YINGDE GASES GROUP COMPANY LIMITED
盈德氣體集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 02168

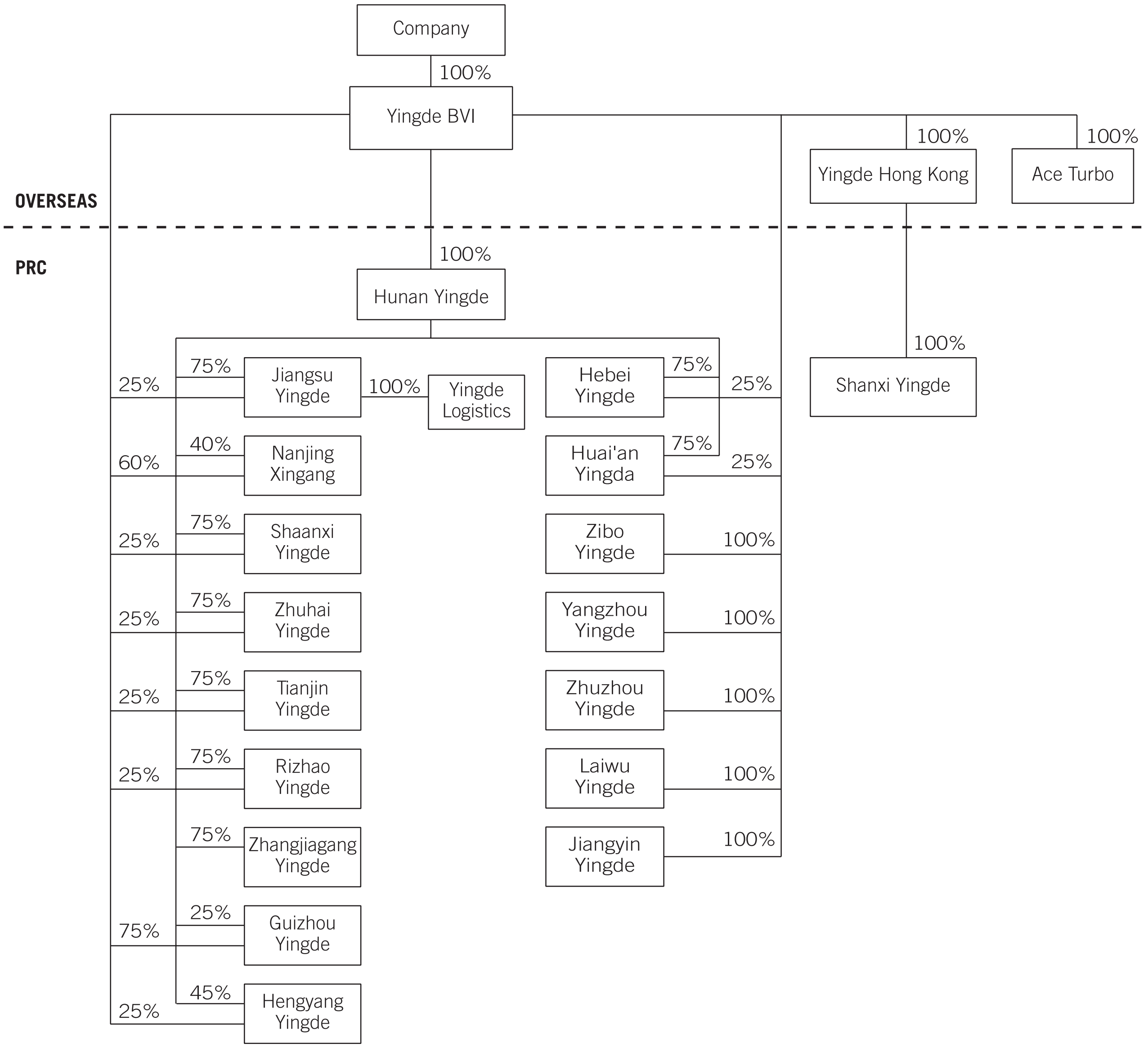
2009 Annual Report

CONTENTS

CORPORATE PROFILE

Our Company was established in the Cayman Islands on 25 September 2007. Our Group's history dates back to 2001 when Hunan Yingde was established in the PRC. Our Company's Shares were listed on the Main Board of the Hong Kong Stock Exchange on 8 October 2009. Our Company wholly owns Yingde BVI which is incorporated in the British Virgin Islands and is an investment holding company of our Group.

