 31 December 2008	Yangzhou Hongrui Certified Public Accountants 揚州弘瑞會計師事務所
Rizhao Yingde Gases Co., Ltd. 日照盈德氣體有限公司 ("Rizhao Yingde")	Period from 30 October 2006 (date of establishment) to 31 December 2006 and years ended 31 December 2007 and 2008	Rizhao Dayang Certified Public Accountants Ltd. 日照大洋有限責任會計師事務所

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Name of company (Note)	Financial period	Statutory auditors (Note)
Zibo Yingde Gases Co., Ltd. 淄博盈德氣體有限公司 ("Zibo Yingde")	Period from 8 November 2006 (date of establishment) to 31 December 2006 and years ended 31 December 2007 and 2008	Zibo Zhengde Certified Public Accountants Co., Ltd. 淄博正德會計師事務所有限公司
Hebei Yingde Gases Co., Ltd. 河北盈德氣體有限公司 ("Hebei Yingde")	Period from 4 December 2006 (date of establishment) to 31 December 2006 and years ended 31 December 2007 and 2008	Hebei Kanglongde Accounting Firm Co., Ltd. 河北康龍德會計師事務所有限公司
Huai'an Yingda Gases Co., Ltd. 淮安盈達氣體有限公司 ("Huai'an Yingda")	Period from 26 January 2007 (date of establishment) to 31 December 2007 Year ended 31 December 2008	Huai'an Sanhuai Joint Certified Public Accountants 淮安三淮聯合會計師事務所 Jiangsu Jinling Certified Public Accountants Co., Ltd. 江蘇金陵會計師事務所有限公司
Laiwu Yingde Gases Co., Ltd. 萊蕪盈德氣體有限公司 ("Laiwu Yingde")	Period from 30 January 2007 (date of establishment) to 31 December 2007 and year ended 31 December 2008	Laiwu Chengda Certified Public Accountants Ltd. 萊蕪誠達有限責任會計師事務所
Zhuzhou Yingde Gases Co., Ltd. 株洲盈德氣體有限公司 ("Zhuzhou Yingde")	Period from 22 March 2007 (date of establishment) to 31 December 2007 and year ended 31 December 2008	Hunan Jianye Certified Public Accountants Co., Ltd. 湖南建業會計師事務所有限公司
Guizhou Yingde Gases Co., Ltd. 貴州盈德氣體有限公司 ("Guizhou Yingde")	Period from 4 September 2007 (date of establishment) to 31 December 2007 Year ended 31 December 2008	Qiannan Qiancheng Certified Public Accountants 黔南黔誠會計師事務所 Guizhou Yibo Certified Public Accountants Co., Ltd. 貴州義博會計師事務所有限公司
Jiangsu Yingde Logistics Co., Ltd. 江蘇盈德物流有限公司 ("Yingde Logistics")	Period from 15 October 2008 (date of establishment) to 31 December 2008	Jiangsu Jinling Certified Public Accountants Co., Ltd. 江蘇金陵會計師事務所有限公司

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the relevant rules and regulations. IFRSs include International Accounting Standards and interpretations.

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ACCOUNTANTS' REPORT

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs promulgated by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the relevant rules and regulations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C Note 1 below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the Group's combined state of affairs as at 31 December 2006, 2007 and 2008 and 30 June 2009 and the Company's state of affairs as at 31 December 2007 and 2008 and 30 June 2009.

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ACCOUNTANTS' REPORT

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 30 June 2008, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PRESENTATION

On 25 September 2007, the Company was incorporated in the Cayman Islands as part of the Reorganisation. The companies taking part in the Reorganisation were controlled by the same group of shareholders, namely Ms. Li Hongmei and Mr. Trevor Raymond Strutt, and Mr. Zhao Xiangti, Mr. Yang Yonggang and Mr. Chen Yan (replaced by Mr. Nie Kuang on 6 March 2009) (representatives of 31 individuals), through the relevant investment holding companies (collectively referred to as the "Controlling Shareholders"). In accordance with the voting agreement dated 18 December 2001 and the supplementary agreements dated 18 August 2006 and 23 August 2006 entered into among the Controlling Shareholders, the Controlling Shareholders voted together with respect to decisions in connection with the companies now comprising the Group and collectively controlled the companies now comprising the Group during the Relevant Period. Pursuant to the Reorganisation completed on 10 July 2009, the Company became the holding company of the companies now comprising the Group.

Because the companies now comprising the Group were controlled by the Controlling Shareholders before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the Controlling Shareholders, the Financial Information has been prepared using the merger basis of accounting as if the Group has always been in existence. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders' perspective. The interests of equity holders other than the Controlling Shareholders in the combining companies have been presented as minority interests in the Group's Financial Information.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group for the Relevant Period include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the Relevant Period, or since the dates of their incorporation or establishment where this is a shorter period. The combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 have been prepared to present the combined assets and liabilities of the companies now comprising the Group as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

APPENDIX I

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At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Date and place of incorporation/ establishment	Issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Yingde BVI	18 April 2006 British Virgin Islands (“BVI”)	USD14,700	100%	—	Investment holding
Ace Turbo	1 July 2008 BVI	USD1	—	100%	Import of equipment
Wellsmith Investment	20 June 2007 Hong Kong	HKD10,000	—	100%	Dormant
Hunan Yingde (Note (i))	29 October 2001 PRC	RMB246,000,000	—	100%	Production and sales of industrial gases
Zhuhai Yingde (Note (i))	8 April 2003 PRC	RMB140,000,000	—	100%	Production and sales of industrial gases
Jiangsu Yingde (Note (i))	15 April 2003 PRC	RMB44,000,000	—	100%	Production and sales of industrial gases
Nanjing Xingang (Note (i))	11 June 2003 PRC	USD2,100,000	—	100%	Production and sales of industrial gases
Shaanxi Yingde (Note (i))	24 June 2003 PRC	RMB62,000,000	—	100%	Production and sales of industrial gases
Tianjin Yingde (Note (i))	17 September 2004 PRC	RMB60,000,000	—	100%	Production and sales of industrial gases
Zhangjiagang Yingde (Note (ii))	31 December 2004 PRC	USD10,000,000	—	75%	Under construction
Yangzhou Yingde	12 April 2006 PRC	USD11,499,970	—	100%	Under construction
Rizhao Yingde	30 October 2006 PRC	RMB219,400,000	—	100%	Production and sales of industrial gases
Zibo Yingde	8 November 2006 PRC	USD7,964,258	—	100%	Production and sales of industrial gases
Hebei Yingde	4 December 2006 PRC	RMB81,600,000	—	100%	Production and sales of industrial gases
Huai'an Yingda	26 January 2007 PRC	RMB64,000,000	—	100%	Production and sales of industrial gases

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ACCOUNTANTS' REPORT

Name of company	Date and place of incorporation/ establishment	Issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Laiwu Yingde	30 January 2007 PRC	USD10,049,964	—	100%	Production and sales of industrial gases
Zhuzhou Yingde	22 March 2007 PRC	USD8,000,000	—	100%	Production and sales of industrial gases
Guizhou Yingde (Note (iii))	4 September 2007 PRC	USD20,000,000	—	100%	Under construction
Yingde Logistics	15 October 2008 PRC	RMB5,000,000	—	100%	Transportation
Hengyang Yingde	23 December 2008 PRC	RMB120,000,000	—	70%	Production and sales of industrial gases

Notes

- (i) Before February 2006, the Group had 48% effective equity interest in Hunan Yingde. Notwithstanding this, Hunan Yingde has been accounted for as a subsidiary because the Controlling Shareholders has the power to govern the financial and operating policies of Hunan Yingde through the control of majority voting rights in the board of directors of Hunan Yingde. In February 2006, the Controlling Shareholders acquired additional 4% equity interest in Hunan Yingde from other then shareholders of Hunan Yingde, and accordingly, the Group's effective equity interest in Hunan Yingde was increased from 48% to 52%. In June 2006, the Group further acquired 48% equity interest in Hunan Yingde from the minority shareholder of Hunan Yingde. Thereafter, Hunan Yingde has become a wholly-owned subsidiary of the Group. The interests of equity holders other than the Controlling Shareholders in Hunan Yingde during January to June 2006 have been presented as minority interests in the Group's Financial Information.

Before February 2006, the Group had 60%, 60%, 73%, 59% and 60% effective equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde respectively, in which 36%, 36%, 19%, 36% and 36% effective equity interests were held through Hunan Yingde and the remaining interests were held through certain members of the Controlling Shareholders. The Group also had the power to govern the financial and operating policies of these subsidiaries through the control of majority voting rights in the board of directors of Hunan Yingde as mentioned above. After the acquisitions of the minority interests in Hunan Yingde by the Group in February and June 2006, respectively, these entities have become wholly-owned subsidiaries of the Group. The interests of equity holders other than the Controlling Shareholders in these subsidiaries during January to June 2006 have been presented as minority interests in the Group's Financial Information.

Except for the changes set out above, the Group's effective equity interests in the subsidiaries remained the same during the Relevant Period.

- (ii) In May 2006, the Group, through Hunan Yingde, entered into an agreement to acquire 75% equity interest in Zhangjiagang Yingde. The 25% equity interests in Zhangjiagang Yingde held by equity holders other than the Controlling Shareholders have been presented as minority interests in the Group's Financial Information.
- (iii) On 10 November 2006, Yingde BVI entered into a 25-year gas supply contract with an on-site customer of Guizhou Yingde. In accordance with the terms of the contract, this on-site customer has an option to purchase between 25% to 49% of the issued capital of Guizhou Yingde after the construction of the production facility at Guizhou Yingde is completed. The consideration is to be determined on the basis of a valuation to be performed by an accounting firm recognised by both parties. On the other hand, Yingde BVI agreed in principle to invest RMB250,000,000 for a 25% equity interest in the registered capital of this on-site customer (Note 28(c)).
- (iv) The Group established Shanxi Yingde Gases Co., Ltd. (山西盈德氣體有限公司), a wholly-owned subsidiary, in the PRC on 3 September 2009.

APPENDIX I

ACCOUNTANTS' REPORT

B FINANCIAL INFORMATION

1 COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	2	485,054	783,717	1,411,713	619,960	917,163
Cost of sales		(256,566)	(464,166)	(828,156)	(351,722)	(586,072)
Gross profit		228,488	319,551	583,557	268,238	331,091
Other revenue	3	1,037	987	1,352	499	208
Selling expenses		(8,909)	(9,933)	(15,088)	(7,727)	(7,834)
Administrative expenses		(40,718)	(58,603)	(79,946)	(25,739)	(45,448)
Profit from operations		179,898	252,002	489,875	235,271	278,017
Finance income	4(a)	5,307	27,899	36,469	12,979	2,771
Finance costs	4(a)	(161,201)	(95,963)	(58,492)	(26,563)	(44,030)
Profit before taxation	4	24,004	183,938	467,852	221,687	236,758
Income tax	5	—	(8,055)	(39,192)	(21,489)	(4,234)
Profit and total comprehensive income for the year/period		24,004	175,883	428,660	200,198	232,524
Attributable to:						
Equity holders of the Company		(6,729)	177,049	430,133	200,721	232,487
Minority interests		30,733	(1,166)	(1,473)	(523)	37
Profit and total comprehensive income for the year/period		24,004	175,883	428,660	200,198	232,524
(Loss)/earnings per share (RMB)	7					
-Basic		(0.005)	0.120	0.293	0.137	0.158
-Diluted		(0.005)	0.120	0.279	0.133	0.158

The accompanying notes form part of the Financial Information. Details of dividends payable for the Relevant Period are set out in Note 6.

APPENDIX I

ACCOUNTANTS' REPORT

2 COMBINED BALANCE SHEETS

	Section C Note	31 December			30 June 2009
		2006 RMB'000	2007 RMB'000	2008 RMB'000	RMB'000
Non-current assets					
Property, plant and equipment, net	10	611,025	1,123,091	1,751,968	2,176,570
Construction in progress	11	14,948	291,874	488,655	391,293
Lease prepayments	12	13,595	17,532	17,245	17,064
Intangible assets	13	11,256	10,667	10,199	9,924
Receivables under finance lease	14	—	5,036	13,053	12,855
Other non-current assets	15	78,936	90,175	131,809	76,489
Deferred tax assets	5(d)	—	—	2,680	2,680
Total non-current assets		729,760	1,538,375	2,415,609	2,686,875
Current assets					
Inventories		1,463	5,013	9,646	6,775
Trade and other receivables	16	82,089	167,786	126,676	284,463
Receivables under finance lease	14	—	928	1,872	1,872
Income tax recoverable	5(c)	4,101	8,973	130	10,278
Pledged bank deposits	17	37,652	154,530	227,422	231,546
Cash and cash equivalents	18	119,347	169,562	28,463	232,824
Total current assets		244,652	506,792	394,209	767,758
Current liabilities					
Bank and other loans	19	157,334	316,754	500,262	560,115
Trade and other payables	20	117,031	317,092	572,710	515,064
Obligations under finance leases	21	2,963	2,963	2,963	3,077
Convertible loans	22	81,306	—	—	—
Convertible redeemable preferred shares . . .	23	142,675	161,668	141,224	156,500
Dividends payable		26,930	—	—	—
Income tax payable	5(c)	—	2,859	7,057	12,230
Amount due to a shareholder	27(b)	1,777	—	—	—
Total current liabilities		530,016	801,336	1,224,216	1,246,986
Net current liabilities		(285,364)	(294,544)	(830,007)	(479,228)
Total assets less current liabilities		444,396	1,243,831	1,585,602	2,207,647
Non-current liabilities					
Bank and other loans	19	130,000	417,760	400,350	746,780
Obligations under finance lease	21	30,477	29,952	29,385	30,515
Deferred tax liabilities	5(d)	—	—	10,991	16,952
Total non-current liabilities		160,477	447,712	440,726	794,247
Net assets		283,919	796,119	1,144,876	1,413,400
Equity					
Share capital	25	—	—	—	—
Reserves	26	269,533	782,899	1,133,129	1,365,616
Total equity attributable to equity holders of the Company		269,533	782,899	1,133,129	1,365,616
Minority interests		14,386	13,220	11,747	47,784
Total equity		283,919	796,119	1,144,876	1,413,400

The accompanying notes form part of the Financial Information.

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ACCOUNTANTS' REPORT

3 COMBINED STATEMENTS OF CHANGES IN EQUITY

Section C Note	Attributable to equity holders of the Company					Minority interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 25)	Statutory reserve RMB'000 (Note 26(a))	Other reserve RMB'000 (Note 26(b))	Retained earnings RMB'000 (Note 26(c))	Total RMB'000		
At 1 January 2006	—	24,896	150,364	18,249	193,509	153,685	347,194
Total comprehensive income for the year	—	—	—	(6,729)	(6,729)	30,733	24,004
Appropriation	—	14,636	—	(14,636)	—	—	—
Capital injections	—	—	14,790	—	14,790	(14,767)	23
Acquisition of a subsidiary	—	—	—	—	—	15,761	15,761
Acquisition of minority interests	—	—	(100,858)	—	(100,858)	(171,026)	(271,884)
Conversion of USD20,200,000 loan facility	—	—	49,760	—	49,760	—	49,760
Equity component of convertible redeemable preferred shares	—	—	106,544	—	106,544	—	106,544
Equity settled share-based transactions	—	—	12,517	—	12,517	—	12,517
At 31 December 2006	—	39,532	233,117	(3,116)	269,533	14,386	283,919
At 1 January 2007	—	39,532	233,117	(3,116)	269,533	14,386	283,919
Total comprehensive income for the year	—	—	—	177,049	177,049	(1,166)	175,883
Capital injections	—	—	290,399	—	290,399	—	290,399
Conversion of USD2,000,000 Subscription Agreement	—	—	36,397	—	36,397	—	36,397
Equity settled share-based transactions	—	—	1,259	—	1,259	—	1,259
Exercise of share options	—	—	8,262	—	8,262	—	8,262
At 31 December 2007	—	39,532	569,434	173,933	782,899	13,220	796,119
At 1 January 2008	—	39,532	569,434	173,933	782,899	13,220	796,119
Total comprehensive income for the year	—	—	—	430,133	430,133	(1,473)	428,660
Dividends declared during the year	—	—	—	(79,903)	(79,903)	—	(79,903)
At 31 December 2008	—	39,532	569,434	524,163	1,133,129	11,747	1,144,876
At 1 January 2009	—	39,532	569,434	524,163	1,133,129	11,747	1,144,876
Total comprehensive income for the period	—	—	—	232,487	232,487	37	232,524
Capital injections	—	—	—	—	—	36,000	36,000
At 30 June 2009	—	39,532	569,434	756,650	1,365,616	47,784	1,413,400
Unaudited							
At 1 January 2008	—	39,532	569,434	173,933	782,899	13,220	796,119
Total comprehensive income for the period	—	—	—	200,721	200,721	(523)	200,198
Dividends declared during the period	—	—	—	(79,903)	(79,903)	—	(79,903)
At 30 June 2008	—	39,532	569,434	294,751	903,717	12,697	916,414

The accompanying notes form part of the Financial Information.

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4 COMBINED CASH FLOW STATEMENTS

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
Operating activities						
Profit before taxation		24,004	183,938	467,852	221,687	236,758
Adjustments for:						
Depreciation		32,088	48,601	75,903	33,117	52,983
Amortisation		924	1,065	994	480	512
Finance income		(5,307)	(27,899)	(36,469)	(12,979)	(2,771)
Finance costs		161,201	95,963	58,492	26,563	44,030
Equity settled share-based transactions		6,187	7,589	—	—	—
Net loss/(gain) on disposal of property, plant and equipment		—	21	104	—	(10)
		219,097	309,278	566,876	268,868	331,502
Decrease/(increase) in inventories		468	(3,550)	(4,633)	495	2,871
(Increase)/decrease in trade and other receivables		(32,189)	(64,863)	22,622	38,232	(110,985)
Increase/(decrease) in trade and other payables		11,256	26,701	7,581	(8,132)	(4,308)
		198,632	267,566	592,446	299,463	219,080
Interest received		268	2,350	5,291	1,993	1,798
Interest paid		(12,617)	(45,345)	(66,096)	(27,907)	(31,817)
Income tax paid		(4,101)	(15,266)	(29,589)	(12,337)	(9,183)
Income tax refund		—	5,198	11,749	3,334	5,935
Net cash generated from operating activities		182,182	214,503	513,801	264,546	185,813
Investing activities						
Capital expenditure		(91,291)	(698,165)	(670,023)	(361,416)	(382,015)
Increase in pledged bank deposits		(37,652)	(116,878)	(72,892)	(9,966)	(4,124)
Payment for acquisition of minority interests	26(b)	(271,884)	—	—	—	—
Payment for acquisition of a subsidiary, net of cash acquired (Note (b))		(16,041)	—	—	—	—
Proceeds from disposal of property, plant and equipment		—	—	—	—	177
Collection of receivables under finance lease		—	—	1,904	907	994
Net cash used in investing activities		(416,868)	(815,043)	(741,011)	(370,475)	(384,968)

The accompanying notes form part of the Financial Information.

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	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Financing activities						
Proceeds from bank and other loans		226,000	644,000	580,700	248,500	773,200
Repayment of bank and other loans		(131,000)	(194,050)	(414,690)	(153,050)	(369,610)
Proceeds from the USD20,200,000 loan facility	22(a)	161,653	—	—	—	—
Repayment of the USD20,200,000 loan facility	22(a)	(50,239)	(65,606)	—	—	—
Proceeds from the USD2,000,000 Subscription Agreement	22(b)	15,617	—	—	—	—
Proceeds from issuance of convertible redeemable preferred shares	23	112,036	—	—	—	—
Advances/loans from shareholders		—	83,617	1,415	1,415	—
Repayment of advances from minority shareholders		—	(13,174)	—	—	—
Repayment of advances/loans from shareholders		—	(75,652)	(1,400)	(1,400)	—
Capital injections from equity holders of the Company ...	26(b)	23	290,399	—	—	—
Proceeds from exercise of share options	24	—	2,141	—	—	—
Dividends paid (Note (c))		—	(20,176)	(79,903)	(79,903)	—
Net cash generated from financing activities		<u>334,090</u>	<u>651,499</u>	<u>86,122</u>	<u>15,562</u>	<u>403,590</u>
Net increase/(decrease) in cash and cash equivalents		99,404	50,959	(141,088)	(90,367)	204,435
Cash and cash equivalents at beginning of year/period		20,095	119,347	169,562	169,562	28,463
Effect of foreign exchange rate changes		(152)	(744)	(11)	(77)	(74)
Cash and cash equivalents at end of year/period	18	<u>119,347</u>	<u>169,562</u>	<u>28,463</u>	<u>79,118</u>	<u>232,824</u>

The accompanying notes form part of the Financial Information.

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(a) Major non-cash transactions

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sale of unlisted equity security	i	14,985	—	—	—	—
Conversion of USD20,200,000 loan facility	ii	49,760	—	—	—	—
Conversion of USD2,000,000 Subscription Agreement	iii	—	36,397	—	—	—
Repayment of loans from shareholders	iv	—	6,121	—	—	—
Capital injection from minority shareholder	v	—	—	—	—	36,000

- (i) In March 2004, the Group acquired 18% equity interest in Anhui Torch Energy and Chemicals Co., Ltd. ("Anhui Torch"), an unlisted company in the PRC. Pursuant to an agreement for disposal of equity interest in Anhui Torch signed between the Group and a shareholder in 2006, consideration receivable for the sale of investment in Anhui Torch, amounting to RMB14,985,000, was applied to set off the amount due to the shareholder and dividend payable of RMB5,364,000 and RMB9,621,000 respectively, during the year ended 31 December 2006.
- (ii) On 29 December 2006, Loan C of USD20,200,000 loan facility and the interest accrued thereon were converted into 502 ordinary shares of Yingde BVI (see Note 22(a)).
- (iii) On 29 June 2007, the USD2,000,000 Subscription Agreement was converted into 102 ordinary shares of Yingde BVI (see Note 22(b)).
- (iv) On 11 November 2007, part of the loans from shareholders amounting to RMB6,121,000 was applied to settle the consideration payable for shares issued upon the exercise of share options (see Notes 24(a) and (b)).
- (v) In March 2009, the minority shareholder of Hengyang Yingde contributed certain production facilities to Hengyang Yingde for payment of capital amounting to RMB36,000,000.

(b) Acquisition of a subsidiary

In May 2006, the Group entered into an agreement to acquire 75% equity interest of Zhangjiagang Yingde. The net assets of Zhangjiagang Yingde acquired were as following:

	RMB'000
Cash and cash equivalents acquired	559
Inventories	11
Prepayment for equipment	18,487
Intangible assets	12,173
Property, plant and equipment	237
Construction in progress	949
Other receivables	16
Trade and other payables	(71)
Minority interest	(15,761)
Total purchase price	16,600
Less: cash and cash equivalents acquired	(559)
Net cash outflow on acquisition	16,041

(c) Dividends paid

Dividends of RMB20,176,000 paid during the year ended 31 December 2007 represent dividends declared in 2005 by certain subsidiaries of the Company.

Dividends of RMB79,903,000 were declared and paid by Yingde BVI during the year ended 31 December 2008.

The accompanying notes form part of the Financial Information.

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C NOTES TO THE FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards ("IASs") and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C Note 1.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the Relevant Period. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Period are set out in Note 31.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the relevant rules and regulations.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of combination

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis except derivative financial instruments (see Note 1(h)) that are stated at their fair value.

(d) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 December 2006, 2007 and 2008 and 30 June 2009. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the eighteen months period ending 31 December 2010, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(e) Use of estimates and judgements

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 30.

(f) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the combined statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loan from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheet in accordance with Notes 1(p) or (r) depending on the nature of the liability.

(g) Other investment in equity securities

Investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see Note 1(l)).

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 1(l)).

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Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost less impairment losses (see Note 1(l)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see Note 1(y)). The construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant PRC authorities.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	15-20 years
Plant and machinery	10-20 years
Motor vehicles, office equipment and others	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses (see Note 1(l)). Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 5 to 20 years.

(k) Lease

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

APPENDIX I**ACCOUNTANTS' REPORT****(ii) Assets acquired under finance leases**

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iv) Receivables under finance lease

Where the Group leased out assets under finance leases, the initial direct costs incurred on such assets are recorded as receivables under finance leases. Finance income implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the receivables for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(v) Lease prepayments

Lease prepayments represent the purchase costs of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (Note 1(l)). Amortisation is charged to profit or loss on a straight line basis over the period of the land use rights.

(l) Impairment of assets**(i) Impairment of investments in equity securities and other receivables**

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impaired loss previously recognised no longer exist or may have decreased:

- property, plant and equipment
- construction in progress
- lease prepayments
- intangible assets
- other non-current assets (excluding receivables)

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely

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independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses of doubtful debts.

(o) Convertible notes

- (i) Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

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At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the note is converted or redeemed.

If the note is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the other reserve is released directly to retained profits.

(ii) Other convertible notes

Convertible notes which do not contain an equity component (when the conversion option can be settled other than by issuance of a fixed number of shares for a fixed amount of cash) are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see Note 1(h)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with Note 1(h). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Preferred shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option and any dividends are discretionary. Dividends on preferred shares classified as equity are recognised as distributions within equity.

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Preferred shares are classified as liabilities if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for derivative financial instruments and interest-bearing borrowings set out in Notes 1(h) and (p) respectively. Non-discretionary dividends on preferred shares are recognised on an accrual basis in profit or loss as part of finance costs.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(t) Employee benefits**(i) Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

Obligations for contributions to PRC local government defined contribution retirement plans pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss when incurred.

(ii) Share-based payment transactions

The fair value of share options granted to employees is recognised as an employees cost with a corresponding increase in an other reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that are expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

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(u) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Financial guarantees issued, provisions and contingent liabilities**(i) Financial guarantees issued**

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(v)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when gas products are delivered at the customers' premises or collected by the customers which is taken to be the point in time when the customer has

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accepted the gas products and the related risks and rewards of ownership. Revenue excludes value added tax and other sales tax and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(x) Translation of foreign currencies

Foreign currency transactions during the period are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable PBOC rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using applicable PBOC rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the applicable PBOC rates ruling at the dates the fair value was determined.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(z) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive

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management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group is engaged in the production and sales of industrial gases in the PRC. Although the industrial gases are sold to on-site and merchant customers, the Group's most senior executive management regularly review their combined financial information to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

Substantially all of the Group's external customers and non-current assets are located in the PRC.

2 TURNOVER

The Group is principally engaged in the production and sales of industrial gases in the PRC. Turnover represents the aggregate of the invoiced value of goods sold, net of value added tax ("VAT").

During the year ended 31 December 2006, the Group had four customers that individually exceeded 10% of the Group's turnover, being RMB106,141,000, RMB89,809,000, RMB88,190,000 and RMB67,601,000 respectively.

During the year ended 31 December 2007, the Group had five customers that individually exceeded 10% of the Group's turnover, being RMB118,717,000, RMB105,204,000, RMB103,276,000, RMB102,407,000 and RMB82,397,000 respectively.

During the year ended 31 December 2008, the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB303,640,000, RMB209,773,000 and RMB144,529,000 respectively.

During the six months ended 30 June 2009, the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB222,662,000, RMB110,694,000 and RMB106,225,000 respectively.

During the six months ended 30 June 2008 (unaudited), the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB132,432,000, RMB109,779,000 and RMB63,633,000 respectively.

Details of concentration of credit risk arising from the customers are set out in Note 29(a).

3 OTHER REVENUE

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Refund of VAT	1,037	987	1,346	499	—
Others	—	—	6	—	208
	<u>1,037</u>	<u>987</u>	<u>1,352</u>	<u>499</u>	<u>208</u>

Pursuant to a notice issued in 2003 by the relevant government authority in Loudi, Hunan Province, for the encouragement of foreign investments, Hunan Yingde applied and got approval for the refund of VAT paid during the Relevant Period.

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4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance income/(costs)

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income	268	2,350	5,291	2,701	1,798
Finance income on receivables under finance lease	—	—	1,555	742	796
Termination gain on conversion of USD2,000,000 Subscription Agreement (Note 22(b))	—	12,478	—	—	—
Fair value adjustment on convertible redeemable preferred shares (Note 23)	—	—	21,301	1,724	—
Foreign currency exchange gain	5,039	13,071	8,322	7,812	177
Finance income	5,307	27,899	36,469	12,979	2,771
Interest on bank and other loans	(12,509)	(42,575)	(66,184)	(30,454)	(34,510)
Finance charges on obligations under finance lease	(2,318)	(2,675)	(2,633)	(1,317)	(1,244)
Interest on the liability component of USD20,200,000 loan facility (Note 22(a))	(3,424)	(489)	—	—	—
Interest on the liability component of USD2,000,000 Subscription Agreement (Note 22(b))	—	(314)	—	—	—
Interest on the liability component of convertible redeemable preferred shares (Note 23)	(7,766)	(9,752)	(9,148)	(4,555)	(4,373)
Total interest expense	(26,017)	(55,805)	(77,965)	(36,326)	(40,127)
Less: borrowing costs capitalised	36	12,843	22,200	10,632	7,213
	(25,981)	(42,962)	(55,765)	(25,694)	(32,914)
Fair value adjustment on the derivative component of USD20,200,000 loan facility (Note 22(a))	(2,493)	—	—	—	—
Fair value adjustment on the derivative component of USD2,000,000 Subscription Agreement (Note 22(b))	—	(33,327)	—	—	—
Fair value adjustment on convertible redeemable preferred shares (Note 23)	(76,406)	(17,483)	—	—	(10,953)
Termination loss on conversion of USD20,200,000 loan facility (Note 22(a))	(1,117)	—	—	—	—
Loss on modification of terms of convertible redeemable preferred shares (Note 23)	(55,041)	—	—	—	—
Foreign currency exchange loss	(163)	(2,191)	(2,727)	(869)	(163)
Finance costs	(161,201)	(95,963)	(58,492)	(26,563)	(44,030)
	(155,894)	(68,064)	(22,023)	(13,584)	(41,259)

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During the Relevant Period, borrowing costs have been capitalised at the following rates:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008 (unaudited)	2009
Capitalisation rate (per annum)	<u>6.3%</u>	<u>6.3%-8.4%</u>	<u>5.7%-8.5%</u>	<u>7.5%-8.4%</u>	<u>5.4%-7.9%</u>

(b) Staff costs

	Years ended 31 December			Six months ended 30 June	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
Salaries, wages, bonuses and benefits	13,393	29,927	48,162	20,834	34,310
Contributions to defined contribution retirement schemes	313	1,334	2,794	1,081	1,474
Equity settled share-based payment expenses (Note 24)	<u>6,187</u>	<u>7,589</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>19,893</u>	<u>38,850</u>	<u>50,956</u>	<u>21,915</u>	<u>35,784</u>

Staff costs included directors' remuneration (see Note 8).

Pursuant to the relevant labour rules and regulations in the PRC, the companies now comprising the Group participate in defined contribution retirement benefit schemes ("the Schemes") organised by the respective local government authorities whereby the Group is required to make contributions to the Schemes at rates in the range of 10% to 22% of the eligible employees' salaries during the Relevant Period.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) Other items

	Years ended 31 December			Six months ended 30 June	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
Electricity	213,771	371,900	718,419	304,926	513,045
Depreciation	32,088	48,601	75,903	33,117	52,983
Amortisation					
Land lease premium	7	433	352	162	181
Intangible assets	917	632	642	318	331
Auditors' remuneration					
Audit service	966	93	108	66	79
Non-audit service	640	—	—	—	—
Consulting fees (Note (i))	4,614	5,666	1,540	232	119
Operating lease charges: minimum lease payment (Note (ii))	2,915	2,241	4,452	2,179	2,243
Net loss/(gain) on disposal of property, plant and equipment	—	21	104	—	(10)
Management fee (Note 28(d))	117	4,401	3,500	1,162	468
Penalty (Note (iii))	1,405	1,252	111	81	—
Impairment loss					
Trade and other receivables	—	—	10,721	—	—
Prepayment for equipment	—	—	2,395	—	—
Provision/(write-back) of claims (Note (iv))	<u>1,800</u>	<u>700</u>	<u>(2,020)</u>	<u>(2,020)</u>	<u>—</u>

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Notes:

- (i) Consulting fees represent fees paid to independent third parties for investment consulting and financing advisory services.
- (ii) Operating lease charges represent payment for lease of land and buildings.
- (iii) Penalty in 2006 included an amount of RMB1,400,000 paid to Industrial and Commercial Administration Bureau in the PRC due to the production at Hunan Yingde without an approved production certificate before March 2006. Hunan Yingde obtained the production certificate in June 2006.
- Penalty in 2007 included an amount of RMB1,100,000 paid to the local custom department due to the pledge of certain duty free imported machineries for bank loans without approval by the local custom department.
- (iv) Nanjing Xingang consumed argon fraction for the production of industrial argon gas. Due to the shortage of argon fraction, Nanjing Xingang could not produce sufficient gas as agreed in the sales contract. Claims were brought by the customer against Nanjing Xingang and, based on the legal advice, provisions for claims of RMB1,800,000 and RMB700,000 were accrued during the years ended 31 December 2006 and 2007, respectively.
- Upon the completion of negotiations with the customer, Nanjing Xingang and the customer agreed to terminate the sales contract in June 2008 and a termination fee of RMB480,000 was subsequently paid to the customer. Accordingly, a write-back of provision for claim amounting to RMB2,020,000 was credited to the profit or loss during the year ended 31 December 2008.

5 INCOME TAX

(a) Income tax in the combined statement of comprehensive income represents:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current income tax					
Provision/(write-back) for the year/period	—	8,055	30,881	16,356	(1,727)
Deferred tax					
Origination of temporary differences	—	—	8,311	5,133	5,961
	<u>—</u>	<u>8,055</u>	<u>39,192</u>	<u>21,489</u>	<u>4,234</u>

(b) Reconciliation between actual income tax expense and profit before taxation at applicable tax rates:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	<u>24,004</u>	<u>183,938</u>	<u>467,852</u>	<u>221,687</u>	<u>236,758</u>
Expected PRC income tax expense at the statutory tax rate of 33%/25% (Note (iii))	7,921	60,699	116,963	55,422	59,190
Tax effect of non-deductible expenses	2,332	4,621	4,672	1,989	5,384
Differential tax rate on subsidiaries' income (Notes (i), (ii) and (iii))	9,697	(34,806)	(93,434)	(41,055)	(47,807)
Tax credit of domestic equipment purchases (Note (iv))	(19,950)	(22,459)	—	—	(18,494)
Tax on distributable profits of subsidiaries in the PRC (Note (v))	—	—	10,991	5,133	5,961
Actual income tax expense	<u>—</u>	<u>8,055</u>	<u>39,192</u>	<u>21,489</u>	<u>4,234</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the Relevant Period.

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- (iii) Prior to 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Zhuhai Yingde, being an entity located in the designated Special Economic Zone, was entitled to a preferential income tax rate of 15%. Nanjing Xingang and Tianjin Yingde, being entities located in the old urban districts in which Economic and Technological Development Zones are located, were entitled to a preferential income tax rate of 24%. In addition, certain of the Group's PRC subsidiaries, being production-oriented foreign investment enterprises under the Foreign Enterprise Income Tax law and its implementation rules, were each entitled to a tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from their respective first profit-making year after offsetting accumulated tax losses, if any ("2+3 tax holiday").

The preferential tax treatment entitlements of the Group's subsidiaries in the PRC before 1 January 2008 were as follows:

Name of company	Tax rate applicable to the company	2+3 tax holiday period	Tax rate during the 2+3 tax holiday period	
			1st and 2nd year	3rd, 4th and 5th year
Hunan Yingde	33%	2003-2007	Exempted	15%
Zhuhai Yingde	15%	2005-2009	Exempted	7.5%
Jiangsu Yingde	33%	2004-2008	Exempted	15%
Nanjing Xingang	24%	2007-2011	Exempted	12%
Shaanxi Yingde	33%	2004-2008	Exempted	15%
Tianjin Yingde	24%	2006-2010	Exempted	12%

In addition, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Huai'an Yingde and Laiwu Yingde were also entitled to the 2+3 tax holiday.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which has been effective on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC is reduced from 33% to 25%. Detailed rules for implementation of the new tax law and the grandfathering relief under the new tax law were announced in December 2007 and February 2008. The grandfathering relief allows entities which were established before 16 March 2007 and which were entitled to the 2+3 tax holiday under the then effective tax laws and regulations continue to enjoy the 2+3 tax holiday until they expire. It also requires the 2+3 tax holiday to start from 1 January 2008 should they be not started prior to 1 January 2008.

From 1 January 2008, the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 25%. Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde continue to enjoy the 2+3 tax holiday with reference to the new statutory income tax rate until they expire. Further, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Huai'an Yingde and Laiwu Yingde started their 2+3 tax holiday on 1 January 2008.

- (iv) Before 31 December 2007, certain subsidiaries in the PRC obtained the approval of income tax credit for purchasing qualified domestic equipment from the local tax authorities in accordance with the relevant tax regulations issued by the State Administration of Taxation. The tax credits utilised for the years ended 31 December 2006 and 2007 were RMB19,950,000 and RMB22,459,000 respectively. Pursuant to Guoshuifa [2008] No.52 issued by the State Administration of Taxation in May 2008, such tax credit policy ceased to be effective since 1 January 2008. During the six months ended 30 June 2009, certain subsidiaries utilised the unused tax credit of RMB18,494,000 granted by the relevant local tax authorities prior to 31 December 2007.
- (v) The new tax law and the relevant regulations impose a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside mainland China for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

(c) Income tax (recoverable)/payable in the combined balance sheet represents:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	—	(4,101)	(6,114)	6,927
Provision/(write-back) for PRC income tax for the year/period	—	8,055	30,881	(1,727)
PRC income tax paid	(4,101)	(15,266)	(29,589)	(9,183)
PRC income tax refund	—	5,198	11,749	5,935
At 31 December/30 June	<u>(4,101)</u>	<u>(6,114)</u>	<u>6,927</u>	<u>1,952</u>
<i>Representing:</i>				
Income tax recoverable	(4,101)	(8,973)	(130)	(10,278)
Income tax payable	—	2,859	7,057	12,230
	<u>(4,101)</u>	<u>(6,114)</u>	<u>6,927</u>	<u>1,952</u>

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(d) Deferred tax assets/liabilities recognised

- (i) The components of deferred tax (assets)/liabilities recognised in the combined balance sheet and the movements during the Relevant Period are set out as follows:

Deferred tax arising from:

	Allowance for doubtful debts	Profits expected to distribute	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—
Charged to profit or loss	—	—	—
At 31 December 2006	—	—	—
At 1 January 2007	—	—	—
Charged to profit or loss	—	—	—
At 31 December 2007	—	—	—
At 1 January 2008	—	—	—
(Credited)/charged to profit or loss	(2,680)	10,991	8,311
At 31 December 2008	(2,680)	10,991	8,311
At 1 January 2009	(2,680)	10,991	8,311
Charged to profit or loss	—	5,961	5,961
At 30 June 2009	(2,680)	16,952	14,272

- (ii) Reconciliation to the combined balance sheet

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax asset recognised on the combined balance sheet	—	—	2,680	2,680
Net deferred tax liability recognised on the combined balance sheet	—	—	(10,991)	(16,952)
	—	—	(8,311)	(14,272)

Deferred tax liabilities on undistributed profits represent temporary differences relating to the distributable profits accumulated since 1 January 2008 of the Group's subsidiaries in the PRC that are expected to be distributed in the foreseeable future.

(e) Deferred tax assets/liabilities not recognised

As at 31 December 2008 and 30 June 2009, temporary differences relating to the distributable profits accumulated since 1 January 2008 of the Group's subsidiaries in the PRC, that are not expected to be distributed in the foreseeable future, amounted to approximately RMB373,284,000 and RMB561,254,000, respectively. Deferred tax liabilities of approximately RMB37,328,000 and RMB56,125,000 as at 31 December 2008 and 30 June 2009 respectively have not been recognised in respect of the tax that would be payable on distribution of these retained earnings as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

There were no other significant temporary differences relating to deferred tax assets or liabilities as at 31 December 2006, 2007 and 2008 and 30 June 2009.

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6 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Dividends for the year ended 31 December 2008 represent dividends declared and paid by Yingde BVI to its then shareholders.

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Yingde BVI	<u>—</u>	<u>—</u>	<u>79,903</u>	<u>79,903</u>	<u>—</u>

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

The directors consider that the dividend payments made during the Relevant Period are not indicative of the future dividend policy of the Company.

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to ordinary equity holders of the Company for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 and 1,270,000,000 ordinary shares of the Company in issue pursuant to the Reorganisation as if these shares were outstanding throughout the entire Relevant Period.

Since the impact on (loss)/earnings of conversion of convertible redeemable preferred shares to ordinary shares is greater than that on the weighted average number of ordinary shares during the years ended 31 December 2006 and 2007, and the six months ended 30 June 2009, they are treated as anti-dilutive in the respective periods. As a result, the calculation of diluted (loss)/earnings per share does not assume conversion of convertible redeemable preferred shares during the years ended 31 December 2006 and 2007, and the six months ended 30 June 2009.