Set forth below is the shareholding structure of our Group as at 31 December 2009:



Based on the research information in the SAI Report, we were the largest domestic independent industrial gas supplier specializing in on-site gas supply in China in terms of total revenue as at 31 December 2009.

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 those whose premises are located on or in close proximity to our gas production facilities and to whom we supply industrial gases directly. Our merchant customers generally include liquid gas distributors and small sized industrial companies who purchase industrial gases from us on a spot market basis from time to time.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of Yingde Gases Group Company Limited (our "Company", together with its subsidiaries, referred to as our "Group"), I am pleased to present the annual results for the year ended 31 December 2009.

In 2009, the global economy bottomed out of the global financial crisis and gradually headed towards recovery. In particular, the substantial rebound of the capital markets in the second half of 2009 presented a great opportunity for our Company to achieve listing in Hong Kong. Our Group seized on this excellent opportunity to successfully launch our initial public offering in October 2009, which received an overwhelming response from investors. As the first PRC industrial gas operator to list in Hong Kong, our Group has laid an important foundation for our long-term development.

In the second half of 2009, the strong recovery of the global economy, the growth momentum maintained by the PRC economy, the stronger customer demand driven by the ongoing capital injection by the central government to boost development, and the expanding scale of the PRC industrial gas market were all conducive to our Group's business growth. Our Group actively hammered out its operation approach in light of market changes. This included speeding up the growth of its merchant gas operation through the "Go To Market" strategy, stepping up its efforts in cost control, and expanding its production scale to increase production capacity, thereby allowing our Group to achieve continuous and rapid business growth. The results of our Group improved significantly during the year, with net profit and turnover of our Group amounting to RMB532 million and RMB2,066 million respectively for the year ended 31 December 2009, representing a 24.0% and 46.3% year-on-year increase respectively, which were more than encouraging.

Our Group is one of the largest independent industrial gas suppliers in the PRC. Our principal activities are to produce, supply and distribute a variety of gas products, primarily including oxygen, nitrogen and argon. As at the end of 2009, our Group had 21 production facilities in operation, with a total installed oxygen capacity of 424,300 Nm^3/hr. With a further increase in capacity, our total installed capacity is expected to reach 938,800 Nm^3/hr in 2011. Such an expansion of production scale will help us tap the business opportunities arising from the rapidly growing PRC industrial gas market, as well as the projects in the coal chemical and refining industries.

During the period under review, our on-site gas supply operation, which contributed about 86.8% of total revenue, delivered a stable and healthy performance. We generally entered into long-term take-or-pay gas supply contracts with on-site customers, which in turn provided our Group with a stable source of income. Our Group provided customized solutions and quality products accommodating to the practical needs of customers at competitive prices, thus enabling us to successfully establish a large customer base and become a leading supplier in the industry.

Despite the substantial economic downturn in the first half of 2009, the economic recovery in the second half of the year, coupled with the adoption of proactive sales strategy by our Group, brought forth significant improvements in our merchant gas operation in the second half of the year. Gases sold through our merchant gas operations can be applied in the solar, electronics, glass, food, automotive and manufacturing industries.

CHAIRMAN'S STATEMENT

Looking forward, the PRC industrial gas market is projected to continue its rapid growth. According to the SAI Report, the PRC industrial gas market is expected to grow from US$5.1 billion in 2009 to US$6.5 billion in 2011 and US$9.2 billion in 2015, representing a CAGR of 12.9% and 10.3% respectively, which are significantly higher than those of the overall global industrial gas market. Moreover, the percentage of China's industrial gas market outsourced by customers is expected to increase from approximately 40% in 2008 to approximately 50% in 2015, which still lags behind the 90% for developed countries, implying a huge potential for market development.

We will continue to closely monitor market variation, adjust our operation strategy in due course, step up our efforts in scientific research with a view to enhancing our technical strength, and "Go Deep" and "Go Wide" to continuously push forward our business growth. In this connection, we will firstly work on the customer front by identifying quality customers within the industries we already serve. Apart from iron and steel customers, we will endeavor to expand our customer base to other industries, such as the chemicals and non-ferrous metals industries. Secondly, on the product front, we will actively increase our production capacity of major products such as oxygen, nitrogen and argon, and intend to produce various other industrial gases. Capitalizing on our good corporate governance and the funds raised from our listing, we believe that we will be able to tap more development opportunities in the market and deliver more desirable results to maximize the long-term interests of our shareholders and customers.

The year 2009 was a memorable year for our Company. Not only was our Group successfully listed in Hong Kong and well received by shareholders and the public, but we also achieved steady business growth during the year and expanded our scale day by day. On behalf of our Group, I would like to express my sincere gratitude to each member of our shareholders, directors, management and staff of our Group for their support and contribution. I look forward to achieving more remarkable results and securing your continued recognition in the future.

Zhongguo Sun
Chairman

29 March 2010

CEO'S REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

On behalf of our Company's management team, I am pleased to report our Group's 2009 results to our shareholders as follows:

INDUSTRY REVIEW

Industrial gases are commonly used in a variety of industries including the chemicals, non-ferrous metals, iron and steel, and electronics industries. According to the SAI Report, the PRC industrial gas market has experienced significant growth since the year 2000. Due to the strong performance of the PRC economy, the adoption of higher efficiency and more environmentally friendly technology, and the increasing demand for industrial gases, China's industrial gas market has grown at a CAGR of 21.3% from US$0.9 billion in 2000 to US$5.1 billion in 2009.

Despite the overall economy not having fully recovered, 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 China's industrial gas market is expected to grow from US$5.1 billion in 2009 to US$9.2 billion in 2015, representing a higher CAGR of approximately 10.3% compared with 6.9% for the global industrial gas market.

The supply mode mix of China's industrial gas market is also expected to shift in favor of large-scale industrial gas companies with an on-site gas supply model. The on-site mode and pipeline mode which our Group engages in will continue to enjoy a higher growth rate than the other distribution methods.

BUSINESS REVIEW

From late 2008 to early 2009, the world economy experienced a devastating global financial crisis. The unfavorable macro environment and dampened investor confidence inevitably impacted on the business performance of enterprises in the PRC and abroad. Fortunately, the PRC economy recovered swiftly. The Chinese central government actively stepped up its investment to spur and stimulate domestic economic development. As one of the leaders in China's industrial gas industry, we took advantage of the improving macro economy in the second half of 2009 to proactively promote the development of our merchant gas operation whilst maintaining the steady growth of our on-site gas supply operation. This allowed us to deliver outstanding results in our first annual report upon listing, and to maintain our leading position in the industrial gas industry.

To optimize our scale of operation, we actively explored new customers and diversified our product mix through a two-pronged development strategy: "Go Deep" and "Go Wide". Our Group currently operates 21 gas production facilities which we design, construct and operate on or in close proximity to our customers' premises. We mainly supply gas products to the iron and steel, chemicals and non-ferrous metals industries, and have established long-term cooperation with our customers. Currently, we have 14 gas production facilities under development. All gas production facilities currently under development are expected to be completed and commence production in 2011.

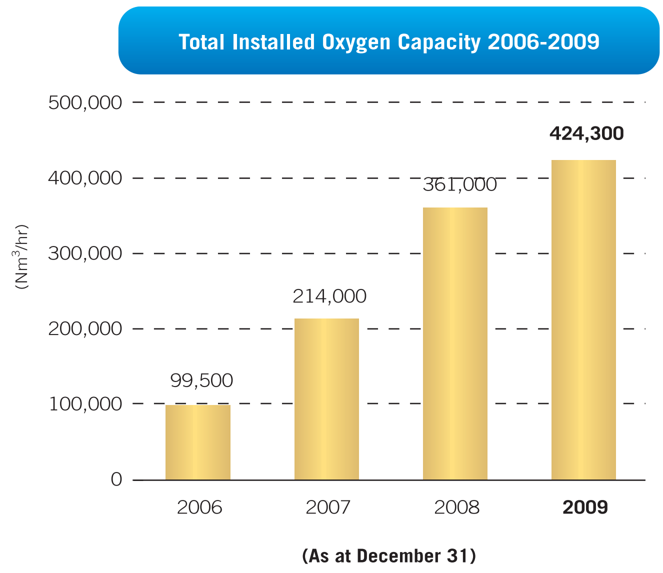
We have continued to strengthen our merchant gas distribution operation during 2009. During the second half of 2009, we adopted the "Go To Market" strategy and took a proactive approach in our merchant gas operations. This included actively identifying the right customers and selling any remaining usable gases produced by our on-site gas production facilities to the electronics, glass, automotive, construction and other industries, in a bid to expand our customer base and further develop our Group's sales operation.