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

(i) (Loss)/earnings

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(Loss)/profit attributable to equity holders of the Company	(6,729)	177,049	430,133	200,721	232,487
Loss/(profit) attributable to the holders of convertible redeemable preferred shares	<u>916</u>	<u>(24,088)</u>	<u>(58,521)</u>	<u>(27,309)</u>	<u>(31,631)</u>
(Loss)/profit attributable to ordinary equity holders of the Company (basic)	<u>(5,813)</u>	<u>152,961</u>	<u>371,612</u>	<u>173,412</u>	<u>200,856</u>
Profit attributable to the holders of convertible redeemable preferred shares			58,521	27,309	
After tax effect of income recognised in respect of convertible redeemable preferred shares			<u>(20,444)</u>	<u>(4,966)</u>	
(Loss)/profit attributable to ordinary equity holders of the Company (diluted)			<u>409,689</u>	<u>195,755</u>	

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(ii) Number of shares

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	'000	'000	'000	'000 (unaudited)	'000
Weighted average number of ordinary shares (basic)	<u>1,270,000</u>	<u>1,270,000</u>	1,270,000	1,270,000	<u>1,270,000</u>
Effect of convertible redeemable preferred shares			<u>200,000</u>	<u>200,000</u>	
Weighted average number of ordinary shares (diluted) . . .			<u>1,470,000</u>	<u>1,470,000</u>	

8 DIRECTORS' REMUNERATION

Details of directors' remuneration of the Company are set out below:

	Year ended 31 December 2006				
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Directors</i>					
Zhongguo Sun	—	379	—	—	—
Zhao Xiangti	—	—	—	—	1,333
Chen Yan	—	70	—	—	—
<i>Non-executive director</i>					
Chen Da Cin	—	—	—	—	—
<i>Independent non-executive directors</i>					
Xu Zhao	—	—	—	—	—
Zheng Fuya	—	—	—	—	—
Kam Son Leong	—	—	—	—	—
Total	<u>—</u>	<u>449</u>	<u>—</u>	<u>—</u>	<u>1,333</u>
					<u>1,782</u>

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Year ended 31 December 2007						
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Directors</i>						
Zhongguo Sun	—	633	900	—	—	1,533
Zhao Xiangti	—	399	—	19	—	418
Chen Yan	—	109	500	—	—	609
<i>Non-executive director</i>						
Chen Da Cin	—	—	—	—	—	—
<i>Independent non-executive directors</i>						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	1,141	1,400	19	—	2,560
Year ended 31 December 2008						
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Directors</i>						
Zhongguo Sun	—	1,351	—	—	—	1,351
Zhao Xiangti	—	685	—	22	—	707
Chen Yan	—	492	500	—	—	992
<i>Non-executive director</i>						
Chen Da Cin	—	—	—	—	—	—
<i>Independent non-executive directors</i>						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	2,528	500	22	—	3,050
Six months ended 30 June 2009						
	Fees	Basic salaries, allowances and other benefit	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Directors</i>						
Zhongguo Sun	—	600	—	—	—	600
Zhao Xiangti	—	342	—	15	—	357
Chen Yan	—	246	—	—	—	246
<i>Non-executive director</i>						
Chen Da Cin	—	—	—	—	—	—
<i>Independent non-executive directors</i>						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	1,188	—	15	—	1,203

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Six months ended 30 June 2008 (unaudited)						
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Directors</i>						
Zhongguo Sun	—	600	—	—	—	600
Zhao Xiangti	—	342	—	11	—	353
Chen Yan	—	123	—	—	—	123
<i>Non-executive director</i>						
Chen Da Cin	—	—	—	—	—	—
<i>Independent non-executive directors</i>						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	1,065	—	11	—	1,076

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the non-director highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director or any of the non-director highest paid individuals waived or agreed to waive any remuneration during the Relevant Period.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two, one, one, two (unaudited) and one directors during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively, whose emolument is disclosed in Note 8. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Basic salaries, allowances and other benefits ..	632	3,524	3,425	1,742	2,197
Bonus	—	1,670	2,580	—	—
Equity settled share-based payments	529	1,259	—	—	—
Contributions to retirement benefit schemes ...	21	18	79	—	20
	<u>1,182</u>	<u>6,471</u>	<u>6,084</u>	<u>1,742</u>	<u>2,217</u>

The emoluments of these individuals are within the following bands:

	Number of individuals				
	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008 (unaudited)	2009
Nil to HKD1,000,000 (Nil to RMB882,000)	2	—	—	—	1
HKD1,000,000 to HKD1,500,000 (RMB882,000 to RMB1,323,000)	1	1	1	3	3
HKD1,500,000 to HKD2,500,000 (RMB1,323,000 to RMB2,205,000)	—	3	3	—	—
	<u>3</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>4</u>

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10 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles, office equipment and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January 2006	22,681	569,137	8,144	599,962
Acquisition of a subsidiary	—	—	237	237
Additions	—	41,081	2,773	43,854
Transferred from construction in progress	—	35,929	—	35,929
At 31 December 2006	22,681	646,147	11,154	679,982
At 1 January 2007	22,681	646,147	11,154	679,982
Additions	105	32,425	10,607	43,137
Transferred from construction in progress	30,226	487,325	—	517,551
Disposal	(671)	—	(88)	(759)
At 31 December 2007	52,341	1,165,897	21,673	1,239,911
At 1 January 2008	52,341	1,165,897	21,673	1,239,911
Additions	25	11,432	3,193	14,650
Transferred from construction in progress	8,181	682,352	—	690,533
Disposal	—	(438)	(95)	(533)
At 31 December 2008	60,547	1,859,243	24,771	1,944,561
At 1 January 2009	60,547	1,859,243	24,771	1,944,561
Additions	—	55,147	10,417	65,564
Transferred from construction in progress	65,708	346,480	—	412,188
Disposal	—	—	(304)	(304)
At 30 June 2009	126,255	2,260,870	34,884	2,422,009
Accumulated depreciation:				
At 1 January 2006	(1,528)	(33,377)	(1,964)	(36,869)
Charge for the year	(1,080)	(29,282)	(1,726)	(32,088)
At 31 December 2006	(2,608)	(62,659)	(3,690)	(68,957)
At 1 January 2007	(2,608)	(62,659)	(3,690)	(68,957)
Charge for the year	(2,411)	(43,061)	(3,129)	(48,601)
Written back on disposal	671	—	67	738
At 31 December 2007	(4,348)	(105,720)	(6,752)	(116,820)
At 1 January 2008	(4,348)	(105,720)	(6,752)	(116,820)
Charge for the year	(2,174)	(69,658)	(4,071)	(75,903)
Written back on disposal	—	40	90	130
At 31 December 2008	(6,522)	(175,338)	(10,733)	(192,593)
At 1 January 2009	(6,522)	(175,338)	(10,733)	(192,593)
Charge for the period	(1,645)	(49,334)	(2,004)	(52,983)
Written back on disposal	—	—	137	137
At 30 June 2009	(8,167)	(224,672)	(12,600)	(245,439)
Carrying amount:				
At 31 December 2006	20,073	583,488	7,464	611,025
At 31 December 2007	47,993	1,060,177	14,921	1,123,091
At 31 December 2008	54,025	1,683,905	14,038	1,751,968
At 30 June 2009	118,088	2,036,198	22,284	2,176,570

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- (a) All the Group's property, plant and equipment are located in the PRC.
- (b) As at 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group's bank and other loans were secured by the Group's plant and machinery with net book value of RMB283,780,000, RMB336,157,000, RMB541,360,000 and RMB617,981,000, respectively.
- (c) Certain of the Group's leased plant and machinery are considered as being held under finance lease (see Note 21). The lease term is 25 years and represents a major part of the economic life of the leased plant and machinery. Net book value of plant and machinery held under finance lease was as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Net book value of plant and machinery held under finance lease	31,725	30,103	28,480	27,669

- (d) The Group has entered into long-term gas supply agreements with certain customers for periods of 15 to 25 years. Certain of the Group's buildings are located on land leased from these customers for periods of 15 to 25 years. Accordingly, building ownership certificate is not obtained in respect of such buildings. The carrying value of such buildings amounted to RMB10,924,000, RMB29,950,000, RMB33,444,000 and RMB44,425,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively.
- (e) As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group was in the process of applying for the ownership certificate for certain buildings with an aggregate net book value amounting to RMB6,373,000, RMB15,006,000, RMB11,439,000 and RMB20,415,000, respectively. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use of the above mentioned buildings.

11 CONSTRUCTION IN PROGRESS

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	27,274	14,948	291,874	488,655
Acquisition of a subsidiary	949	—	—	—
Additions	22,654	800,441	896,624	314,826
Transferred to property, plant and equipment	(35,929)	(517,551)	(690,533)	(412,188)
Transferred to receivables under finance leases	—	(5,964)	(9,310)	—
At 31 December/30 June	14,948	291,874	488,655	391,293

12 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Land use rights held under long term leases	13,595	17,532	17,245	17,064

The land use rights are amortised on a straight-line basis over the operating lease periods of 50 years.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group's bank and other loans were secured by the Group's land use rights with net book value of RMB6,419,000, RMB10,225,000, RMB17,245,000 and RMB3,308,000 respectively.

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13 INTANGIBLE ASSETS

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January	—	12,173	12,216	12,390
Acquisition of a subsidiary	12,173	—	—	—
Additions	—	43	174	56
At 31 December/30 June	12,173	12,216	12,390	12,446
Accumulated amortisation:				
At 1 January	—	(917)	(1,549)	(2,191)
Charge for the year/period	(917)	(632)	(642)	(331)
At 31 December/30 June	(917)	(1,549)	(2,191)	(2,522)
Carrying amount:				
At 31 December/30 June	11,256	10,667	10,199	9,924

Intangible assets mainly represent patented technology in Zhangjiagang Yingde which is amortised over 20 years, the operating period of Zhangjiagang Yingde.

14 RECEIVABLES UNDER FINANCE LEASE

The gross investment and present value of receivables relating to future minimum lease payments under non-cancellable finance lease agreement or arrangement accounted for as finance lease are as follows:

	31 December						30 June 2009	
	2006		2007		2008			
	Present value of the minimum lease payments	Gross investment	Present value of the minimum lease payments	Gross investment	Present value of the minimum lease payments	Gross investment	Present value of the minimum lease payments	Gross investment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	928	996	1,872	1,988	1,872	1,988
After 1 year but within 2 years	—	—	813	996	1,674	1,988	1,674	1,988
After 2 years but within 5 years	—	—	1,884	2,988	4,041	5,964	4,041	5,964
After 5 years	—	—	2,339	6,972	7,338	21,276	7,140	20,282
	—	—	5,036	10,956	13,053	29,228	12,855	28,234
Total	—	—	5,964	11,952	14,925	31,216	14,727	30,222
Less: total future interest income	—	—	—	(5,988)	—	(16,291)	—	(15,495)
Present value of lease receivables	—	—	5,964	5,964	14,925	14,925	14,727	14,727

15 OTHER NON-CURRENT ASSETS

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for equipment	71,706	87,175	128,634	68,214
Prepayment for land use right	900	3,000	3,175	3,175
Deferred expenses on limited ordinary shares (Note 24(c))	6,330	—	—	—
Long term receivables	—	—	—	5,100
	78,936	90,175	131,809	76,489

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16 TRADE AND OTHER RECEIVABLES

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	67,471	92,406	108,665	165,418
Bills receivable	798	22,069	9,216	49,883
Less: allowance for doubtful debts	—	—	(10,721)	(10,721)
	68,269	114,475	107,160	204,580
Deposits and other receivables	13,820	53,311	19,516	79,883
	<u>82,089</u>	<u>167,786</u>	<u>126,676</u>	<u>284,463</u>

All of the trade and bills receivables are expected to be recovered within one year. Credit terms may be granted to customers, depending on the credit assessment carried out by the management on an individual basis. The Group does not hold any collateral over these balances.

(a) Ageing analysis

Included in trade and other receivables are trade receivables and bills receivable (net of allowance for doubtful debts) with the ageing analysis as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current	68,269	114,475	107,160	157,949
Less than 1 month past due	—	—	—	31,446
1 to 3 months past due	—	—	—	15,185
Amounts past due	—	—	—	46,631
	<u>68,269</u>	<u>114,475</u>	<u>107,160</u>	<u>204,580</u>

The credit terms for trade receivables are generally 30 to 45 days. The bills receivable are normally due within 180 days from the date of issuing. Further details on the Group's credit policy are set out in Note 29(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and other receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable directly (see Note 1(l)(i)).

The movement in the allowance for doubtful debts during the Relevant Period is as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	—	—	—	10,721
Impairment loss recognised	—	—	10,721	—
At 31 December/30 June	<u>—</u>	<u>—</u>	<u>10,721</u>	<u>10,721</u>

During the year ended 31 December 2008, a trade receivable of the Group, related to a merchant customer that was in financial difficulty, amounting to RMB10,721,000 was determined to be impaired.

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(c) Trade and bills receivables that are not impaired

Except for the specific trade receivable of RMB10,721,000 as detailed in Note 16(b), all trade and bills receivables are not impaired.

Trade and bills receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and bills receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

17 PLEDGED BANK DEPOSITS

Bank deposits are pledged to banks for issuing bank accepted bills and letters of credit to the Group.

18 CASH AND CASH EQUIVALENTS

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	119,347	169,562	28,463	232,824

The Group's cash and bank balances in the PRC amounted to RMB119,246,000, RMB158,152,000, RMB28,348,000 and RMB229,358,000 at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Included in cash and cash equivalents in the combined balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31 December			30 June
	2006	2007	2008	2009
	'000	'000	'000	'000
Hong Kong dollars	HKD13	HKD744	HKD131	HKD34,210
United States dollars	USD4,799	USD5,518	USD8	USD991

19 BANK AND OTHER LOANS

(a) The bank and other loans comprise:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	96,000	165,000	329,200	412,200
Current portion of long-term loans	61,334	151,754	171,062	147,915
	157,334	316,754	500,262	560,115
Long-term portion of long-term loans	130,000	417,760	400,350	746,780
	287,334	734,514	900,612	1,306,895

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The interest rates per annum of bank loans and other loans were:

	31 December			30 June 2009
	2006	2007	2008	
Short-term loans	5.9%-7.0%	3.6%-7.5%	2.5%-9.7%	1.7%-7.9%
Long-term loans	6.1%-10.4%	6.3%-10.4%	5.7%-10.4%	5.4%-10.4%

(b) The bank and other loans were repayable as follows:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	157,334	316,754	500,262	560,115
After 1 year but within 2 years	75,000	120,410	226,590	333,140
After 2 years but within 5 years	5,000	247,350	173,760	408,640
After 5 years	50,000	50,000	—	5,000
	<u>287,334</u>	<u>734,514</u>	<u>900,612</u>	<u>1,306,895</u>

(c) The bank and other loans were secured as follows:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
- unsecured	67,000	87,000	22,000	—
- secured	147,000	597,286	828,442	1,254,125
	<u>214,000</u>	<u>684,286</u>	<u>850,442</u>	<u>1,254,125</u>
Other loans				
- secured	73,334	50,228	50,170	52,770
	<u>287,334</u>	<u>734,514</u>	<u>900,612</u>	<u>1,306,895</u>

(d) The carrying value of assets secured for bank and other loans were as follows:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	283,780	336,157	541,360	617,981
Lease prepayments	6,419	10,225	17,245	3,308
	<u>290,199</u>	<u>346,382</u>	<u>558,605</u>	<u>621,289</u>

In addition, certain bank loans were secured by the Group's 75% equity interests in Zhuhai Yingde, Shaanxi Yingde, Tianjin Yingde and Rizhao Yingde during the Relevant Period.

(e) Guarantees

As at 31 December 2006, bank loans amounting to RMB38,000,000 were guaranteed by Torch Automobile Group Company Limited, a then shareholder of Hunan Yingde. The guarantee was released during the year ended 31 December 2007.

The Group obtained a bank loan of RMB10,000,000 under a cross guarantee arrangement between the Group and Longmen Steel Group Co., Ltd., a customer of the Group, during the year ended 31 December 2006. The cross guarantee arrangement was terminated during the year ended 31 December 2007.

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20 TRADE AND OTHER PAYABLES

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable	562	9,498	5,719	10,204
Bills payable	42,952	120,000	150,123	105,259
Payable for property, plant and equipment	42,392	151,878	369,792	361,318
Accrued expenses and other payables	31,125	35,716	47,076	38,283
	<u>117,031</u>	<u>317,092</u>	<u>572,710</u>	<u>515,064</u>

An ageing analysis of trade payables is as follows:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	269	1,533	4,851	9,675
Due after 1 month but within 3 months	176	7,965	728	109
Due after 3 months but within 6 months	117	—	140	420
	<u>562</u>	<u>9,498</u>	<u>5,719</u>	<u>10,204</u>

21 OBLIGATIONS UNDER FINANCE LEASES

Finance lease liabilities are payable as follows:

	31 December						30 June 2009	
	2006		2007		2008			
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	2,963	3,200	2,963	3,200	2,963	3,200	3,077	3,200
After 1 year but within 2 years	2,743	3,200	2,743	3,200	2,743	3,200	2,849	3,200
After 2 years but within 5 years	7,070	9,600	7,070	9,600	7,070	9,600	7,342	9,600
After 5 years	20,664	59,200	20,139	56,000	19,572	52,800	20,324	52,800
	<u>30,477</u>	<u>72,000</u>	<u>29,952</u>	<u>68,800</u>	<u>29,385</u>	<u>65,600</u>	<u>30,515</u>	<u>65,600</u>
Total	<u>33,440</u>	<u>75,200</u>	<u>32,915</u>	<u>72,000</u>	<u>32,348</u>	<u>68,800</u>	<u>33,592</u>	<u>68,800</u>
Less: total future interest expenses		(41,760)		(39,085)		(36,452)		(35,208)
Present value of lease obligations		<u>33,440</u>		<u>32,915</u>		<u>32,348</u>		<u>33,592</u>

22 CONVERTIBLE LOANS

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
USD20,200,000 loan facility (Note a)	65,689	—	—	—
USD2,000,000 Subscription Agreement (Note b)	15,617	—	—	—
	<u>81,306</u>	<u>—</u>	<u>—</u>	<u>—</u>

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(a) USD20,200,000 loan facility

	Liability component	Derivative component	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—
Issuance of USD20,200,000 loan facility	164,770	(3,117)	161,653
Interest charged during the year	3,424	—	3,424
Fair value adjustment	—	2,493	2,493
Foreign currency exchange gain	(2,999)	—	(2,999)
Repayment of Loan A	(50,239)	—	(50,239)
Conversion of Loan C	(49,267)	624	(48,643)
At 1 January 2007	65,689	—	65,689
Interest charged during the year	489	—	489
Foreign currency exchange gain	(572)	—	(572)
Repayment of Loan B	(65,606)	—	(65,606)
At 31 December 2007	—	—	—

On 23 June 2006, Yingde BVI obtained an unsecured USD20,200,000 loan facility ("USD20,200,000 loan facility") from Proper Sonic Finance Limited, an affiliate of Baring Private Equity Asia III Holding (7A) Limited. Baring Private Equity Asia III Holding (7A) Limited is a shareholder of the Company. The USD20,200,000 loan facility was transferred from Proper Sonic Finance Limited to Baring Private Equity Asia III Holding (7A) Limited on 31 December 2006. The USD20,200,000 loan facility comprised three parts:

- Tranche I: USD6,200,000 loan with repayment date of 31 August 2006 ("Loan A")
- Tranche II: USD8,000,000 loan with repayment date of 28 February 2007 ("Loan B")
- Tranche III: USD6,000,000 convertible loan ("Loan C")

The USD20,200,000 loan facility was bearing interest at the Singapore Inter-bank Borrowing Rate for United States dollars plus 3%. Yingde BVI had the option to prepay all or part of the USD20,200,000 loan facility. Any repayment should be first treated as the repayment of Loan A and Loan B, and any excess should be for the repayment of Loan C. Loan C would be mandatorily converted into ordinary shares of Yingde BVI if Loan A and Loan B were fully repaid and Loan C was not fully repaid or extinguished as at 28 February 2007. The conversion price was to be the lower of (i) a price determined equivalent to six times of the net profit after tax of the companies comprising the Group for the year ended 31 December 2006; or (ii) the lowest value of shares issued to a third party, if any.

Loan A was repaid on 31 August 2006. As agreed among the contracting parties, Loan C was early converted into 502 ordinary shares of Yingde BVI on 29 December 2006 at a price determined equivalent to six times of the net profit after tax of the companies comprising the Group for the year ended 31 December 2006 pursuant to the terms of the agreement.

The USD20,200,000 loan facility has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component (prepayment and conversion options) was calculated as a debit amount of RMB3,117,000 on initial recognition. The liability component was initially recognised at RMB164,770,000. The net amount of the derivative component and the liability component is presented as a financial liability on the combined balance sheet. The derivative component was carried at fair value and the liability component was carried at amortised cost.

Upon conversion of Loan C on 29 December 2006, the liability component and derivative component totalling RMB48,643,000 were derecognised. The 502 ordinary shares of Yingde BVI from conversion of Loan C were recognised within the equity at fair value of RMB49,760,000. As a result, a termination loss on conversion of RMB1,117,000 was recognised in the profit or loss for the year ended 31 December 2006.