REVIEW OF ON-SITE GAS SUPPLY OPERATION

We are principally engaged in on-site gas supply, which generated approximately 80-90% of total revenue from operations. After years of continued development and with our professional management guidance, we currently possess a stable and quality customer base and have an established professional reputation in the industrial gas industry.

We provide on-site services such as design, construction and operation of gas production facilities on or in close proximity to our on-site customers' premises, in order to ensure the reliability and stability of gas supplies to such customers. We generally enter into long-term take-or-pay gas supply contracts with on-site customers so as to ensure the stability of our Group's operations and income.

During the period under review, six new production facilities of our Group commenced production. As at 31 December 2009, our Group had a total of 21 gas production facilities in operation and 14 gas production facilities under development. The total installed capacity amounted to 424,300 (Nm^3/hr) in terms of installed oxygen capacity, representing a year-on-year growth of 17.5%. During the period under review, our Group sold 5,667 million Nm^3 of industrial gas in aggregate, representing a year-on-year growth of 60.2%. The total sales volume of oxygen products, nitrogen products and argon products were 2,987 million Nm^3, 2,312 million Nm^3 and 84 million Nm^3, respectively. It is expected that the total installed oxygen capacity will amount to 938,800 Nm^3/hr in 2011 upon completion of all production facilities currently under development.



Our Group has a well-established gas supply network in the PRC. Our production facilities are scattered among eight provinces, one autonomous region and one municipality as at 31 December 2009, which demonstrates an ongoing and stable expansion of our business scale. Our Group's target customers primarily include companies in the iron and steel, chemicals and non-ferrous metals industries. In the future, we will identify more quality customers and expand our customer base into other industries.

Expansion by New Projects

Since our listing on the Hong Kong Stock Exchange, we have announced details concerning new long-term gas supply contracts and gas production facilities under development as follows:

Date announced	**Location**	**Off-taker**	**Target supply start time**	**Expected installed oxygen capacity** (Nm^3/hr)
10 November 2009	Jiangsu province	An industrial company	Before the first quarter of 2011	18,000
11 March 2010	Jiangsu province	An industrial company	Before the third quarter of 2011	60,000
29 March 2010	Hunan province	Existing customer of Zhuzhou Yingde	Before the fourth quarter of 2011	Not less than 12,000

REVIEW OF MERCHANT GAS OPERATION

Our Group is determined to take an active role in relation to our merchant gas operation from 2009 onwards and implemented the "Go To Market" strategy, where we actively sought the right customers and utilized any remaining production capacity of our on-site gas production facilities to produce gases for selling to the merchant market. The customer network of our Group currently covers, among others, the electronics, glass, food, automotive and construction industries. As at 31 December 2009, the total turnover of our Group's merchant gas operation amounted to RMB273 million, keeping flat over last year's, despite the substantial price drop in 2009.

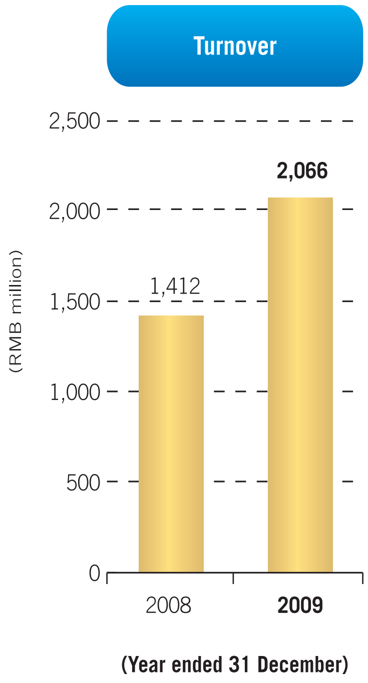
FINANCIAL REVIEW

Due to the proactive and ambitious efforts of our management and staff in business operations, through the effective control over cost and expenditure, as well as the commencement of new production plants, our Group's production capacity and sales increased significantly in 2009. As such, we managed to achieve encouraging results in 2009 despite the impact of the global financial crisis. For the year ended 31 December 2009, our Group's turnover amounted to RMB2,066 million, representing a RMB654 million increase as compared with RMB1,412 million for the same period in 2008. The significant increase in turnover was attributable to six new production facilities commencing operation in 2009 and the production facilities which commenced production at various times in 2008 operating for the full year in 2009 . For the year ended 31 December 2009, our Group recorded gross profit of RMB775 million, representing an increase of RMB191 million as compared with the same period in 2008, thus driving the overall gross profit margin to 37.5%. In addition, our Group recorded profit attributable to equity shareholders of our Company of RMB530 million. The earnings per share was RMB0.34.