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Fair value of the derivative component of the USD20,200,000 loan facility was valued by the directors with reference to a valuation report issued by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), an independent business valuer, using the binomial option pricing model. Inputs used in the model are as follows:

	23 June 2006	29 December 2006
Total fair value of Yingde BVI and its subsidiaries at the measurement date	USD68,592,000	USD176,726,000
Share price	USD6,658	USD12,694
Expected volatility	27.14%	23.50%
Maturity date	28 February 2007	28 February 2007
Dividend yield	0.00%	0.00%
Risk-free interest rate	5.27%	5.00%

(b) USD2,000,000 Subscription Agreement

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
At 1 January 2006	—	—	—
Issuance of USD2,000,000 Subscription Agreement	15,299	318	15,617
At 1 January 2007	15,299	318	15,617
Interest charged during the year	314	—	314
Fair value adjustment	—	33,327	33,327
Foreign currency exchange gain	(383)	—	(383)
Conversion	(15,230)	(33,645)	(48,875)
At 31 December 2007	—	—	—

In accordance with the USD2,000,000 subscription agreement ("USD2,000,000 Subscription Agreement") entered into between Yingde BVI and Baring Private Equity Asia III Holding (7A) Limited on 29 December 2006, Baring Private Equity Asia III Holding (7A) Limited prepaid USD2,000,000 to Yingde BVI for the subscription of ordinary shares of Yingde BVI. Subject to the fulfilment of certain condition precedent under the USD2,000,000 Subscription Agreement ("Condition Precedent"), Yingde BVI should allot and issue to Baring Private Equity Asia III Holding (7A) Limited ordinary shares equivalent to 0.977475% of the entire issued share capital of Yingde BVI on a fully diluted basis ("New Ordinary Shares") as if the restructuring had been completed (minority shareholders selling their respective interests in the companies comprising the Group to Yingde BVI), and Loan C of USD20,200,000 loan facility (see Note 22(a)) and the convertible redeemable preferred shares (see Note 23) had been converted into ordinary shares of Yingde BVI. Condition precedent refers to Yingde BVI and qualified lender(s) incorporated outside the PRC entering into a loan in favour of Yingde BVI, whether in the form of bridge loan, term loan or otherwise by 30 June 2007.

If the subscription of New Ordinary Shares did not take place on or before 30 June 2007, Yingde BVI was required to refund the whole amount of USD2,000,000 to Baring Private Equity Asia III Holding (7A) Limited on 1 July 2007, otherwise, Yingde BVI was required to allot and issue the New Ordinary Shares to Baring Private Equity Asia III Holding (7A) Limited.

The USD2,000,000 Subscription Agreement has been accounted for as a hybrid financial instrument containing both a derivative component (contingent mandatory conversion feature) and a liability component. The derivative component was initially recognised at RMB318,000. The liability component was initially recognised at RMB15,299,000. The derivative component was carried at fair value and the liability component was carried at amortised cost.

On 29 June 2007, as agreed among the contracting parties, the Condition Precedent was waived and the percentage for calculation of number of shares to be issued under the USD2,000,000 Subscription Agreement was amended from 0.977475% to 0.7%. As a result, Yingde BVI issued

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102 ordinary shares to Baring Private Equity Asia III Holding (7A) Limited for completion of USD2,000,000 Subscription Agreement which were recognised within the equity at fair value of RMB36,397,000. A termination gain of RMB12,478,000 was recognised in the profit or loss for the year ended 31 December 2007.

The fair value of the derivative component of the USD2,000,000 Subscription Agreement was valued by the directors with reference to a valuation report issued by Sallmanns using the binomial option pricing model. Inputs used in the model are as follows:

	29 December and 31 December 2006	29 June 2007
Total fair value of Yingde BVI and its subsidiaries at the measurement date	USD176,726,000	USD656,556,000
Share price	USD12,694	USD46,857
Expected volatility	23.50%	24.90%
Maturity date	30 June 2007	30 June 2007
Dividend yield	0.00%	0.00%
Risk-free interest rate	5.00%	4.90%

23 CONVERTIBLE REDEEMABLE PREFERRED SHARES

	Liability component RMB'000	Derivative component (conversion option) RMB'000	Derivative component (currency swap) RMB'000	Total RMB'000
At 1 January 2006	—	—	—	—
Issuance of CRPS	79,864	32,172	—	112,036
Interest charged during the year	7,766	—	—	7,766
Fair value adjustment	—	76,406	—	76,406
Foreign currency exchange gain	(2,030)	—	—	(2,030)
De-recognition of the original CRPS	(85,600)	(108,578)	—	(194,178)
Recognition of the modified CRPS	122,627	—	20,048	142,675
At 1 January 2007	122,627	—	20,048	142,675
Interest charged during the year	9,752	—	—	9,752
Fair value adjustment	—	—	17,483	17,483
Foreign currency exchange gain	(8,242)	—	—	(8,242)
At 1 January 2008	124,137	—	37,531	161,668
Interest charged during the year	9,148	—	—	9,148
Fair value adjustment	—	—	(21,301)	(21,301)
Foreign currency exchange gain	(8,291)	—	—	(8,291)
At 1 January 2009	124,994	—	16,230	141,224
Interest charged during the period	4,373	—	—	4,373
Fair value adjustment	—	—	10,953	10,953
Foreign currency exchange gain	(50)	—	—	(50)
At 30 June 2009	129,317	—	27,183	156,500

On 23 June 2006, Yingde BVI issued 2,000 convertible redeemable preferred shares ("CRPS") to Baring Private Equity Asia III Holding (7) Limited, an affiliate of Baring Private Equity Asia III Holding (7A) Limited, for a cash consideration of USD14,000,000 (equivalent to USD7,000 per CRPS) according to the subscription agreement for CRPS (the "CRPS Subscription Agreement").

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The CRPS, subject to certain terms as set out below, is convertible into ordinary shares of Yingde BVI at the option of the holders of CRPS at any time before 31 December 2010 without the payment of any additional consideration. The CRPS is also automatically converted upon the completion of the initial public offering of Yingde BVI or its holding company. The conversion price was initially set at USD7,000, subject to adjustment in case that Yingde BVI pays a dividend, sub-divides or consolidates its ordinary shares and issues any ordinary shares.

The holders of the CRPS have the right to one vote for each CRPS and one vote for every ordinary share of Yingde BVI in which the CRPS is converted. The holders of CRPS have the right to receive a dividend whenever the holders of ordinary shares of Yingde BVI receive a dividend.

Yingde BVI will redeem all the CRPS without any further act of the holders of CRPS on 31 December 2010. The holders have the right to request Yingde BVI to redeem all or part of the CRPS before 31 December 2010 or before 31 December 2012 if extended in case of certain events (such as failure of the Reorganisation of the Group or listing of shares of Yingde BVI or its holding company).

The CRPS will be redeemed at a price equal to the sum of: (a) the aggregate of relevant amount of the CRPS and (b) an additional amount for receiving a 10% internal rate of return per annum on such relevant amount for the period from the date of issue of the CRPS up to and including the redemption date.

The CRPS have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at RMB32,172,000. The liability component was initially recognised at RMB79,864,000.

On 31 December 2006, the terms of the CRPS Subscription Agreement have been amended and the exchange rate regarding the conversion, redemption and other matters relating to the CRPS was fixed at USD1:RMB7.999. At the same time, the holder of the CRPS was changed from Baring Private Equity Asia III Holding (7) Limited to Baring Private Equity Asia III Holding (7A) Limited. Accordingly, the original CRPS was derecognised and the modified CRPS was considered as a new financial instrument and was recognised as a hybrid financial instrument containing a derivative component, a liability component and an equity component. A loss of RMB55,041,000 was recognised in the profit or loss as a result of the modification of terms of the CRPS Subscription Agreement on 31 December 2006. The modified CRPS contains: (a) a derivative component on currency swap initially recognised at RMB20,048,000; (b) a liability component initially recognised at RMB122,627,000; and (c) an equity component recognised at fair value in equity of RMB106,544,000.

The derivative component is carried at fair value and the liability component is carried at amortised cost.

The fair value of the derivative components of the CRPS was valued by the directors with reference to a valuation report issued by Sallmanns using the binomial option pricing model and discounted cash flows method. Inputs used in the model are as follows:

(a) Conversion option

	<u>23 June 2006</u>	<u>31 December 2006</u>
Total fair value of Yingde BVI and its subsidiaries at measurement date	USD68,592,000	USD176,726,000
Share price	USD6,658	USD12,694
Expected volatility	27.14%	23.50%
Maturity date	31 December 2010	31 December 2010
Dividend yield	0.00%	0.00%
Risk-free interest rate	5.16%	4.61%

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(b) Currency swap

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed exchange rate RMB:USD	7.999	7.999	7.999	7.999
Spot exchange rate RMB:USD	7.809	7.305	6.835	6.832
Forward exchange rate RMB:USD	6.884	6.092	7.234	6.721
Maturity date	31 December 2010	31 December 2010	31 December 2010	31 December 2010
Risk-free interest rate	4.61%	3.06%	0.76%	0.84%

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Share options to Mr. Trevor Raymond Strutt

On 20 June 2006, Yingde BVI granted 100 share options to Mr. Trevor Raymond Strutt, an executive of the Company. Each option gives the holder the right to subscribe for one ordinary share in Yingde BVI.

(i) The terms and conditions of the grants that existed during the Relevant Period are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of options	Vesting conditions	Contractual life of options
20 June 2006	33	One year from the date of grant	3.5 years
20 June 2006	33	Two years from the date of grant	3.5 years
20 June 2006	34	Three years from the date of grant	3.5 years
	<u>100</u>		

(ii) The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December 2006		Year ended 31 December 2007	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	—	—	USD5,500	100
Granted during the year	USD5,500	100	—	—
Exercised during the year	—	—	(USD5,500)	(100)
Outstanding at the end of the year	<u>USD5,500</u>	<u>100</u>	<u>—</u>	<u>—</u>
Exercisable at the end of the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The options outstanding as at 31 December 2006 had an exercise price of USD5,500 per share and a weighted average remaining contractual life of 3 years.

On 11 November 2007, the 100 share options held by Mr. Trevor Raymond Strutt were early exercised at the exercise price of USD5,500 per share, amounting to USD550,000 (equivalent to RMB4,131,000). Other terms for the exercise of share options remain unchanged. According to the instruction of Mr. Trevor Raymond Strutt, 100 ordinary shares of Yingde BVI were issued to Bubbly Brook Holding Limited, a shareholder of the Company.

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(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options was valued by the directors with reference to a valuation report issued by Sallmanns. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

	20 June 2006
Share price	USD6,658
Exercise price	USD5,500
Expected volatility	27.14%
Option life (expressed as weighted average life used in modelling under binomial option pricing model)	3.5 years
Expected dividends	0.00%
Risk-free interest rate	5.16%

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management estimate. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

Equity settled share-based payment expenses amounting to RMB529,000, RMB1,259,000 and Nil during the years ended 31 December 2006, 2007 and 2008 and Nil (unaudited) and Nil during the six months ended 30 June 2008 and 2009, respectively, were recognised in the profit or loss.

(b) Share options to Mr. Zhao Xiangti

On 20 June 2006, Yingde BVI granted 100 share options to Mr. Zhao Xiangti, a director of the Company. Each option gives the holder the right to subscribe for one ordinary share in Yingde BVI. The fair value of the share options was valued by the directors with reference to a valuation report issued by Sallmanns. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model under the assumptions as mentioned in Note 24(a)(iii) above except that the option life is two years from 20 June 2006. The share options were granted without a service condition and exercisable immediately on 20 June 2006. Equity settled share-based payment expense of RMB1,333,000 was recognised in the profit or loss on the grant date.

On 11 November 2007, the 100 share options held by Mr. Zhao Xiangti were exercised at the exercise price of USD5,500 per share, amounting to USD550,000 (equivalent to RMB4,131,000). According to the instruction of Mr. Zhao Xiangti, 100 ordinary shares of Yingde BVI were issued to Rongton Investment Limited, a shareholder of the Company.

Except for the two share options issued to Mr. Trevor Raymond Strutt and Mr. Zhao Xiangti as disclosed above, no other share option was issued by the Group during the Relevant Period.

(c) Limited ordinary shares

On 20 June 2006, Baslow Technology Limited ("Baslow"), a shareholder of the Company, and Yingde BVI entered into a management agreement for the provision of management service by Baslow to Yingde BVI for a period of three years from 20 June 2006 to 19 June 2009 ("Management Agreement"). As a reward, Yingde BVI issued 200 ordinary shares at par (USD1 each) to Baslow. Baslow's management service is carried out through Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt during their employment with Yingde BVI.

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For each 100 shares granted by Yingde BVI to Baslow, the shares were subject to a repurchase option held by Yingde BVI. Yingde BVI has the right to repurchase these shares at par (USD1 each) should Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt cease to be employees of Yingde BVI. The number of shares that could be repurchased would be calculated pro rata for the period that Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt were not serving Yingde BVI.

The limited ordinary shares issued to Baslow have been accounted for as equity settled share-based payments. The 200 ordinary shares issued on 20 June 2006, at the fair value of RMB10,655,000, were recognised as deferred expenses (Note 15) with a corresponding adjustment to the equity. The deferred expenses were amortised over the period of the management service of three years.

The Management Agreement was terminated on 11 November 2007 according to a termination agreement entered into between Yingde BVI and Baslow. Under the termination agreement, Baslow is entitled to retain all the 200 ordinary shares issued under the Management Agreement. Accordingly, the remaining balance of unamortised deferred expenses was charged to the profit or loss on 11 November 2007.

Equity settled share-based payment expenses amounting to RMB4,325,000, RMB6,330,000 and Nil during the years ended 31 December 2006, 2007 and 2008 and Nil (unaudited) and Nil during the six months ended 30 June 2008 and 2009, respectively, were recognised in the profit or loss.

25 SHARE CAPITAL

The Company was incorporated on 25 September 2007 with an authorised capital of USD50,000 comprising 50,000 shares of USD1.00 each. One nil-paid subscriber share of USD1.00 was issued on 25 September 2007. On 21 July 2008, each share in the capital of the Company of US\$1.00 each was sub-divided into 1,000,000 shares of US\$0.000001 each. Following the subdivision, 400,000,000 of such ordinary shares were redesignated as preferred shares of US\$0.000001 each. Accordingly, the authorised share capital of the Company of US\$50,000 was divided into 49,600,000,000 ordinary shares of US\$0.000001 each and 400,000,000 preferred shares of US\$0.000001 each. As of 31 December 2008 and 30 June 2009, the issued share capital of the Company was 1,000,000 ordinary shares of US\$0.000001 each.

For the purpose of this report, the aggregate amount of share capital or paid-in capital of the companies now comprising the Group, after elimination of investments in subsidiaries, was included in other reserve during the Relevant Period (see Note 26(b)).

26 RESERVES**(a) Statutory reserve**

Pursuant to the Articles of Association of the Company's subsidiaries in the PRC, appropriations to the statutory reserve were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation is to be decided by the directors of the subsidiaries. During the year ended 31 December 2006, amount in the retained earnings of RMB14,636,000 was transferred from retained earnings to statutory reserve. No appropriations were made during the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009.

The statutory reserve can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(b) Other reserve

Other reserve as at the respective balance sheet dates included the aggregate amount of share capital or paid-in capital of the companies now comprising the Group after elimination of investments in subsidiaries (see Note 25).

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(i) Capital injections

In February 2006, the Controlling Shareholders acquired additional 4% equity interest in Hunan Yingde from other then shareholders of Hunan Yingde. Accordingly, the Controlling Shareholders' effective equity interest in Hunan Yingde was increased from 48% to 52%. At the time of acquisition, Hunan Yingde had 75%, 75%, 40%, 75% and 75% equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde, respectively. As a result, the minority interests amounting to RMB14,767,000 was transferred to other reserve during the year ended 31 December 2006.

Yingde BVI was incorporated on 18 April 2006 with an authorised capital of USD50,000, comprising 50,000 shares of USD1.00 each. Yingde BVI issued 2,000 shares and 850 shares at par to the Controlling Shareholders on 12 May 2006 and 23 June 2006 respectively, for total cash considerations amounting to RMB23,000.

On 19 November 2007, Yingde BVI received a cash consideration amounting to RMB290,399,000 for issuing 488 shares of USD1.00 each to Deutsche Securities Nominees Hong Kong Limited.

(ii) Acquisition of minority interest

In June 2006, the Group acquired 48% equity interest in Hunan Yingde from minority shareholders for a cash consideration of RMB271,884,000. At the time of acquisition, Hunan Yingde had 75%, 75%, 40%, 75% and 75% equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde, respectively. The difference of RMB100,858,000 between the carrying value of the minority interests of RMB171,026,000 and the consideration of RMB271,884,000 was recorded in other reserve.

(c) Distributability of reserves

The Company was incorporated on 25 September 2007 but has not carried on any business up to 30 June 2009. Accordingly, there was no reserve available for distribution to shareholders as at 30 June 2009.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

27 RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term employee benefits	842	5,076	6,445	2,206	2,790
Post-employment benefits	—	19	22	11	14
Equity compensation benefits	1,862	1,259	—	—	—
	<u>2,704</u>	<u>6,354</u>	<u>6,467</u>	<u>2,217</u>	<u>2,804</u>

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Total remuneration is included in "staff costs" (see Note 4(b)).

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details are disclosed in Note 4(b).

(b) Advances/loans

(i) Non-trade transactions during the Relevant Period

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Advances/loans received from shareholders	—	83,617	1,415	1,415	—
Repayment of advances/loans from shareholders	5,364	81,773	1,400	1,400	—
Interest on loans from shareholders	—	4,518	13	13	—

Loans from shareholders were unsecured and bearing interest at 8% per annum. Advances from shareholders were unsecured and interest free. Loans and advances from shareholders were fully repaid before 30 June 2009.

(ii) Non-trade balances at the year/period end

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a shareholder	1,777	—	—	—

(c) Share transfer

On 30 March 2006, the Group transferred its 18% equity interest in Anhui Torch Energy and Chemical Co., Ltd to a member of the Controlling Shareholders for a consideration of RMB14,985,000.

(d) Provision of management service

Baslow provided management service to the Group which was carried out through Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt during their employment with Yingde BVI (see Note 24(c)). The equity settled share-based payment expenses in relation to the management service provided to the Group are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Provision of management service	4,325	6,330	—	—	—

The agreement for the provision of management service was terminated on 11 November 2007.

In the opinion of the directors of the Company, the above related party transactions were conducted in the ordinary course of business and on normal commercial terms.

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ACCOUNTANTS' REPORT

28 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At 31 December 2006, 2007 and 2008 and 30 June 2009, the Group had capital commitments for acquisition and construction of properties and equipment as follows:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised and contracted for	212,990	632,460	375,226	309,543
Authorised but not contracted for	666,721	1,182,384	783,890	2,318,922
	<u>879,711</u>	<u>1,814,844</u>	<u>1,159,116</u>	<u>2,628,465</u>

(b) Operating lease commitment

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and properties, are payable as follows:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,422	4,553	4,651	4,393
After 1 year but within 5 years	5,431	13,114	10,449	8,732
After 5 years	9,783	26,053	24,366	26,778
	<u>16,636</u>	<u>43,720</u>	<u>39,466</u>	<u>39,903</u>

The Group leases several parcels of land under operating leases. The leases typically run for an initial period of from 15 to 25 years, with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Investment commitment

According to the agreement entered into between Yingde BVI and the on-site customer of Guizhou Yingde on 10 November 2006, Yingde BVI agreed in principle to invest RMB250,000,000 for a 25% equity interest in the registered capital of this on-site customer. The proposed investment is subject to the approval by the existing shareholders of the on-site customer and the relevant government authorities in the PRC.

(d) Other commitments

In 2006, Nanjing Xingang entered into an agreement with an independent third party in respect of the provision of management and maintenance services. The terms of the agreement are for a period of 30 years.

Before 31 December 2007, annual management fee of RMB910,000 was paid each year. As agreed among the contracting parties of the agreement, the annual management fee was increased to RMB1,735,000 during the year ended 31 December 2008, and further revised to RMB1,325,000 per annum since 1 January 2009.

Commitments under the agreement to make minimum payments in future years are as follows:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	858	910	1,735	1,325
After 1 year but within 5 years	3,639	3,639	6,938	5,302
After 5 years	22,745	21,548	39,459	29,489
	<u>27,242</u>	<u>26,097</u>	<u>48,132</u>	<u>36,116</u>

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In addition, a variable management fee which is determined at 30% of net profits of Nanjing Xingang is payable according to the terms of the agreement. The variable management fee are Nil, RMB3,920,000 and RMB2,350,000 during the years ended 31 December 2006, 2007 and 2008, and RMB587,000 (unaudited) and Nil during the six months ended 30 June 2008 and 2009, respectively.