Turnover

Our turnover consists of proceeds from the sale of industrial gas products. Our turnover is recognized when our gas products are delivered to a customer's premises and such customer has accepted the goods in which we have transferred 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.

Our turnover increased by 46.3% from RMB1,412 million for the year ended 31 December 2008 to RMB2,066 million for the year ended 31 December 2009. The increase was primarily due to six new production facilities coming into operation during 2009. The production facilities which came into operation during 2009 include: Hancheng Shaanxi Phase III operated by Shaanxi Yingde, two production facilities in Hengyang Hunan operated by Hengyang Yingde, Zhuzhou Hunan operated by Zhuzhou Yingde, Zhuhai Guangdong Phase II operated by Zhuhai Yingde, and Yangzhou Jiangsu operated by Yangzhou Yingde which mainly focuses on the merchant gas market.



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

	Year ended 31 December			
	2009		2008	
	RMB'000	**(%)**	RMB'000	(%)
Turnover				
On-site	**1,792,474**	**86.8**	1,137,167	80.6
Merchant	**273,211**	**13.2**	274,546	19.4
Total	**2,065,685**	**100.0**	1,411,713	100.0

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

	Year ended 31 December	
	2009	2008
	Unit price (RMB/Nm^3)	
Oxygen	**0.74**	0.79
Nitrogen	**0.68**	0.76
Argon	**1.62**	3.21
Weighted average unit price:	**0.91**	1.44

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 on-site customers is determined on a case-by-case basis in accordance with the pricing arrangements stated 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 production facilities and the expected utility charges by the on-site customers.

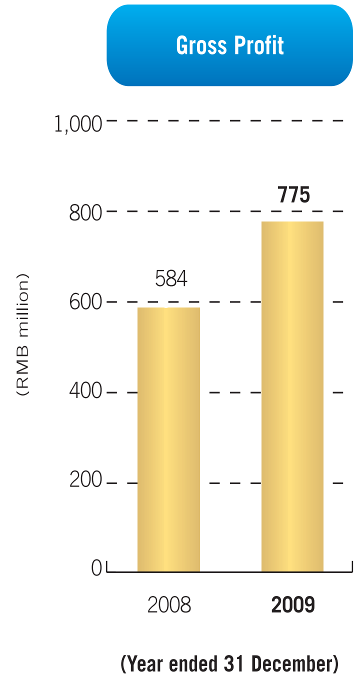
Cost of sales

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, comprised 88.3% and 87.3% of our total cost of sales for the two years ended 31 December 2009 and 2008, respectively. 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 that we pay to our employees or make for the benefit of our employees in our production team. Other expenses primarily consist of other consumables and repair and maintenance.

Cost of sales increased by 55.8% from RMB828 million for the year ended 31 December 2008 to RMB1,291 million for the year ended 31 December 2009 which is mainly driven by greater turnover. However, cost of sales as a percentage of turnover increased from 58.7% for the year ended 31 December 2008 to 62.5% in for the year ended 31 December 2009 mainly due to the significant drop in merchant price for the first half year of 2009. Electricity prices remained stable for the year ended 31 December 2008 as compared to the year ended 31 December 2009.

Gross profit and gross profit margin

Gross profit increased by 32.8% from RMB584 million for the year ended 31 December 2008 to RMB775 million for the year ended 31 December 2009. Our gross profit margin decreased from 41.3% for the year ended 31 December 2008 to 37.5% for the year ended 31 December 2009 primarily reflecting decreased selling prices of liquid gases for merchant customers as described above.



Other revenue

Other revenue mainly includes subsidy and grant from local government 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.

Selling expenses increased by 23.5% from RMB15 million for the year ended 31 December 2008 to RMB19 million for the year ended 31 December 2009 mainly reflecting the increased staff cost partially offset by a decrease in freight costs.

Administrative expenses

Our administrative expenses primarily consist of staff costs in connection with hiring and maintaining our management and administrative staff at our headquarters and production plant level, travel and entertainment, and external consulting fees.

Administrative expenses increased by RMB57 million from RMB80 million for the year ended 31 December 2008 to RMB137 million for the year ended 31 December 2009 mainly resulting from increased in staff costs, due to expansion of our Group's business and establishment of new production facilities in 2009; and the listing expenses allocated to profit or loss of RMB42 million incurred was related with the listing and initial public offering of our Company's Shares.

Profit from operations and operating profit margin

As a result of the foregoing, our profit from operations increased by 26.6% from RMB490 million for the year ended 31 December 2008 to RMB620 million for the year ended 31 December 2009. Operating profit margin decreased from 34.7% for the year ended 31 December 2008 to 30.0% for the year ended 31 December 2009 primarily due to the decrease of gross profit margin and the one time listing expenses as described above.

Finance income

Our finance income mainly consists of interest income from bank deposits, finance income on receivables under finance lease, fair value adjustment on convertible redeemable preferred shares and foreign currency exchange gain.

Finance income decreased by 82.5% from RMB36 million for the year ended 31 December 2008 to RMB6 million for the year ended 31 December 2009 mainly due to a significant decrease in foreign exchange gains and fair value adjustment on convertible redeemable preferred shares. In 2008, the foreign exchange gain of RMB8 million as compared to RMB0.3 million in 2009. The foreign exchange gain over 2008 related to the retranslation of the liabilities denominated in US dollars as the Renminbi appreciated against the US dollar. In addition, fair value adjustments for the convertible redeemable preferred shares were a gain of RMB21 million in 2008 as compared to a loss on fair value adjustment in 2009.

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 convertible redeemable preferred shares; fair value adjustment on convertible redeemable preferred shares and foreign currency exchange loss.

Finance costs increased 4.7% from RMB58 million for the year ended 31 December 2008 to RMB61 million for the year ended 31 December 2009 primarily as a combined result of decreased interest expenses and fair value adjustment on convertible redeemable preferred shares. The incurred loss of RMB13 million in 2009 relating to fair value adjustment on convertible redeemable preferred shares, whereas a gain on fair value adjustment were recognized in 2008.

Income tax expenses

Income tax expenses decreased 13.4% from RMB39 million for the year ended 31 December 2008 to RMB34 million for the year ended 31 December 2009 primarily due to certain subsidiaries were allowed by the relevant local tax authorities for the utilization of tax credits of RMB18 million for purchasing qualified domestic equipment.

Profit attributable to the equity shareholders of the Company

As a result of the foregoing, our profit attributable to the equity shareholders increased 23.2% from RMB430 million for the year ended 31 December 2008 to RMB530 million for the year ended 31 December 2009.

Profit attributable to the minority interests

The minority interests as at 31 December 2009 represented the 25% effective equity interest in Zhangjiagang Yingde and 30% effective equity interest in Hengyang Yingde held by the minority shareholder. Profit attributable to minority interests improved from a loss of RMB1 million for the year ended 31 December 2008 to a profit of RMB2 million for the year ended 31 December 2009.

Trade and other receivables

	As at 31 December	
	2009	2008
	RMB'000	RMB'000
Trade receivables	**234,921**	108,665
Bills receivable	**73,191**	9,216
Less: allowance for doubtful debts	**(10,721)**	(10,721)
Deposits and other receivables	**74,193**	19,516
	371,584	126,676

Our trade and other receivables increased from RMB127 million as at 31 December 2008 to RMB372 million as at 31 December 2009 primarily due to the expansion of our business and increase in sales as the number of our production facilities in operation increased from 15 as at 31 December 2008 to 21 as at 31 December 2009. Bills receivable increased to RMB73 million as at 31 December 2009 mainly as a result of greater turnover.

Turnover of trade receivables increased from 26 days during the year ended 31 December 2008 to 30 days for the year ended 31 December 2009 which was in line with the payment terms for our on-site customers trade receivables.

The following table sets forth the turnover of our trade receivables for the years indicated:

	Year ended 31 December	
	2009	2008
Turnover of trade receivables (days)*	**30**	26

Note:

* Calculated on the average of the beginning and ending trade receivables balances for the year, divided by revenue for the year, multiplied by 360 days for a year in respect of the years indicated.

Bank and other loans

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Short-term loans	**505,000**	329,200
Current portion of long-term loans	**277,983**	171,062
	782,983	500,262
Long-term portion of long-term loans	**521,200**	400,350
	1,304,183	900,612

As at 31 December 2009, the carrying value of assets secured for bank and other loans were RMB872 million (2008: RMB559 million).