(e) Construction permits in certain subsidiaries

The Group had not obtained the construction planning permit and/or the construction permit in respect of certain production facilities during the Relevant Period. As at the date of this report, the Group has not been subject to any penalty or fine from the government authorities in respect of the absence of the construction planning permits and/or construction permits. The maximum penalty and fine to the Group is estimated to be approximately RMB3,300,000. The directors consider that any payment to be made by the Group in this regard would not be material. Accordingly, no provision has been made in the Financial Information.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk and concentration risk

The Group's credit risk is primarily attributable to trade and other receivables. The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 30 to 45 days from the date of billing. Moreover, extended credit terms are granted to certain on-site customers depending on the credit assessment carried out by the management on an individual basis.

Significant amounts of revenue are derived from a limited number of on-site customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2006, 2007 and 2008 and 30 June 2009, the Group had a concentration of credit risk as 97%, 87%, 74% and 79% of the total trade and bill receivables, respectively, which were due from the Group's on-site customers. The Group has no significant credit risk with any of these customers since the Group maintains stable business relationships with these large customers. Trade receivables are unsecured and denominated in RMB, and are derived from revenues earned from operations arising in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheet.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 16.

The Group does not provide any guarantees which would expose the Group to credit risk.

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(b) Foreign currency exchange risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating operations of the Group are transacted in Renminbi. The Group is exposed to foreign currency risk on financing transactions that are denominated in currencies other than Renminbi. Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group did not hedge its foreign currency exposure.

A 5 percent strengthening of Renminbi against United States dollars as at the respective balance sheet dates would increase/(decrease) profit after tax by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Effect on profit	2,191	(2,050)	(9)	(1,470)

A 5 percent weakening of Renminbi against United States dollars as at the respective balance sheet dates would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

(c) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay.

	31 December 2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	287,334	340,071	174,477	84,554	20,711	60,329
Trade and other payables	117,031	117,031	117,031	—	—	—
Obligations under finance leases	33,440	75,200	3,200	3,200	9,600	59,200
Convertible loans	81,306	81,798	81,798	—	—	—
Convertible redeemable preferred shares	142,675	162,380	—	—	162,380	—
Dividends payable	26,930	26,930	26,930	—	—	—
Amount due to a shareholder	1,777	1,777	1,777	—	—	—
	<u>690,493</u>	<u>805,187</u>	<u>405,213</u>	<u>87,754</u>	<u>192,691</u>	<u>119,529</u>

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31 December 2007						
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	734,514	867,308	382,411	150,550	279,375	54,972
Trade and other payables	317,092	317,092	317,092	—	—	—
Obligations under finance leases	32,915	72,000	3,200	3,200	9,600	56,000
Convertible redeemable preferred shares	161,668	162,380	—	—	162,380	—
	<u>1,246,189</u>	<u>1,418,780</u>	<u>702,703</u>	<u>153,750</u>	<u>451,355</u>	<u>110,972</u>
31 December 2008						
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	900,612	1,003,240	550,539	253,970	198,731	—
Trade and other payables	572,710	572,710	572,710	—	—	—
Obligations under finance leases	32,348	68,800	3,200	3,200	9,600	52,800
Convertible redeemable preferred shares	141,224	162,380	—	162,380	—	—
	<u>1,646,894</u>	<u>1,807,130</u>	<u>1,126,449</u>	<u>419,550</u>	<u>208,331</u>	<u>52,800</u>
30 June 2009						
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	1,306,895	1,442,959	622,695	368,896	446,271	5,097
Trade and other payables	515,064	515,064	515,064	—	—	—
Obligations under finance leases	33,592	68,800	3,200	3,200	9,600	52,800
Convertible redeemable preferred shares	156,500	162,380	—	162,380	—	—
	<u>2,012,051</u>	<u>2,189,203</u>	<u>1,140,959</u>	<u>534,476</u>	<u>455,871</u>	<u>57,897</u>

(d) Interest rate risk

The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 19, 21, 22, 23 and 27, respectively. The Group has not used any forward contracts or derivatives to hedge its exposure to interest rate risk.

It is estimated that a general increase of 100 basic points in interest rates, with all other variables held constant, would decrease the Group's profit after tax by the amount as shown below:

	31 December			30 June 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Effect on profit	<u>1,139</u>	<u>3,147</u>	<u>5,727</u>	<u>8,648</u>

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(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	31 December 2006		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Liability			
Derivative financial instruments:			
— Conversion option of USD2,000,000 Subscription Agreement	—	318	318
— Currency swap of convertible redeemable preferred shares	20,048	—	20,048
	<u>20,048</u>	<u>318</u>	<u>20,366</u>

	31 December 2007		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Liability			
Derivative financial instrument:			
— Currency swap of convertible redeemable preferred shares	37,531	—	37,531

	31 December 2008		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Liability			
Derivative financial instrument:			
— Currency swap of convertible redeemable preferred shares	16,230	—	16,230

	30 June 2009		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Liability			
Derivative financial instrument:			
— Currency swap of convertible redeemable preferred shares	27,183	—	27,183

(ii) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

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ACCOUNTANTS' REPORT

30 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Financial Information. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in Note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment of assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

(c) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(d) Determining whether an arrangement contains a lease

During the Relevant Period, the Group has entered into long-term gas supply contracts with on-site customers for periods of 15 to 25 years. The production facilities are built on or in close proximity to the on-site customers for the supply of industrial gases to such customers ("on-site facilities"). The Group receives fixed annual amounts over the term of the long-term gas supply contracts plus variable charges based on the quantity of industrial gases supplied. The Group also sells gas products produced from the on-site facilities to merchant customers.

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In determining whether the arrangement contains a lease, the Group has considered the terms of the long-term gas supply contracts. Pursuant to the terms of the long-term gas supply contracts, the on-site customers do not have the right to operate or control physical access to the on-site facilities. In addition, gas products produced from the on-site facilities are also sold to merchant customers. The amounts sold to the merchant customers are more than an insignificant amount of the total gas products produced from the on-site facilities. Accordingly, the Group concluded that the arrangement of long-term gas supply contracts does not contain any lease.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

As at the date of this report, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in preparing the Financial Information:

	<u>Effective for accounting period beginning on or after</u>
IFRIC 17, "Distributions of non-cash assets to owners"	1 July 2009
IFRIC 18, "Transfers of assets from customers"	Applies to transfers of assets from customers received on or after 1 July 2009
IFRS 1 (revised), "First-time adoption of International Financial Reporting Standards"	1 July 2009
IFRS 3 (revised), "Business combinations"	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Amendments to IFRIC 9, "Reassessment of Embedded Derivatives"	1 July 2009
Amendments to IAS 27, "Consolidated and separate financial statements"	1 July 2009
Amendment to IAS 39, "Financial instruments: Recognition and measurement — Eligible hedged items"	1 July 2009
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010
Amendments to IFRS1, "First-time adoption of International Financial Reporting Standards — Additional exemption for first- time adopters"	1 January 2010
Amendments to IFRS2, "Share-based payment — Group cash- settled share-based payment transactions"	1 July 2010

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2009:

1 REORGANISATION

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure. Details of the Reorganisation are set out in the section headed "Our History and Reorganisation" in this document.

Pursuant to the written resolutions of the sole shareholder of the Company dated 10 July 2009, in connection with the Reorganisation, the Company allotted and issued 1,269,000,000 ordinary shares and 200,000,000 preferred shares of the Company in consideration for the share exchange with Yingde BVI and its then shareholders.

In addition, the authorised share capital of the Company was redesignated from 49,600,000,000 ordinary shares of US\$0.000001 each and 400,000,000 preferred shares of US\$0.000001 each to 49,800,000,000 ordinary shares of US\$0.000001 each and 200,000,000 preferred shares of US\$0.000001.

As a result of the Reorganisation, the Company became the holding company of the Group on 10 July 2009.

2 SHARE OPTION SCHEME

Pursuant to written resolutions passed by the shareholders of the Company on 12 September 2009, the Company has conditionally adopted a share option scheme ("Share Option Scheme"). The principal terms of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI to this document.

E BALANCE SHEETS OF THE COMPANY

The balance sheets of the Company at 31 December 2007 and 2008 and 30 June 2009 were as follows:

	31 December		30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Current assets			
Amount due from shareholder	<u>—</u>	<u>—</u>	<u>—</u>
Equity			
Share capital (Note 25)	<u>—</u>	<u>—</u>	<u>—</u>

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,

Certified Public Accountants
Hong Kong

APPENDIX III

PROFIT FORECAST

A. OVERVIEW

The forecast combined profit attributable to the equity holders of the Company for the year ending December 31, 2009 is set out in the section headed “Financial Information – Profit Forecast” in this document.

B. BASES AND ASSUMPTIONS

The directors have prepared the forecast of the combined profit attributable to the equity holders of the Company for the year ending December 31, 2009 based on the audited combined results of the Group for the six months ended June 30, 2009 and a forecast of the combined results of our Group for the remaining six months ending December 31, 2009. The profit forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarized in the Accountants’ Report set forth in Appendix I of this document, and on the following principal bases and assumptions:

- There will be no material changes in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC, Hong Kong or any other countries or territories in which the Group operates.
- There will be no changes in policies, legislation, or practices in the PRC, Hong Kong or any other countries or territories in which the Group operates or has arrangements or agreements, which may materially and adversely affect the Group’s business or operations.
- There will be no material changes in the bases or rates of taxation in the PRC, Hong Kong and any other countries applicable to the activities of the Group.
- There will be no material change in interest rates and exchange rates from those currently prevailing.
- The Group’s operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Company, including the occurrence of natural disaster or catastrophes (such as floods, earthquake and typhoons), epidemics (including SARS, H5N1 influenza or H1N1 influenza) or serious accidents.
- The Group’s operations, results and financial position will not be materially and adversely affected by the risk factors set forth in the section headed “Risk Factors” in this document.
- US\$14 million of the principal amount of the Group’s Convertible Redeemable Preference Shares will be converted into the Shares immediately prior to the commencement of dealings of the Shares on the Hong Kong Stock Exchange.

Bases and assumptions on forecast fair value changes on derivative component of the connectible redeemable preference shares (“CRPS”).

- Changes in the fair value of the CRPS are dependent on a number of variables and other factors affected by market conditions that are beyond the control of the Company at the relevant time.
- Under IFRS, the derivative component of the CRPS are required to be recorded at fair value on the balance sheet date, and any increase or decrease in fair value in any applicable accounting period is required to be recognized as a charge or credit to profit or loss. This charge or credit is a non-cash item representing the increase or decrease in fair value of the derivative component of the CRPS.
- The forecast profit of RMB450 million for the year ending 31 December 2009 includes a charge in respect of fair value charge estimated at RMB12 million, which is estimated based on the best-estimate assumptions made by the directors. Should the actual increase or decrease in fair value of the derivative component of the CRPS differ from the amount estimated by the directors, such difference would have the effect of decreasing or increasing the forecast combined profit attributable to the equity holders of Company for the year ending 31 December 2009.

APPENDIX IV

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 July 2009 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

* 2009

The Board of Directors
Yingde Gases Group Company Limited
Room 1702 of
Golden Eagle Tower A
No. 1518 Minsheng Road
Pudong New District
Shanghai
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the properties in which Yingde Gases Group Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 July 2009 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interest of property no. 1 in Group I by the direct comparison approach assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of property nos. 2 to 14 in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

In valuing the property interests in Group II which are under construction, we have assumed that they will be developed and completed in accordance with the Group's latest development proposals

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PROPERTY VALUATION

provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees expected to be incurred for completing the development.

We have attributed no commercial value to the property interests in Group III which are rented by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services of the properties. Our valuation is prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained herein is incomplete and subject to change and it must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

APPENDIX IV

PROPERTY VALUATION

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUES

GROUP I – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2009 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 July 2009 RMB
1.	Unit 2207, Block B Bao Li Mansion North Changjiang Road Tianyuan District Zhuzhou City Hunan Province The PRC	488,000	100%	488,000
2.	3 parcels of land, various buildings and structures located at Jinzhou Processing Zone Lingang Industrial Zone Zhuhai City Guangdong Province The PRC	59,846,000	100%	59,846,000
3.	4 buildings and various structures inside Lianyuan Steel Group Co., Ltd. Loudi City Hunan Province The PRC	No commercial value	100%	No commercial value
4.	5 buildings and various structures No. 18-2 South Xi'an Road Qingpu District Huai'an City Jiangsu Province The PRC	No commercial value	100%	No commercial value
5.	4 buildings inside Tianjin Steel Pipe Co., Ltd. Wuxia Road Dongli District Tianjin The PRC	No commercial value	100%	No commercial value
6.	9 buildings and various structures inside Longgang Group Longmen Town Hancheng City Shaanxi Province The PRC	No commercial value	100%	No commercial value
7.	7 buildings and various structures located at Fushan Industrial Park High-Tech District Zibo City Shandong Province The PRC	No commercial value	100%	No commercial value

APPENDIX IV		PROPERTY VALUATION		
No.	Property	Capital value in existing state as at 31 July 2009 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 July 2009 RMB
8.	A composite building No. 18-2 South Xi'an Road Qingpu District Huai'an City Jiangsu Province The PRC	No commercial value	100%	No commercial value
9.	8 buildings and various structures No. 600 Yanhai Road Lanshan District Rizhao City Shandong Province The PRC	No commercial value	100%	No commercial value
10.	6 buildings and various structures located at Nandian Town Pingshan County Shijiazhuang City Hebei Province The PRC	No commercial value	100%	No commercial value
11.	A parcel of land, various buildings and structures located at the eastern side of Changjiang Road and the northern side of Ri Chu Chemical Yangtze River International Chemical Industrial Park Zhangjiagang City Jiangsu Province The PRC	No commercial value	75%	No commercial value
12.	7 buildings and a structure located at the eastern side of West Outer Ring Road and the northern side of Longtan West Road Taishan Steel Industrial Zone Laiwu City Shandong Province The PRC	No commercial value	100%	No commercial value
13.	A building located at Tianfu Chemical Plant Ma Chang Ping Town Fuquan City Guizhou Province The PRC	No commercial value	100%	No commercial value

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PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 July 2009 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 July 2009 RMB
14.	2 buildings and various structures located at the west gate of Hunan Zhuye Torch Metal Co. Ltd. Xunhuan Economic Industrial Zone Zhuzhou City Hunan Province The PRC	No commercial value	100%	No commercial value
Sub-total :		60,334,000		60,334,000

GROUP II – PROPERTY INTERESTS HELD UNDER DEVELOPMENT BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2009 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 July 2009 RMB
15.	4 buildings inside Hengyang Steel Pipe Plant No. 10 of Da Li Xin Cun Hengyang City Hunan Province The PRC	No commercial value	70%	No commercial value
16.	2 parcels of land, 3 buildings and various structures located at the northern side of Jinshan Road Yangzhou Economic Development Zone Yangzhou City Jiangsu Province The PRC	9,956,000	100%	9,956,000
Sub-total :		9,956,000		9,956,000

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2009 RMB
17.	Unit 1702 of Golden Eagle Tower A No. 1518 Minsheng Road Pudong New District Shanghai The PRC	No commercial value
18.	Unit 3033 of a building No. 2123 Pudong Avenue Pudong New District Shanghai The PRC	No commercial value

APPENDIX IV		PROPERTY VALUATION
No.	Property	Capital value in existing state as at 31 July 2009 RMB
19.	Unit 2114, Block B Bao Li Mansion North Changjiang Road Tianyuan District Zhuzhou City Hunan Province The PRC	No commercial value
20.	Units 2601, 2602, 2603, 2605, 2606, 2607 and 2608 of Shenlan Mansion Chaohui Road Xiacheng District Hangzhou City Zhejiang Province The PRC	No commercial value
21.	Levels 2 and 3 of a building No. 18 Group 2 Yangliu Village Hengyang City Hunan Province The PRC	No commercial value
22.	Unit 202, Entrance no. 1 of Building no. 55 Residential Area of Hengyang Steel Pipe Plant Hengyang City Hunan Province The PRC	No commercial value
23.	Level 4, Entrance no. 3 of Building 65 Da Li Xin Cun Zhengxiang District Hengyang City Hunan Province The PRC	No commercial value
24.	Unit 202, Entrance no. 1 of Building no. 54 Residential Area of Hengyang Steel Pipe Plant Hengyang City Hunan Province The PRC	No commercial value
25.	A parcel of land and 7 units of a composite building located at No. 1 Group 9 Pudun Village Wudun Town Qingpu District Huai'an City Jiangsu Province The PRC	No commercial value
Sub-total:		Nil
Grand total:		70,290,000

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

GROUP I – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
1.	Unit 2207, Block B Bao Li Mansion North Changjiang Road Tianyuan District Zhuzhou City Hunan Province The PRC	The property comprises a unit on Level 22 of a 28-storey office building completed in about 2004. The property has a gross floor area of approximately 131.85 sq.m. The land use rights of the property were granted for a term with the expiry date on 29 December 2042 for commercial use.	The property is currently occupied by the Group for office purpose.	488,000 100% interest attributable to the Group RMB488,000

Notes:

- Pursuant to a Commodity Property Sale and Purchase Agreement dated 29 September 2004, entered into between Baoli (Zhuzhou) Industry Development Co., Ltd. (保利(株洲)實業發展有限公司) and Hunan Yingde Gases Company Limited ("Hunan Yingde"), an indirect wholly-owned subsidiary of the Company, the property with a gross floor area of approximately 137.32 sq.m. was contracted to be purchased by Hunan Yingde at a consideration of RMB442,170.
- Pursuant to a Building Ownership Certificate - Zhu Fang Quan Zheng Zi No. 00227119 dated 14 November 2007 issued by the Real Estate Administrative Bureau of Zhuzhou City, the property with a gross floor area of approximately 131.85 sq.m. is owned by Hunan Yingde.
- Pursuant to a State-owned Land Use Rights Certificate – Zhu Guo Yong (2008) No. A0671 dated 30 June 2008, the land use rights of the property have been granted to Hunan Yingde for a term with the expiry date on 29 December 2042 for commercial use.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - Hunan Yingde owns the building ownership rights and the land use rights of the property and has the rights to occupy, use, mortgage, transfer or lease the property.
 - The property is not subject to any third party encumbrance.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
2.	3 parcels of land, various buildings and structures located at Jinzhou Processing Zone Lingang Industrial Zone Zhuhai City Guangdong Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 115,754.04 sq.m. and 4 buildings and various ancillary structures erected thereon completed in about 2004. (the "Completed Property") The buildings have a total gross floor area of approximately 2,508.23 sq.m. The buildings include a composite building, a controlling building, a pump room and a gatehouse. The structures mainly include roads, boundary walls and ground. In addition to the Completed Property on the above land, there are 2 buildings which are still under construction (the "CIP"). The total gross floor area of the CIP will be approximately 1,270 sq.m. upon completion. The CIP is scheduled to be completed in October 2009. The land use rights of the property were granted for various terms with the expiry dates between 22 May 2053 and 30 July 2056 for industrial use.	The property is currently occupied by the Group for office and ancillary purposes except for 2 buildings which are under construction.	59,846,000 100% interest attributable to the Group RMB59,846,000

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract – Zhu Guo Tu He Zi (Lin Gang) (2003) No. 15 dated 22 May 2003, entered into between the Construction and Planning Land Bureau of Zhuhai Lingang Industrial Zone (珠海臨港工業區建設規劃國土局) and Zhuhai Yingde Gases Company Limited. ("Zhuhai Yingde"), an indirect wholly-owned subsidiary of the Company, the land use rights of a parcel of land with a site area of approximately 26,667 sq.m. were contracted to be granted to Zhuhai Yingde for a term of 50 years commencing from 22 May 2003 and expiring on 21 May 2053 for industrial use at a consideration of RMB26,667.
- Pursuant to a State-owned Land Use Rights Grant Contract – Zhu Guo Tu He Zi (Lin Gang) (2003) No. 26 dated 29 July 2003, entered into between the Construction and Planning Land Bureau of Zhuhai Lingang Industrial Zone (珠海臨港工業區建設規劃國土局) and Zhuhai Yingde, the land use rights of a parcel of land with a site area of approximately 40,001.5 sq.m. were contracted to be granted to Zhuhai Yingde for a term of 50 years commencing from 29 July 2003 and expiring on 28 July 2053 for industrial use at a consideration of RMB40,001.5.
- Pursuant to a State-owned Land Use Rights Grant Contract – 4404LG-2006-000037 dated 31 July 2006, entered into between the Land Resources Bureau of Zhuhai City and Zhuhai Yingde, the land use rights of a parcel of land with a site area of approximately 50,000 sq.m. were contracted to be granted to Zhuhai Yingde for a term of 50 years commencing from 31 July 2006 and expiring on 30 July 2056 for industrial use at a consideration of RMB4,000,000.
- Pursuant to a Real Estate Title Certificate – Yue Fang Di Zheng Zi No. C6098134 dated 11 January 2008 issued by the People's Government of Guangdong Province, the land use rights of a parcel of land with a site area of approximately 25,752.54 sq.m., ("Phase I"), were granted to Zhuhai Yingde for a term with the expiry date on 22 May 2053 for industrial use.
- Pursuant to a Real Estate Title Certificate – Yue Fang Di Zheng Zi No. C6099251 dated 15 January 2008 issued by the People's Government of Guangdong Province, the land use rights of a parcel of land with a site area of approximately 40,001.5 sq.m., ("Phase II"), were granted to Zhuhai Yingde for a term with the expiry date on 28 July 2053 for industrial use.