In addition, certain bank loans were secured by our Group's 75% equity interests in Zhuhai Yingde, Shaanxi Yingde, Tianjin Yingde and Rizhao Yingde as at 31 December 2009.

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 bank and in hand and through short-term and long-term borrowings from banks.

As at 31 December 2009, the total assets of our Group was approximately RMB5,674 million, representing a year-on-year increase of RMB2,864 million. The cash at bank and in hand was RMB2,102 million, representing an increase of RMB2,074 million over the previous year. The current ratio of our Group was 204.0%. The gearing ratio of our Group which is calculated as total liabilities divided by total assets was 32.6%.

Capital expenditure

Capital expenditures principally comprise expenditures for the construction of new production facilities and purchase of property, plant and equipment.

The annual total capital expenditure for 2009 were RMB888 million (2008:RMB670 million), principally comprised expenditures for the construction of new production facilities and purchase of property, plant and equipment, which were financed by a combination of our internal cash resources and operating cash flow, net proceeds from issuing new shares, and bank borrowings.

Conversion of convertible redeemable preferred shares

The convertible redeemable preferred shares of our Company were converted into ordinary shares upon listing. As a result, the other reserve, amounting to RMB107 million, together with the carrying amount of the liability at the time of conversion, amounting to RMB161 million, were transferred to share capital and share premium as consideration for the ordinary shares issued.

Contingent liabilities

Details on the contingent liabilities of our Group are set out in note 26(e) to the financial statements.

STRATEGY AND PROSPECTS

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;
- "Go To Market" to expand our merchant gas operations;
- "Go Deep" and "Go Wide" to develop our business;
- 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.

OTHER INFORMATION

Risk of Exposure to Exchange Rate Fluctuations and Related Hedging

During 2009, our Group had no investments in hedging of any speculative derivatives. In view of the potential Renminbi exchange rate fluctuations, our Group will consider arranging for proper financial instruments at appropriate times to avoid the corresponding risks.

Employees, Remuneration Policy and Information Technology

Human resources and information technology have been essential to our Group's success and will continue to be so. We treasure the contribution of our staff. As such, we review our remuneration policy from time to time to ensure it remains competitive. We have a balanced appraisal system to evaluate the staff's performance. For the long-term development of all concerned, we provide relevant training to our staff.

As at 31 December 2009, our Group had 970 employees (31 December 2008: 820). The increase in headcount was mainly a result of the commencement of production at six production facilities in 2009 and future expansion.

We believe that our Company's strong growth is credited to the expertise of our high-caliber staff and their full support to our Company's development strategy. Our Company values each staff member, and therefore put forward a people-oriented governance philosophy, endeavoring to provide our staff with an excellent working environment and a sound promotion system, and to offer newly promoted staff comprehensive position-specific training, with a view to fostering a sense of belonging among staff members and propping up their passion at work so that they may provide clients with higher quality services.

EXCELLENT MANAGEMENT

Our senior management and senior technicians have extensive experience in the operation of industrial gas enterprises, as well as industry knowledge and know-how, thereby leading our Group's businesses to head toward greater success. In addition to retaining management personnel, we also continued recruiting high-caliber technicians and improving our operation systems and production technologies, in order to provide customers with the best gas supply management solutions and other professional services.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

INVESTOR RELATIONS

Communication with Stakeholders

Our Group's investor relations team is devoted to enabling the most effective communication between our Company, shareholders, the financial community and other stakeholders. We adhere to the best practices of high transparency and consistency in the disclosure of information whether the market is favorable to the industrial gas sector or otherwise. The team is very pleased to have earned the recognition from shareholders, investors and analysts for our Group's integrity in communicating our Company's strategies and performance in 2009.

The investor relations team also ensured that stakeholders had the opportunities to express their views on our Group's performance. We frequently reported to the management team and relevant departments about stakeholders' comments and opinions so that we could keep improving our efficiency and performance, with the ultimate goal of generating higher returns for our shareholders. Communication between the stakeholders and our Company is a two-way process. In 2009, our efforts involved:

Providing updates to stakeholders through the following channels:

— announcements and notices published on the website of the Hong Kong Stock Exchange, our Company website, and/or dispatched to our shareholders pursuant to the requirements of the Listing Rules;

— our financial reports;

— our annual and extraordinary general meetings, attended by top management representatives and directors; and

— investors conferences and meetings.