APPENDIX IV

PROPERTY VALUATION

6. Pursuant to a Real Estate Title Certificate – Yue Fang Di Zheng Zi No. C6099252 dated 15 January 2008 issued by the People’s Government of Guangdong Province, the land use rights of a parcel of land with a site area of approximately 50,000 sq.m., (“Phase III”), were granted to Zhuhai Yingde for a term with the expiry date on 30 July 2056 for industrial use.
7. Pursuant to 4 Real Estate Title Certificates – Yue Fang Di Zheng Zi No. C6098130 dated 14 January 2008 and Yue Fang Di Zheng Zi Nos. C6098131 to C6098133 dated 11 January 2008 issued by the People’s Government of Guangdong Province, 4 buildings with a total gross floor area of approximately 2,508.23 sq.m. are owned by Zhuhai Yingde.
8. Pursuant to a Construction Work Planning Permit – 2007 Jian Zhu Zi (Gao Lan Gang) No. 065 in favour of Zhuhai Yingde, 2 buildings with a total gross floor area of approximately 1,270 sq.m. have been approved for construction.
9. Pursuant to a Construction Work Commencement Permit in favour of Zhuhai Yingde, permission by the relevant local authority was given to commence the construction work of the CIP.
10. As advised by Zhuhai Yingde, the total construction cost of the CIP is estimated to be approximately RMB2,850,000, of which RMB2,689,000 had been paid up to the date of valuation.
11. Pursuant to a Loan Contract – A11092402086 and a Mortgage Contract both dated 24 June 2009, the land use rights of a parcel of land with a site area of approximately 25,752.54 sq.m. as described in note 4 and buildings as described in note 7 are subject to a mortgage in favour of Bank of Communications Co., Ltd. Zhuhai Branch as a security for a loan for a term of one year commencing from 24 June 2009 to 23 June 2010 with an amount of RMB40,000,000.
12. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Zhuhai Yingde owns the land use rights of Phase I, II and III and the land use rights are not subject to any third party encumbrance. Zhuhai Yingde has the rights to mortgage, transfer or lease the land use rights under the relevant PRC laws.
 - (ii) Regarding to the 4 buildings constructed on Phase I, Zhuhai Yingde owns the building ownership rights of these 4 buildings and has the rights to occupy, use, mortgage, transfer or lease these buildings under the relevant PRC laws.
 - (iii) There will be no material legal impediment for Zhuhai Yingde in obtaining the building ownership rights for the CIP buildings after the CIP building is completed and passed the acceptance inspection.
 - (iv) The land use rights and buildings as described in note 11 are subject to a mortgage in favour of Bank of Communications Co., Ltd. Zhuhai Branch and cannot be transferred or re-mortgaged by Zhuhai Yingde without permission from the aforesaid bank.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
3.	4 buildings and various structures inside Lianyuan Steel Group Co., Ltd. Loudi City Hunan Province The PRC	The property comprises 4 buildings and various ancillary structures completed in about 2003. The buildings have a total gross floor area of approximately 2,929.29 sq.m. The buildings include a composite building, a control building, a pump room and a gatehouse. The structures mainly include roads and boundary walls.	The property is currently occupied by the Group for office and ancillary purposes.	No commercial value

Notes:

1. According to a Gases Supply Agreement dated 25 October 2006, entered into between Lianyuan Steel Group Co., Ltd. (涟源鋼鐵集團有限公司) ("Lianyuan Steel") and Hunan Yingde Gases Company Limited, ("Hunan Yingde"), an indirect wholly-owned subsidiary of the Company, Hunan Yingde was allowed to establish an oxygen plant on a parcel of land held by Lianyuan Steel to manufacture and supply gases to Lianyuan Steel to meet its production requirements with an effective term of 20 years commencing from the day when Hunan Yingde started to supply the gases and the annual land occupancy fee is RMB100,000 inclusive of relevant tax.
2. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB3,282,000 assuming all proper title certificates have been obtained and they could be freely transferred.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Hunan Yingde Loudi Branch has the rights to use the land according to the Gases Supply Agreement.
 - (ii) The buildings were constructed to serve for the Gases Supply Agreement and Hunan Yingde Loudi Branch can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - (iii) The property interest owned by Hunan Yingde may not be protected under the PRC laws.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
4.	5 buildings and various structures No. 18-2 South Xi'an Road Qingpu District Huai'an City Jiangsu Province The PRC	The property comprises 5 buildings and various ancillary structures completed in about 2004. The buildings have a total gross floor area of approximately 1,636.3 sq.m. The buildings include a composite building, a control building, a pump room, a steel storage room and a gatehouse. The structures mainly include roads and boundary walls.	The property is currently occupied by the Group for office and ancillary purposes.	No commercial value

Notes:

1. According to a Gases Supply Agreement and a Transfer Agreement entered into among Nanjing Steel Group Huai Steel (Group) Co., Ltd. (南京鋼鐵集團淮鋼集團有限公司) ("Huai Steel"), Hunan Yingde Gases Company Limited, an indirect wholly-owned subsidiary of the Company and Jiangsu Yingde Gases Company Limited ("Jiangsu Yingde"), an indirect wholly-owned subsidiary of the Company, Jiangsu Yingde was allowed to establish an oxygen plant on a parcel of land held by Huai Steel to manufacture and supply gases for Huai Steel to meet its production requirements with an effective term of 20 years at nil fee commencing from the day when Jiangsu Yingde started to supply the gases.
2. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB2,747,000 assuming all proper title certificates have been obtained and they could be freely transferred.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Jiangsu Yingde has the rights to use the land according to the Gases Supply Agreement.
 - (ii) Jiangsu Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - (iii) The property interest owned by Jiangsu Yingde may not be protected under the PRC laws.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
5.	4 buildings inside Tianjin Steel Pipe Co., Ltd. Wuxia Road Dongli District Tianjin The PRC	The property comprises 4 buildings completed in about 2005. The buildings have a total gross floor area of approximately 1,471.1 sq.m. The buildings include an electric distribution room, a control building, a pump room and an ancillary room.	The property is currently occupied by the Group for ancillary purpose.	No commercial value

Notes:

- According to a Gases Supply Agreement dated 10 April 2007, entered into between Tianjin Steel Pipe Co., Ltd. (天津鋼管有限公司) ("Tianjin Steel Pipe") and Tianjin Gases Company Limited, ("Tianjin Yingde"), an indirect wholly-owned subsidiary of the Company, Tianjin Yingde was allowed to establish an oxygen plant on a parcel of land held by Tianjin Steel Pipe to manufacture and supply gases for Tianjin Steel Pipe to meet its production requirements with an effective term of 25 years commencing from the date of agreement.
- According to a Land Use Rights Tenancy Agreement dated 1 November 2007, entered into between Tianjin Steel Pipe Investment Holdings Limited (天津鋼管投資控股有限公司) and Tianjin Yingde, a parcel of land with a site area of approximately 27,755,46 sq.m. is leased to Tianjin Yingde for a term of 25 years commencing from 2 July 2004 and expiring on 2 July 2029 at an annual rent of RMB771,046.68. As advised by Tianjin Yingde, an office building with a gross floor area of approximately 470 sq.m. is also offered to Tianjin Yingde for office use which the relevant rent is included in the land rent.
- In the valuation of this property, we have not attributed any commercial value to the 4 buildings with a total gross floor area of approximately 1,471.1 sq.m. constructed by Tianjin Yingde which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the 4 buildings (excluding the land) as at the date of valuation would be RMB1,352,000 assuming all proper title certificates have been obtained and they could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - Tianjin Yingde has the rights to use the land according to the Gases Supply Agreement. The non-registration of the Land Use Rights Tenancy Agreement will not affect the validity of the tenancy agreement.
 - The buildings were constructed to serve for the Gases Supply Agreement and Tianjin Yingde can use the buildings according to the Gases Supply Agreement if there are no arguments from the local authorities and the owner of the land use rights.
 - The property interest owned by Tianjin Yingde may not be protected under the PRC laws.
 - Tianjin Yingde may not be able to use the buildings mentioned in note 3 in case there are queries raised by from the local land administration authorities or the owner of the land use rights.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
6.	9 buildings and various structures inside Longgang Group Longmen Town Hancheng City Shaanxi Province The PRC	The property comprises 9 buildings and various structures completed in various stages between 2004 and 2009. The buildings have a total gross floor area of approximately 2,814 sq.m. The buildings mainly include a composite building and a gatehouse. The structures mainly include ground and boundary walls.	The property is currently occupied by the Group for office and ancillary purposes.	No commercial value

Notes:

- According to 2 Gases Supply Agreements dated 18 January 2003 and 28 August 2008, entered into between Shaanxi Longmen Steel Group Co., Ltd. (陝西龍門鋼鐵集團有限公司) ("Shaanxi Longmen") and Hunan Yingde Gases Company Limited, ("Hunan Yingde"), an indirect wholly-owned subsidiary of the Company, Hunan Yingde was allowed to establish an oxygen plant on a parcel of land held by Shaanxi Longmen to manufacture and supply gases for Shaanxi Longmen to meet its production requirements with an effective term of 20 years commencing from the date of agreement and the annual land occupancy fee is RMB3 per sq.m. per year. Hunan Yingde has transferred the rights under the Gases Supply Agreement to Shaanxi Yingde Gases Company Limited ("Shaanxi Yingde"), an indirect wholly-owned subsidiary of the Company.
- In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB3,830,000 assuming all proper title certificates have been obtained and they could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - Shaanxi Yingde has the rights to use the land according to the Gases Supply Agreement.
 - The buildings were constructed to fulfill the requirements of the Gases Supply Agreement and Shaanxi Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - The property interest owned by Shaanxi Yingde may not be protected under the PRC laws.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
7.	7 buildings and various structures located at Fushan Industrial Park High-Tech District Zibo City Shandong Province The PRC	The property comprises 7 buildings and various ancillary structures completed in about 2007. The buildings have a total gross floor area of approximately 1,817.72 sq.m. The buildings include a composite building, a control building, 2 pump houses and 2 gatehouses. The structures mainly include roads and boundary walls.	The property is currently occupied by the Group for office and ancillary purposes.	No commercial value

Notes:

- According to a Gases Supply Agreement and a Supplementary Agreement entered into among Zibo Fushan Group Co., Ltd. (傅山企業集團有限公司) ("Fushan Group"), Hunan Yingde Gases Company Limited, an indirect wholly-owned subsidiary of the Company and Zibo Yingde Gases Company Limited, ("Zibo Yingde"), an indirect wholly-owned subsidiary of the Company, Zibo Yingde was allowed to establish an oxygen plant on a parcel of land to manufacture and supply gases for Fushan Group to meet its production requirements with an effective term commencing from 1 June 2006 and expiring on 31 May 2028. According to the above Agreements, a parcel of land with a site area of approximately 42,000 sq.m. on which the property is situated, is also offered to Zibo Yingde for production use with an annual land occupancy fee of RMB283,900.
- In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB2,630,000 assuming all proper title certificates have been obtained and they could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - According to the Gases Supply Agreement and the Supplementary Agreement, Zibo Yingde has the rights to ask Fushan Group for compensation if Zibo Yingde can not occupy the land since the owner of the land use rights has not obtained the land use rights certificate of the land.
 - Zibo Yingde can use the property according to the Gases Supply Agreement.
 - The property interest owned by Zibo Yingde may not be protected under the PRC laws.

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No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
8.	A composite building No. 18-2 South Xi'an Road Qingpu District Huai'an City Jiangsu Province The PRC	The property comprises a composite building completed in about 2007. The property has a gross floor area of approximately 1,538 sq.m.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. According to a Gases Supply Agreement and a Transfer Agreement entered into among Nanjing Steel Group Huai Steel (Group) Co., Ltd. (南京鋼鐵集團淮鋼集團有限公司) ("Huai Steel"), Hunan Yingde Gases Company Limited, (an indirect wholly-owned subsidiary of the Company), and Huai'an Yingda Gases Company Limited ("Huai'an Yingda"), an indirect wholly-owned subsidiary of the Company, Huai'an Yingda was allowed to establish an oxygen plant on a parcel of land held by Huai Steel to manufacture and supply gases to Huai Steel to meet its production requirements with an effective term of 20 years at nil fee commencing from the day when Huai'an Yingda started to supply the gases.
2. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the date of valuation would be RMB1,730,000 assuming all relevant proper title certificates have been obtained and they could be freely transferred.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Huai'an Yingda has the rights to use the land according to the Gases Supply Agreement.
 - (ii) The buildings were constructed to serve for the Gases Supply Agreement and Huai'an Yingda can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - (iii) The property interest owned by Huai'an Yingda may not be protected under the PRC laws.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
9.	8 buildings and various structures No. 600 Yanhai Road Lanshan District Rizhao City Shandong Province The PRC	The property comprises 8 buildings and various structures completed in 2007 and 2008. The buildings have a total gross floor area of approximately 5,807.25 sq.m. The buildings include an office building, a control building, 2 pump houses, 2 electricity distribution rooms, an ancillary room and a gatehouse. The structures mainly include roads and boundary walls.	The property is currently occupied by the Group for office and ancillary purposes.	No commercial value

Notes:

1. According to a Gases Supply Agreement and a Transfer Agreement entered into between Rizhao Steel Co., Ltd. ("Ri Steel"), Hunan Yingde Gases Company Limited, an indirect wholly-owned subsidiary of the Company, and Rizhao Yingde Gases Company Limited, ("Rizhao Yingde"), an indirect wholly-owned subsidiary of the Company, Rizhao Yingde was allowed to establish an oxygen plant on a parcel of land held by Ri Steel to manufacture and supply gases to Ri Steel to meet its production requirements with an effective term of 20 years commencing from the day when Rizhao Yingde started to supply the gases. According to the above agreements, a parcel of land with a site area of approximately 25,000 sq.m. on which the property is situated, is also offered to Rizhao Yingde for production use with an annual land occupancy fee of RMB100,000.
2. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB10,199,000 assuming all relevant proper title certificates have been obtained and they could be freely transferred.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Rizhao Yingde has the rights to use the land according to the Gases Supply Agreement.
 - (ii) The buildings were constructed to fulfill the requirements of the Gases Supply Agreement and Rizhao Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - (iii) The property interest owned by Rizhao Yingde may not be protected under the PRC laws.

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PROPERTY VALUATION

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No. Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
10. 6 buildings and various structures located at Nandian Town Pingshan County Shijiazhuang City Hebei Province The PRC	The property comprises 6 buildings and various structures completed in 2007 and 2009. The property has a gross floor area of approximately 4,548.7 sq.m. The buildings include an office building, 2 control buildings, 2 pump houses and a gatehouse. The structures mainly include roads and boundary walls.	The property is currently occupied by the Group for office and ancillary purposes.	No commercial value

Notes:

1. According to a Gases Supply Agreement dated 5 June 2006, entered into between Hebei Jingye Steel Co., Ltd. (河北敬業鋼鐵有限公司) ("Hebei Jingye") and Hunan Yingde Gases Company Limited ("Hunan Yingde"), an indirect wholly-owned subsidiary of the Company, Hunan Yingde was allowed to establish an oxygen plant on a parcel of land held by Hebei Jingye to manufacture and supply gases to Hebei Jingye to meet its production requirements with an effective term of 20 years commencing from the day when Hunan Yingde started to supply the gases. Hunan Yingde has transferred the rights under the Gases Supply Agreement to Hebei Yingde Gases Company Limited ("Hebei Yingde"), an indirect wholly-owned subsidiary of the Company.
2. According to a Land Use Agreement dated 7 November 2007, entered into between Pingshan County Jingye Jiaosuan Co., Ltd. (平山縣敬業焦酸有限公司) and Hebei Yingde, a parcel of land with a site area of 20,000 sq.m. was leased to Hebei Yingde for a term of 20 years at an annual rent of RMB1,000.
3. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB6,067,000 assuming all relevant proper title certificates have been obtained and they could be freely transferred.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) According to the Gases Supply Agreement and the Land Use Agreement, Hebei Yingde has the rights to ask Hebei Jingye Steel Co., Ltd. for compensation due to lack of the land title certificate.
 - (ii) The buildings were constructed to fulfill the requirements of the Gases Supply Agreement and Hebei Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - (iii) The property interest owned by Hebei Yingde may not be protected under the PRC laws.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
11.	A parcel of land, various buildings and structures located at the eastern side of Changjiang Road and the northern side of Ri Chu Chemical Yangtze River International Chemical Industrial Park Zhangjiagang City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 68,055.4 sq.m. and 12 buildings and various ancillary structures erected thereon completed in 2008. The buildings have a total gross floor area of approximately 17,527.11 sq.m. The buildings mainly include a composite building, an industrial building and a gatehouse. The structures mainly include roads, boundary walls and ground. The land use rights of the property were granted for a term with the expiry date on 14 May 2056 for industrial use.	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Zhang Guo Yong (2009) No. 380015 dated 19 June 2009, the land use rights of a parcel of land with a site area of approximately 68,055.4 sq.m. were granted to Zhangjiagang Yingde Gases Co., Ltd. ("Zhangjiagang Yingde"), a 75% interest owned subsidiary of the Company, for a term of 50 years with the expiry date on 14 May 2056 for industrial use.
- Pursuant to 3 Building Ownership Certificates – Zhang Fang Quan Zheng Jin Zi Nos. 0000160293, 0000160297 and 0000160298 dated 21 May 2009, 12 buildings with a total gross floor area of approximately 17,527.11 sq.m. are owned by Zhangjiagang Yingde.
- In the valuation of this property, we have attributed no commercial value to the property as its land premium has not been fully paid. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and the structures as at the date of valuation would be RMB63,630,000 assuming the land premium has been fully paid and the buildings could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - Zhangjiagang Yingde has obtained the State-owned Land Use Rights Certificate (stated in note 1) with a portion of land premium unpaid. On the conditions that Zhangjiagang Yingde has paid off outstanding land premium and all relevant tax and penalty (if any), and relevant authorities has not raised any objection, there will be no risk of government terminating the granted land use rights.
 - Zhangjiagang Yingde owns the building ownership rights of the property and has the rights to occupy, use, mortgage, transfer or lease the buildings of the property, but is subject to the limitations arising from the situation as mentioned in note 4(i).

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No. Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
12. 7 buildings and a structure located at the eastern side of West Outer Ring Road and the northern side of Longtan West Road Taishan Steel Industrial Zone Laiwu City Shandong Province The PRC	The property comprises 7 buildings and a structure completed in 2008. The property has a gross floor area of approximately 2,560.8 sq.m. The buildings mainly include an office building, a staff quarter and a gatehouse. The structure includes the boundary walls.	The property is currently occupied by the Group for office and ancillary purposes.	No commercial value

Notes:

1. According to a Gases Supply Agreement dated 31 August 2006, entered into between Shandong Taishan Steel Group Company Limited (山東泰山鋼鐵集團有限公司) ("Taishan Steel") and Yingde Gases Investment Limited ("Yingde Investment"), Yingde Investment was allowed to establish an oxygen plant on a parcel of land held by Taishan Steel to manufacture and supply gases to Taishan Steel to meet its production requirements for an effective term of 20 years commencing from the day when Yingde Investment started to supply the gases. Yingde Investment has transferred the rights under the Gases Supply Agreement to Laiwu Yingde Gases Company Limited ("Laiwu Yingde"), an indirect wholly-owned subsidiary of the Company.
2. Pursuant to a Construction Land Planning Permit – (2007) Lai Gui Di Zi No. 038 dated 15 May 2007, issued by the Planning Bureau of Laiwu City in favour of Laiwu Yingde, permission towards the planning of the subject land with a site area of approximately 72,411.4 sq.m. was granted to Laiwu Yingde.
3. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structure (excluding the land) as at the date of valuation would be RMB6,127,000 assuming all proper title certificates have been obtained and the property could be freely transferred.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) According to the Gases Supply Agreement, Laiwu Yingde has the rights to ask Shandong Taishan Steel Group Company Limited for compensation if Laiwu Yingde can not occupy the land since the owner of the land use rights has not obtained the land use rights certificate of the land.
 - (ii) The buildings were constructed to fulfill the requirements of the Gases Supply Agreement and Laiwu Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - (iii) The property interest owned by Laiwu Yingde may not be protected under the PRC laws.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
13.	A building located at Tianfu Chemical Plant Ma Chang Ping Town Fuquan City Guizhou Province The PRC	The property comprises an office building completed in 2009. The property has a gross floor area of approximately 1,533.55 sq.m.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- According to a Gases Supply Agreement dated 10 November 2006, entered into between Guizhou Tian Fu Chemical Co., Ltd. (貴州天福化工有限責任公司) ("Tian Fu Chemical") and Yingde Gases Investment Limited ("Party B"), Party B was allowed to establish an oxygen plant on a parcel of land held by Tian Fu Chemical to manufacture and supply gases to Tian Fu Chemical to meet its production requirements with an effective term of 25 years commencing from 1 March 2009. Based on the aforesaid Agreement, once the plant is completed, Yingde Investment will transfer the Gases Supply Agreement to Guizhou Yingde Gases Company Limited ("Guizhou Yingde"), a wholly-owned subsidiary of the Company.
- In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the date of valuation would be RMB2,125,000 assuming all proper title certificates have been obtained and the property could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - Guizhou Yingde has the rights to use the land according to the Gases Supply Agreement.
 - The building was constructed to fulfill the requirements of the Gases Supply Agreement and Guizhou Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements from the local authorities and the owner of the land use rights.
 - The property interest owned by Guizhou Yingde may not be protected under the PRC laws.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
14.	2 buildings and various structures located at the west gate of Hunan Zhuye Torch Metal Co. Ltd. Xunhuan Economic Industrial Zone Zhuzhou City Hunan Province The PRC	The property comprises 2 buildings and various structures completed in 2009. The property has a gross floor area of approximately 2,800.36 sq.m. The buildings comprises a composite building and a pump house. The structures mainly include roads and boundary walls.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- According to a Gases Supply Agreement dated 3 March 2007, entered into between Hunan Zhuye Torch Metal Co., Ltd. (湖南株冶火炬金属股份有限公司) ("Zhuye Torch Metal") and Yingde Gases Investment Limited ("Yingde Investment"), Yingde Investment was allowed to establish an oxygen plant on a parcel of land held by Zhuye Torch Metal to manufacture and supply gases for Zhuye Torch Metal to meet its production requirements with an effective term of 20 years commencing from the day when Yingde Investment started to supply the gases and the annual land occupancy fee is RMB80,000. As advised by Zhuzhou Yingde Gases Company Limited ("Zhuzhou Yingde") a wholly-owned subsidiary of the Company, once the plant is completed, Yingde Investment will transfer the aforesaid Agreement to Zhuzhou Yingde.
- In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB3,625,000 assuming all proper title certificates have been obtained and the property could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - Zhuzhou Yingde has the rights to use the land according to the Gases Supply Agreement.
 - The buildings were constructed to fulfill the requirements of the Gases Supply Agreement and Zhuzhou Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements raised by the local authorities and the owner of the land use rights.
 - The property interest owned by Zhuzhou Yingde may not be protected under the PRC laws.

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PROPERTY VALUATION

VALUATION CERTIFICATE

GROUP II – PROPERTY INTERESTS HELD UNDER DEVELOPMENT BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
15.	4 buildings inside Hengyang Steel Pipe Plant No. 10 of Da Li Xin Cun Hengyang City Hunan Province The PRC	The property comprises 4 buildings which are under construction. The buildings are scheduled to be completed in October 2009. The gross floor area of the buildings upon completion will be approximately 2,487 sq.m.	The property is under construction.	No commercial value

Notes:

1. According to a Gases Supply Agreement dated 28 November 2008, entered into between Hengyang Hualing Lianzhaguan Co., Ltd. (衡陽華菱連軋管有限公司) ("Hengyang Hualing") and Yingde Gases Investment Limited ("Yingde Investment"), Yingde Investment was allowed to establish an oxygen plant on a parcel of land held by Hengyang Hualing to manufacture and supply gases for Hengyang Hualing to meet its production requirements. Yingde Gases Investment Limited has transferred the rights under the Gases Supply Agreement to Hengyang Yingde Gases Company Limited ("Hengyang Yingde"), a 70% interest owned subsidiary of the Company.
2. As advised by the Group, the total construction cost of the property is estimated to be approximately RMB2,170,000, of which RMB1,887,900 has been paid up to the date of valuation.
3. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB1,223,000 assuming all proper title certificates have been obtained and the property could be freely transferred.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Hengyang Yingde has the rights to use the land according to the Gases Supply Agreement.
 - (ii) The buildings were constructed to fulfill the requirements of the Gases Supply Agreement and Hengyang Yingde can use the buildings according to the Gases Supply Agreement if there are no disagreements raised by the local authorities and the owner of the land use rights.
 - (iii) The property interest owned by Hengyang Yingde may not be protected under the PRC laws.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
16.	2 parcels of land, 3 buildings and various structures located at the northern side of Jinshan Road Yangzhou Economic Development Zone Yangzhou City Jiangsu Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 35,362.3 sq.m. and 3 buildings and various ancillary structures erected thereon which are under construction. The property is scheduled to be completed in October 2009. The gross floor area of the buildings upon completion will be approximately 2,296 sq.m. The land use rights of the property were granted for terms of 50 years with the expiry date on 31 December 2056 for industrial use.	The property is under construction.	9,956,000 100% interest attributable to the Group: RMB9,956,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Grant Contracts – Yang Di Kai He Zi (2006) Nos. 58 & 109 dated 31 December 2006, entered into between the Land Resource Bureau of Jiangsu Province, Yangzhou City and Yangzhou Yingde Gases Company Limited ("Yangzhou Yingde"), an indirect wholly-owned subsidiary of the Company, the land use rights of 2 parcels of land with a total site area of approximately 35,362 sq.m. were contracted to be granted to Yangzhou Yingde for a term of 50 years for industrial use at a total consideration of RMB4,950,680.
2. Pursuant to 2 State-owned Land Use Rights Certificates – Yang Guo Yong (2008) Nos. 0179 and 0180 dated 1 April 2008, the land use rights of 2 parcels of land with a total site area of approximately 35,362.3 sq.m. were granted to Yangzhou Yingde for terms of 50 years with the expiry date on 31 December 2056 for industrial use.
3. Pursuant to 4 Construction Work Planning Permits – Jian Zi Nos. 3210002008K0101 and 3210002008K0020 to 3210002008K0022 in favour of Yangzhou Yingde, 3 buildings and a structure have been approved for construction.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Yangzhou Yingde owns the land use rights of the property and has the rights to mortgage, transfer or lease the land use rights of the property under the relevant PRC laws.
 - (ii) The property is not subject to any third party encumbrance.
 - (iii) There will be no material legal impediment for Yangzhou Yingde in obtaining the building ownership rights for the 3 buildings after the 3 buildings are completed and passed the acceptance inspection.

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PROPERTY VALUATION

VALUATION CERTIFICATE

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
17.	Unit 1702 of Golden Eagle Tower A No. 1518 Minsheng Road Pudong New District Shanghai The PRC	The property comprises a unit on Level 17 of a 21-storey office building completed in about 2005. The property has a gross floor area of approximately 389.29 sq.m. The property is rented to Jiangsu Yingde Gases Company Limited Shanghai Branch from an independent third party for a term of 6 years commencing from 20 August 2006 and expiring on 19 August 2012, at a current daily rent of RMB4.9853 sq.m.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement and a Supplementary Agreement dated 6 July 2006 entered into between Shanghai Lianxing Economic Development Corporations Co., Ltd. (上海連興經濟發展合作有限公司) and Jiangsu Yingde Gases Company Limited Shanghai Branch ("Jiangsu Yingde Shanghai Branch"), an indirect wholly-owned subsidiary of the Company, the property is rented to Jiangsu Yingde Shanghai Branch from 20 August 2006 for a term of 6 years at a daily rent of RMB4.5321 per sq.m. for the first 2 years, RMB4.9853 per sq.m. for the second 2 years and RMB5.4838 per sq.m. for the last 2 years, exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Jiangsu Yingde Shanghai Branch has the rights to use the property within the terms stated in the Tenancy Agreement and the usage of the property is in compliance with the purpose prescribed by the Real Estate Title Certificate.
 - (ii) The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
18.	Unit 3033 of a building No. 2123 Pudong Avenue Pudong New District Shanghai The PRC	The property comprises a unit on Level 3 of a 28-storey commercial building completed in about 1998. The property has a gross floor area of approximately 30 sq.m. The property is rented to Jiangsu Yingde Gases Company Limited Shanghai Branch from an independent third party for a term commencing from 18 October 2006 and expiring on 18 October 2011, at an annual rent of RMB18,000.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Shanghai Mingyang Property Co., Ltd. (上海名陽置業有限公司) and Jiangsu Yingde Gases Company Limited Shanghai Branch, ("Jiangsu Yingde Shanghai Branch"), an indirect wholly-owned subsidiary of the Company, the property is rented to Jiangsu Yingde Shanghai Branch for a term commencing from 18 October 2006 and expiring on 18 October 2011 at an annual rent of RMB18,000.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Jiangsu Yingde Gases Co., Ltd. Shanghai Branch has the rights to use the property within the terms stated in the Tenancy Agreement and the usage of the property is in compliance with the purpose prescribed by the Real Estate Title Certificate.
 - (ii) The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.

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No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
19.	Unit 2114 Block B Bao Li Mansion North Changjiang Road Tianyuan District Zhuzhou City Hunan Province The PRC	The property comprises a unit on Level 21 of a 28-storey office building completed in about 2004. The property has a gross floor area of approximately 53 sq.m. The property is rented to Hunan Yingde Gases Company Limited from an independent third party for a term commencing from 13 February 2009 and expiring on 31 December 2009, at an annual rent of RMB15,828.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 23 February 2009 entered into between Xu Jianling (徐建靈) and Hunan Yingde Gases Company Limited ("Hunan Yingde"), an indirect wholly-owned subsidiary of the Company, the property is rented to Hunan Yingde for a term commencing from 13 February 2009 and expiring on 31 December 2009 at an annual rent of RMB15,828.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Hunan Yingde has the rights to use the property within the terms stated in the Tenancy Agreement and the usage of the property is in compliance with the purpose prescribed by the Building Ownership Certificate.
 - (ii) The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.

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No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
20.	Units 2601, 2602, 2603, 2605, 2606, 2607 and 2608 of Shenlan Mansion Chaohui Road Xiacheng District Hangzhou City Zhejiang Province The PRC	The property comprises the whole of 7 units on Level 26 of a 29-storey office building completed in about 2004. The property has a gross floor area of approximately 1,300.67 sq.m. The property is leased to Laiwu Yingde Gases Company Limited from an independent third party for a term commencing from 1 October 2007 and expiring on 30 September 2010, at a rent of RMB4.6 per day per sq.m.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Lihong, Xuanzhe (李紅, 宣哲) and Laiwu Gases Company Limited ("Laiwu Yingde"), an indirect wholly-owned subsidiary of the Company, the property is leased to Laiwu Yingde for a term commencing from 1 October 2007 and expiring on 30 September 2010 at the rent of RMB4.6 per day per sq.m.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Laiwu Yingde has the rights to use the property within the terms stated in the Tenancy Agreement and the usage of the property is in compliance with the purpose prescribed by the Building Ownership Certificate.
 - (ii) The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.

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No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
21.	Levels 2 and 3 of a building No. 18 Group 2 Yangliu Village Hengyang City Hunan Province The PRC	The property comprises Levels 2 and 3 of a 3-storey residential building completed in about 2004. The property has a lettable area of approximately 150 sq.m. The property is leased to Hengyang Yingde Gases Company Limited from an independent third party for a term commencing from 1 April 2009 and expiring on 31 March 2011, at a monthly rent of RMB960.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 1 April 2009 entered into between Liu Benzhen (劉本正) and Hengyang Yingde Gases Company Limited ("Hengyang Yingde"), an indirect wholly-owned subsidiary of the Company, the property is leased to Hengyang Yingde for a term commencing from 1 April 2009 and expiring on 31 March 2011, at a monthly rent of RMB960, exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.
 - (ii) Hengyang Yingde may not be able to use the property subject to the claim from the relevant administration authorities and the property owner.

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No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
22.	Unit 202, Entrance no. 1 of Building no. 55 Residential Area of Hengyang Steel Pipe Plant Hengyang City Hunan Province The PRC	The property comprises a unit on Level 2 of a 7-storey residential building completed in about 1998. The property has a lettable area of approximately 80 sq.m. The property is leased to Hengyang Yingde Gases Company Limited from an independent third party for a term commencing from 1 March 2009 and expiring on 29 February 2012, at a monthly rent of RMB600.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 9 March 2009 entered into between Tao Yongzhi (陶永志) and Hengyang Yingde Gases Company Limited ("Hengyang Yingde"), an indirect wholly-owned subsidiary of the Company, the property is leased to Hengyang Yingde for a term commencing from 1 March 2009 and expiring on 29 February 2012, at a monthly rent of RMB600, exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.
 - (ii) Hengyang Yingde may not be able to use the property subject to the claim from the relevant administration authorities and the property owner.

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No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
23.	Level 4, Entrance no. 3 of Building 65 Da Li Xin Cun Zhengxiang District Hengyang City Hunan Province The PRC	The property comprises a unit on Level 4 of a 7-storey residential building completed in about 1996. The property has a lettable area of approximately 120 sq.m. The property is leased to Hengyang Yingde Gases Company Limited from an independent third party for a term commencing from 5 March 2009 and expiring on 4 March 2010, at a monthly rent of RMB940.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement dated 4 March 2009 entered into between Tan Jiaxiu (譚家秀) and Hengyang Yingde Gases Company Limited ("Hengyang Yingde"), an indirect wholly-owned subsidiary of the Company, the property is leased to Hengyang Yingde for a term commencing from 5 March 2009 and expiring on 4 March 2010, at a monthly rent of RMB940, exclusive of water and electricity charges.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.
 - Hengyang Yingde may not be able to use the property subject to the claim from the relevant administration authorities and the property owner.

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No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
24.	Unit 202, Entrance no. 1 of Building no. 54 Residential Area of Hengyang Steel Pipe Plant Hengyang City Hunan Province The PRC	The property comprises a unit on Level 2 of a 7-storey residential building completed in about 2001. The property has a lettable area of approximately 80 sq.m. The property is leased to Hengyang Yingde Gases Company Limited from an independent third party for a term commencing from 1 September 2009 and expiring on 28 February 2010, at a monthly rent of RMB900.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement dated 1 March 2009 entered into between Lang Shengjie (朗聖傑) and Hengyang Yingde Gases Company Limited ("Hengyang Yingde"), an indirect wholly-owned subsidiary of the Company, the property is leased to Hengyang Yingde for a term commencing from 1 September 2009 and expiring on 28 February 2010, at a monthly rent of RMB900, exclusive of water and electricity charges.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - The non-registration of the Tenancy Agreement with the building administration authorities will not affect the validity of the Tenancy Agreement.
 - Hengyang Yingde may not be able to use the property subject to the claim from the relevant administration authorities and the property owner.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2009 RMB
25.	A parcel of land and 7 units of a composite building located at No. 1 Group 9 Pudun Village Wudun Town Qingpu District Huai'an City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 4,973.36 sq.m. and 3 units on Level 1 and 4 units on Level 2 of a 2-storey composite building erected thereon completed in about 2008. The units have a total lettable area of approximately 150 sq.m. The property is leased to Jiangsu Yingde Logistics Company Limited from an independent third party for a term commencing from 6 April 2009 and expiring on 5 April 2010, at an annual rent of RMB96,004.	The property is currently occupied by the Group for storage and office purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Huai'an North Logistics Co., Ltd. (淮安北方物流有限公司) and Jiangsu Yingde Logistics Company Limited ("Yingde Logistics"), an indirect wholly-owned subsidiary of the Company, the property is leased to Yingde Logistics for a term commencing from 6 April 2009 and expiring on 5 April 2010, at an annual rent of RMB96,004.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Yingde Logistics may not be able to use the property subject to the claim from the relevant administration authorities and the property owner.

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 September 2007 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were passed pursuant to the shareholders' written resolutions on September 12, 2009 and will become effective on and conditional upon the satisfaction of certain condition. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration

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statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission,

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participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

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- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

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(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an

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annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of

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the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

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- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or

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such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular

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dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

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If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

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Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding

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company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in

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the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 9 October 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

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(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

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Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on September 25, 2007 under the Cayman Companies Law. Our registered address is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-111 Cayman Islands. We have registered a place of business in Hong Kong at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong, and have been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance. KCS Hong Kong Limited has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for service of process on our Company in Hong Kong is the same as its registered place of business in Hong Kong set out above. As we are incorporated in the Cayman Islands, our corporate structure, our Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Companies Law are set out in Appendix V to this document.

2. Changes in share capital of our Group

Our Company

As at the date of incorporation, the authorized share capital of our Company was US\$50,000 divided into 50,000 Shares of par value of US\$1.00 each. The following sets out the changes in our Company's issued share capital since the date of incorporation:

On July 21, 2008, a sole shareholder's resolution was passed to approve, *inter alia*, the subdivision of each issued and unissued ordinary share of US\$1.00 par value each in the capital of our Company. The share capital of our Company of US\$50,000 was divided into 49,600,000,000 ordinary shares of US\$0.000001 par value each and 400,000,000 preferred shares of US\$0.000001 par value each.

On July 10, 2009, the authorized share capital of our Company divided into 49,600,000,000 ordinary shares of US\$0.000001 par value each and 400,000,000 preferred shares of US\$0.000001 par value each was redesignated as 49,800,000,000 ordinary shares of US\$0.000001 par value each and 200,000,000 preferred shares of US\$0.000001 par value each.

On July 10, 2009, our Company, Yingde BVI and the existing shareholders of Yingde BVI entered into a share exchange agreement pursuant to which our Company became the sole shareholder of Yingde BVI and our Company issued to the existing shareholders of Yingde BVI the Shares in our Company as consideration for exchanging their shareholding interest in Yingde BVI. Upon completion of the share exchange, the total number of Shares in our Company in issue was increased to 1,270,000,000 Shares and 200,000,000 Preferred Shares.

On September 12, 2009, the shareholders of our Company resolved that, on a conditional basis, our Company's authorized share capital of US\$50,000 will be redesignated and reclassified into 50,000,000,000 ordinary shares of US\$0.000001 par value each.

Our subsidiaries

The list of our subsidiaries is set out in the section headed "Appendix I – Accountants' Report" to this document.

As at the date of the incorporation of Yingde BVI, the authorized share capital of Yingde BVI was US\$50,000 divided into 48,000 ordinary shares of par value of US\$1.00 each and 2,000 Preferred Shares of par value of US\$1.00 each. The following sets out the changes in Yingde BVI's issued share capital since the date of its incorporation:

- from May 12, 2006 to June 22, 2006, the issued share capital consisted of 2,000 ordinary shares of par value of US\$1.00 each, with Baslow and Peace & Smooth each holding 1,000 ordinary shares;

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- on June 23, 2006, the issued share capital was increased to 6,200 ordinary shares of par value of US\$1.00 each and 2,000 Preferred Shares of par value of US\$1.00 each, with Baslow, Peace & Smooth and Bubbly Brooke each holding 3,200, 2,150 and 850 ordinary shares, respectively, and Baring holding 2,000 Preferred Shares;
- on November 1, 2006, the issued share capital was increased to 8,200 ordinary shares of par value of US\$1.00 each and 2,000 Preferred Shares of par value of US\$1.00 each, with Baslow, Peace & Smooth, Bubbly Brooke and Rongton each holding 3,200, 2,150, 850 and 2,000 ordinary shares, respectively, and Baring holding 2,000 Preferred Shares;
- on March 20, 2007, the issued share capital was increased to 11,910 ordinary shares of par value of US\$1.00 each and 2,000 Preferred Shares of par value of US\$1.00 each, with Baslow, Peace & Smooth, Bubbly Brooke, Rongton, Baring, Goal Stand Goal, and Pinpoint Capital each holding 4,393, 2,150, 850, 3,733, 502, 141 and 141 ordinary shares, respectively, and Baring holding 2,000 Preferred Shares; and
- on November 21, 2007, the issued share capital was increased to 12,700 ordinary shares of par value of US\$1.00 each and 2,000 Preferred Shares of par value of US\$1.00 each, with Baslow, Peace & Smooth, Bubbly Brooke, Rongton, Baring, Goal Stand Goal, Pinpoint Capital, Winford Global and Deutsche Bank each holding 3,970, 2,150, 950, 3,324, 743, 191, 191, 411 and 770 ordinary shares, respectively, and Baring holding 2,000 Preferred Shares.

The following changes in the share capital of Hunan Yingde, Zibo Yingde, Yangzhou Yingde and Zhuhai Yingde, four of our subsidiaries, occurred in the two years preceding the date of this document:

On September 26, 2007, the State Administration of Foreign Exchange approved Hunan Yingde's conversion of profits in the amount of RMB45,998,013.33 into increasing Hunan Yingde's registered capital. On September 27, 2007, Hunan Yingde received Yingde BVI's RMB45,998,013.33 re-investment into Hunan Yingde, after which Hunan Yingde's accumulated capital stood at RMB246,000,000.

Zibo Yingde was established on November 8, 2006 with an initial registered capital of US\$7,500,000. On April 18, 2008, the board of directors of Zibo Yingde passed a resolution to increase the registered capital of Zibo Yingde from the original amount of US\$7,500,000 to the current amount of US\$9,750,000 for the purpose of expanding gas production facilities. Such capital increase was approved by the local approval authority on May 26, 2008 and was then registered with Zibo Administration of Industry and Commerce on July 2, 2008.

Yangzhou Yingde was established on April 12, 2006 with an initial registered capital in the amount of US\$10,000,000. On March 5, 2007, the board of directors of Yangzhou Yingde passed a resolution to increase the registered capital of Yangzhou Yingde from the original amount of US\$10,000,000 to the current amount of US\$11,500,000 for the purpose of expanding gas production facilities. Such capital increase was approved by the local approval authority on February 7, 2007 and was then registered with the Yangzhou Administration of Industry and Commerce on March 26, 2007.

Zhuhai Yingde was established on April 8, 2003 with an initial registered capital of RMB44,000,000. On October 22, 2007, the board of directors of Zhuhai Yingde passed a resolution to increase the registered capital of Zhuhai Yingde from the original amount of RMB44,000,000 to the current amount of RMB140,000,000 for the purpose of expanding gas production facilities. Such capital increase was approved by the local approval authority on November 5, 2007 and was then registered with Zhuhai Administration of Industry and Commerce on January 3, 2008.

Save as disclosed above, there has been no other alteration in the share capital of our subsidiaries in the two years preceding the date of this document.

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3. Option to purchase shares in a subsidiary of our Group

Under the terms of the gas supply contract entered into on November 10, 2006 between Yingde BVI and our Guizhou On-site Customer, Guizhou On-site Customer was granted an option to purchase between 25% to 49% of Guizhou Yingde's issued share capital. The consideration to be paid for any shares purchased under the option will be determined on the basis of a valuation by an accounting firm recognized by both parties and will be subject to the relevant PRC laws and regulations. Please refer to the section headed "Business – Arrangement with our on-site customer in Guizhou" for further details.

Save as disclosed in this document, no other share or loan capital of any member of our Group is under option or is agreed conditionally or unconditionally to be put under option.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that are or may be material:

- (a) A subscription agreement executed on November 16, 2007 between Yingde Gases Investment Limited and Deutsche Bank AG, acting through its London Branch, in relation to the subscription of the ordinary shares of Yingde Gases Investment Limited;
- (b) A joint venture agreement executed on June 2, 2009 between Yingde Gases Investment Limited and Shihlien China Holding Company Limited;
- (c) A joint venture agreement executed on November 28, 2008 between Yingde Gases Investment Limited, Hunan Yingde Gases Company Limited and Hengyang Hualing Lianzhaguan Company Limited;
- (d) A share exchange agreement executed on July 10, 2009 between Baring Private Equity Asia III Holding (7) Limited, Baslow Technology Limited, Bubbly Brooke Holdings Limited, Peace & Smooth (Hong Kong) Investment Company Limited, Rongton Investments Limited, Winford Global Investments Limited, Gold Stand Goal Limited, Pinpoint Capital 2006 A Limited, Deutsche Bank AG, acting through its Hong Kong Branch, Deutsche Bank AG, acting through its London Branch, Yingde Gases Investment Limited and Yingde Gases Group Company Limited in relation to the shares of Yingde Gases Investment Limited and Yingde Gases Group Company Limited; and
- (e) [●].

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2. Intellectual property rights

As of the Latest Practicable Date, our Group has registered or has applied for the registration of the following intellectual property rights:

A. Trademarks

As at the Latest Practicable Date, Yingde BVI has registered the following trademark in the PRC:

<u>Trademark</u>	<u>Class⁽¹⁾</u>	<u>Application Date</u>	<u>Application Number</u>
 盈德氣體 YINGDE GASES	1	September 26, 2005	4913045

As at the Latest Practicable Date, we have registered following trademarks in Hong Kong:

<u>Trademark</u>	<u>Class⁽¹⁾</u>	<u>Registration date</u>	<u>Trade Mark Number</u>
 YINGDE GASES GROUP COMPANY LIMITED 盈德氣體集團有限公司	1	July 15, 2008	301033389


YINGDE GASES GROUP COMPANY LIMITED
盈德氣體集團有限公司

Note

(1): The trademark applies to products such as argon, nitrogen, nitric oxide, protective gases for welding, carbon dioxide, hydrogen, oxygen, neon, krypton, and helium.

B. Domain Names

As at the Latest Practicable Date, we have registered the following domain names:

<u>No.</u>	<u>Domain name</u>	<u>Registered Owner</u>	<u>Application Date</u>
1	Yingdegases.com	Hunan Yingde	April 18, 2006
2	Yingdegas.com	Hunan Yingde	April 18, 2006

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

3. Particulars of service contracts

Each of Mr. Sun, Mr. Zhao and Mr. Chen Yan, being all of our executive directors, has entered into a service contract with our Company on September 12, 2009 for an initial term of three years commencing [●], unless terminated by not less than three months' notice in writing served by either party on the other. The aggregate fixed annual salary of the three executive directors is approximately RMB2.4 million.

Each of Mr. Chen Dar Cin, Mr. Leong, Mr. Xu and Mr. Zheng, being our non-executive and independent non-executive directors, has entered into a letter of appointment with our Company on September 12, 2009. Each letter of appointment is for an initial term of three years commencing from

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[●], unless terminated by not less than three months' notice in writing served by either party on the other. The aggregate annual fees payable to our non-executive and independent non-executive directors under the letters of appointment is approximately RMB600,000.

Save as disclosed above, none of our directors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation).

4. Directors' remuneration

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid to our directors for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009 were approximately RMB1.8 million, RMB2.6 million, RMB3.1 million and RMB1.2 million, respectively.

It is estimated that remuneration equivalent to approximately RMB2.6 million in aggregate will be paid and granted to our directors by us in respect of the financial year ending December 31, 2009 under arrangements in force as at the Latest Practicable Date.

5. Fees or commissions received

Save as disclosed in this document, none of the directors or any of the persons whose names are listed in the paragraph headed "Consents" in this Appendix VI had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group from our Group within the two years preceding the date of this document.

D. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme, conditionally approved by a resolution of the shareholders passed on September 12, 2009 and adopted by a resolution of the board on September 12, 2009. The number of options to be issued under the Share Option Scheme will not exceed 10% of the issued share capital of our Company on [●]. The terms of the Share Option Scheme are in accordance with the relevant rules and regulation.

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain skilled and experienced personnel, to incentivize them to remain with us and to give effect to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion, by providing them with the opportunity to acquire equity interests in our Company.

2. Who may join:

- (a) The board may, at its absolute discretion, offer any employee, management member or director of our Company, or any of our subsidiaries and third party service providers options, the Options, to subscribe for shares on the terms set out in the Share Option Scheme.
- (b) Options granted to directors or substantial shareholders:
 - (i) Any Options to be granted to a director, chief executive or substantial shareholder of our Company or any of their respective associates shall be approved by our independent non-executive directors (excluding any independent non-executive director who is the proposed grantee of the Options).

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- (ii) Without prejudice to the generality of sub-paragraph (b)(i) above, if any Options to be granted to a substantial shareholder or independent non-executive director of our Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of all the Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the period of 12 months up to and including the date of the grant:
- representing in aggregate over 0.1% of the shares in issue; and
 - having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million,

the further grant of Options must be approved by our shareholders in general meeting. We must send a circular to our shareholders containing such information as required under the relevant rules and regulations. All our connected persons shall abstain from voting in favor at such general meeting, and any vote taken at such meeting must be taken on a poll.

3. Maximum number of shares

- (a) The maximum number of shares in respect of which Options may be granted under the Share Option Scheme when aggregated with the maximum number of shares in respect of which options may be granted under any other scheme involving the issue or grant of options over shares or other securities by us or any of our subsidiaries (the Maximum Number of shares) shall not exceed 10% of our issued share capital on [●]. Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the 10% limit.
- (b) The maximum number of shares may, with the approval of our shareholders, be "refreshed" from time to time as required up to a maximum of 10% of our issued share capital as at the date of the shareholders' approval. Options previously granted under the Share Option Scheme or any other scheme, including options outstanding, cancelled or lapsed in accordance with the relevant scheme or exercised options, shall not be counted for the purpose of calculating the limit to be refreshed.
- (c) We may obtain a separate approval from our shareholders to grant Options which will result in the number of shares in respect of all the Options granted under the Share Option Scheme and all the options granted under any other scheme exceeding 30% of our issued share capital, provided that such Options are granted only to employees and third party service providers specifically identified by us before the separate approval of our shareholders is sought.
- (d) The maximum number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our issued share capital from time to time.
- (e) No Option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of Options granted and to be granted to that person in any 12 month period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our shareholders is obtained.

4. Grant of Options

- (a) The period within which the Options must be exercised will be specified by us at the time of grant, and must expire no later than ten years from the date of grant of the Option (being the date on which the board makes a written offer of grant of the Option to the relevant proposed beneficiary) unless our Company obtains separate shareholder approval in relation to such grant.

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- (b) An offer of grant of an Option shall be made by letter to the proposed beneficiary, who may appoint a nominee to hold any Options granted on his or her behalf, specifying the number of Options comprised in the Option proposed to be granted and the applicable terms and conditions relating to the Options. These terms and conditions may include provisions as to the performance conditions which must be satisfied before the Option can be exercised, the minimum period for which an Option must be held before it can be exercised, vesting conditions (if any), lapse conditions and such other provisions as the board may determine. The proposed beneficiary is required to accept the offer and undertake (for itself and, if applicable, on behalf of any nominee of the proposed beneficiary) to hold the Option on the terms and conditions of the grant and, upon receipt by our board of such acceptance, together with the payment of RMB1.00 of consideration, the Option shall be deemed to have been granted, to and accepted by, the proposed beneficiary (an Option holder) and to have taken effect.
- (c) The board shall not grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the relevant rules and regulations. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the board meeting for the approval of our results for any year, half-year, quarterly or any other interim period and the deadline for us to publish an announcement of our results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

5. Minimum holding period and vesting

- (a) The Share Option Scheme does not contain any minimum period(s) for which a Option must be held before it can be exercised. However, at the time of grant of the Options, we may specify any such minimum period(s).
- (b) The Options granted will be subject to vesting periods of up to five years, which will vary from Option holder to Option holder. Upon the expiry of the vesting period, the shares will become vested and the Option holders will become entitled to exercise the Options in accordance with the terms of the Share Option Scheme.

6. Performance targets

The Share Option Scheme does not contain any performance target(s) which must be achieved before the Options can be exercised in whole or in part. At the time of grant of the Options, we may specify any performance target(s).

7. Amount payable for Options

The amount payable on acceptance of an option is RMB1.00.

8. Exercise price

The amount payable for each share to be subscribed for under an Option upon exercise shall be determined by the board and notified to a proposed beneficiary at the time of offer of the Option and shall be not less than the higher of:

- (a) [●]
- (b) [●]
- (c) the nominal value of the Shares.

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9. Voting and other rights

No voting rights shall be exercisable and no dividends shall be payable in respect of the Options that have not been exercised.

10. Life of Share Option Scheme

Unless otherwise terminated by our board of directors or our shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Option granted prior to the expiry of this ten year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

11. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the period for exercise of the Option;
- (b) 12 months (or such longer period as the board may determine) after the death of the Option holder;
- (c) an Option holder ceasing to be an employee of us or any of our subsidiaries on the ground of:
 - the Option holder's misconduct;
 - the Option holder being convicted of any criminal offence involving his integrity or honesty; or
 - the Option holder's employer being entitled to summarily terminate his employment at common law or pursuant to his contract of employment;
- (d) six months after the Option holder ceases to be an employee of us or any of our subsidiaries by reason of:
 - retirement;
 - redundancy;
 - ill health or disability; or
 - a transfer of business and the employee is transferred to a company outside our Group;
- (e) three months after the termination of the Option holder's employment with us or any of our subsidiaries for reasons other than the reasons specified in sub-paragraphs 11(c) and 11(d) above;
- (f) the date on which:
 - the contract between the third party service provider and us or our relevant subsidiary is terminated, where such contract is terminated by reason of breach of contract on the part of the third party service provider; or
 - the third party service Provider appears either unable to pay or have no reasonable prospect to be able to pay debts, or had become insolvent, or has made any arrangement (including a voluntary arrangement) or composition with his creditors generally, or ceases or threatens to cease to carry on his business, or is bankrupted or has been convicted of any criminal offence involving integrity or honesty, provided

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that whether any one or more of the events specified above occur in relation to a third party service provider shall, in its reasonable opinion, be solely and conclusively determined the board;

- (g) nine months (or such longer period as the board may determine) after the Option holder ceases to be a third party service provider by reason of:
 - for a third party service provider under a fixed term contract, termination or expiry of the term of the relevant fixed term contract without any extension or renewal by us or our relevant subsidiary for reasons other than those specified in sub-paragraph 11(f) above or on his death; or
 - for a third party service provider not under any fixed term contract, ceasing to provide any further advisory or consultancy or other kind of services, support, assistance or contribution to us or our relevant subsidiary as may be determined by the board and notified to such third party service provider in writing within three months after the provision of its last service, support, assistance or contribution to us or our relevant subsidiary for reasons other than those specified in sub-paragraph 11(f) above or on his death;
- (h) in the case of any takeover, scheme of compromise or arrangement or voluntary winding up, the expiry of the periods of notice as specified in the Share Option Scheme, provided that in the case of a scheme of compromise or arrangement, the proposed compromise or arrangement becomes effective;
- (i) the date of commencement of the winding-up of our Company; or
- (j) the Option holder in any way selling, transferring, charging, mortgaging, encumbering or creating any interest in favour of any third party over or in relation to any Option or enter into any agreement to do any of the foregoing.

12. Cancellation of options not exercised

Any options granted but not exercised may be cancelled if the Option holder (or, if applicable, the option holder's nominee on the option holder's behalf or his legal personal representative(s)) so agrees and new options may be granted to the same Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf or his legal personal representative(s)) provided such Options fall within the limits specified in paragraph 3 above and are otherwise granted in accordance with the terms of the Share Option Scheme.

13. Ranking of shares

The shares to be allotted and issued to an Option holder upon the exercise of an option shall be subject to all the provisions of our Articles of Association for the time being in force and will rank *pari passu* with the fully paid shares in issue on the date the name of the option holder (or the Option holder's nominee, if applicable) is registered on our register of members. Prior to the Option holder (or the Option holder's nominee, if applicable) being registered on our register of members, the Option holder shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company), in respect of the shares to be issued upon the exercise of the Option.

14. Effect of alterations to capital

In the event of any capitalization issue, rights issue, open offer, consolidation subdivision or reduction of our share capital, such corresponding alterations (if any) shall be made in the number or nominal amount of our shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the method of exercise of the option as our auditors or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with the relevant rules and regulations.

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Any such alterations will be made on the basis that an Option holder shall have the same proportion of our issued share capital (as interpreted in accordance with the Supplemental Guidance) for which any Option holder is entitled to subscribe pursuant to the Options held by such Option holder before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alteration. Any adjustment to be made will comply with the relevant rules and regulations.

If there has been any alteration in our capital structure as referred to in paragraph 14, we shall, upon receipt of a notice from an Option holder in writing in accordance with the requirements of the Share Option Scheme stating that the Option is thereby exercised and specifying the number of Shares to be subscribed, inform the Option holder of such alteration and shall either inform the Option holder of the adjustment to be made pursuant to the certificate of the independent financial adviser or the auditors (as the case may be) obtained by us for such purpose or, if no such certificate has yet been obtained, inform the Option holder of such fact and instruct the independent financial adviser or the auditors (as the case may be) as soon as practicable to issue a certificate in that regard in accordance with paragraph 14.

For the purposes of this paragraph, the independent financial adviser or the auditors shall act as experts and not as arbitrators and their certification being final and binding on us and the Option holder. Their costs shall be borne by us.

15. Termination

We, by ordinary resolution of our shareholders, or the board, may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered or granted, but in all other respects the Share Option Scheme shall remain in full force and effect. Any granted but unexercised and unexpired Options shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

16. Transferability

The Options are personal to the Option holders and are not transferable, except for the transmission of an Option on the death of an Option holder to his personal representative(s) on the terms of the Share Option Scheme. This does not prevent a grantee from nominating an entity to hold his Options on his behalf, provided that the grantee shall undertake to ensure that such nominee shall hold the Options on the terms on which they are granted and to be bound by the provisions of the Share Option Scheme.

17. Amendment

Subject to the terms set out in the paragraph below, the board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in the relevant rules and regulations) at any time (but not so as to affect adversely any rights which have accrued to any Option holder at that date).

Those specific provisions of the Share Option Scheme which relate to the matters set out in the relevant rules and regulations cannot be altered to the advantage of Option holders, and no changes to the authority of the directors or administrator of the Share Option Scheme in relation to any alteration of the terms herein shall be made, without the prior approval of our shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature,

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or any change to the terms of Options granted, must be approved by our shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with the relevant rules and regulations.

18. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) [●]; and
- (b) [●].

If any of the above conditions are not satisfied before such later date as the board may decide, the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty and tax indemnity

As at the Latest Practicable Date, our directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Baslow, Bubbly Brooke, Rongton and Peace & Smooth, or the Indemnifiers, have given indemnities in our favor pursuant to which they have agreed to indemnify us against, among other things, any taxation falling on our Company: (i) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the effective date of the deed of indemnity, and (ii) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the effective date of the deed of indemnity. However, the above indemnities do not apply to any taxation:

- (a) to the extent that specific provision or reserve has been made for such taxation in our combined financial statements included in Appendix I – "Accountants' Report", or to the extent that it relates to taxation incurred or accrued after June 30, 2009 that arises in the ordinary course of our business in this document;
- (b) to the extent such taxation would not have arisen but for an act or omission by us after the effective date of the deed of indemnity (other than pursuant to a legally binding commitment created on or before the effective date of the deed of indemnity);
- (c) to the extent such taxation or liability arises or is incurred only as a result of a retrospective change in law or regulations, a retrospective increase in tax rates or a retrospective change in administrative interpretation of law or regulations, coming into force after the effective date of the deed of indemnity; or
- (d) to the extent that any such liability is disclosed in this document.

Where provision or reserve has been made for taxation in the financial statements included in Appendix I – "Accountants' Report" which is finally established to be an over-provision or an excessive reserve, the Indemnifiers' liabilities (if any) shall be reduced by an amount not exceeding such over-provision.

The indemnity provided by the Indemnifying Parties will remain valid: (1) during a period of five years from the [effective date of the deed of indemnity], and subject to the Indemnifying Parties receiving a written notice from our Company prior to the expiry of such five-year period giving details of the claim, and any such claim should (if not previously satisfied, settled or withdrawn) be deemed to have been waived or withdrawn at the expiry of a period of six months after the fifth anniversary of the

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[effective date of the deed of indemnity] unless proceedings for such claim have been commenced by our Company against the Indemnifying Parties; and (2) provided that [●].

2. Litigation

As at the Latest Practicable Date, the directors of our Company are not aware of any litigation or arbitration proceedings pending or threatened against us or any of our directors that could have a material adverse effect on our financial condition or results of operations.

4. Qualifications of experts

The qualifications of the experts who have given their opinions or advice in this document are as follows:

<u>Name</u>	<u>Qualifications</u>
-------------	-----------------------

5. Consents

Each of KPMG as our reporting accountants, Jones Lang LaSalle Sallmanns Limited as our property valuers, Conyers Dill & Pearman as our legal advisors on Cayman Islands law and our legal advisors on PRC law has given and has not withdrawn its respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

6. Disclaimers

(a) Other than as disclosed in this document, none of our Directors nor any of the parties listed in the paragraph headed "Consents" in the section headed "Other Information" of this Appendix VI is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this document, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) Other than as disclosed in this document, none of our Directors nor any of the parties listed in the paragraph headed "Consents" in the section headed "Other Information" of this Appendix VI is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business; and

(c) Other than as disclosed in this document, we have not issued nor agreed to issue any founder shares, management shares or deferred shares.

7. Binding effect

This document shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

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8. Compliance Advisor

We will appoint a compliance advisor pursuant to the relevant rules and regulations. Pursuant to the relevant rules and regulations, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases; and
- or where our business activities, developments or results deviate from any estimate, or other information in this document.

The term of the appointment shall commence on [●] and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after [●] and such appointment may be subject to extension by mutual agreement.