Encouraging feedback from stakeholders through channels such as:

— face-to-face dialogue at our annual and extraordinary general meetings;

— email exchanges with stakeholders. We also replied to email enquiries from stakeholders directly. If they were a matter of general interest to stakeholders, we would seek to address it in subsequent corporate communication to all stakeholders; and

— site visits. In 2009, we organized over five site visits for the stakeholders to view our production facilities across China. We collected and reported to the management team regularly about stakeholders' comments and suggestions on our operations.

We are grateful to all stakeholders who offered us support and provided us with feedback during 2009. If any stakeholder has questions or comments on our work, please contact us at information@ying-de.com.cn. In the case of comments, we will take stakeholders' views into account and act upon them if this will improve our performance.

OUTLOOK

Looking forward, we will leverage on our growth momentum and continue to pursue our development strategy. On the production quantity front, our Group plan to expand our production capacity for our three major products, namely oxygen, nitrogen and argon. We will monitor market trends and invest in research and development, with a view to not only increasing our Group's production capacity and lowering production cost, but also to diversify our Group's product mix. Our Group will continue to identify quality customers within the industries we already serve, and endeavor to expand our customer base to cover other industries.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR AND CHAIRMAN

Mr. Zhongguo Sun, aged 46, was appointed as the chairman, chief executive officer and an executive director of our Company on 12 November 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 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 Group plc. Mr. Sun received a Master of Science in Mechanical Engineering from the University of Pittsburgh in 1989.

EXECUTIVE DIRECTORS

Mr. Zhao Xiangti, aged 51, was appointed as an executive director of our Company on 12 November 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 has more than seven years experience in the industrial gas industry. Mr. Zhao received a Bachelor of Engineering from Hebei Science and Technology University in 1982.

Mr. Chen Yan, aged 42, was appointed as an executive director on 18 December 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 Automobile Group Company Limited. 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, aged 43, was appointed as a non-executive director of our Company on 15 July 2008. 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 Bank of America Securities Asia Limited in Hong Kong. Mr. Chen received a Bachelor of Arts from the University of California at Berkeley in 1990.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Zhao, aged 41, was appointed as an independent non-executive director of our Company on 12 September 2009. Mr. Xu is currently the chairman of Cathay Life Insurance Company Limited, which is a joint venture in the PRC between China Eastern Air Holding Company and Cathay Life Insurance Company Limited, 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. 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.

Mr. Zheng Fuya, aged 43, was appointed as an independent non-executive director of our Company on 12 September 2009. Mr. Zheng was a director of Comtech Group, Inc., a company listed on the NASDAQ and has since 1 January 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.

Dr. Wang Ching, aged 54, was appointed as an independent non-executive director of our Company on 4 December 2009. Dr. Wang has more than 18 years of experience in the global financial industry specializing in asset management, direct investment, corporate finance, equity and fixed income trading/sales with particular focus in the U.S. and the greater China region. Dr. Wang is currently an executive director of a Hong Kong listed closed end fund, Shanghai International Shanghai Growth Investment Limited (stock code: 770). He also serves as an independent non-executive director of Minth Group Limited (stock code: 425), a leading supplier of exterior automobile body parts in China as well as China Singyes Solar Technologies Holdings Limited (stock code: 750), a fast growing professional thin-film BIPV building engineering company, in which he advises senior management on business strategies and financial development in the fast changing China market. Between 1998 to 2006, Dr. Wang had taken senior positions for two Taiwanese and regional financial institutions including as the managing director of JS Cresvale International Securities, managing director of SinoPac Securities (Asia) Hong Kong, Chairman of FENB Securities in California, U.S., and chief executive officer of the Investment & Proprietary Trading Group for Jih Sun Financial Holding (stock code: 5820) in Taiwan. Before 1998, Dr. Wang had served as the director of investment banking at Standard Chartered Bank in Hong Kong from 1996, and associate director of Bear Stearns in New York and Hong Kong from 1992. Also, he was a consultant for Smith Barney and Merrill Lynch in New York prior to 1992. Dr. Wang received his B.A. in Economics in 1977 from National Taiwan University and obtained his Ph.D. in Finance in 1992 from Columbia University in New York.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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 Group plc,. 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. Xu E, aged 40, 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, aged 31, joined our Group on 1 July 2008 as the deputy chief financial officer and was appointed as a joint company secretary of our Company on 17 February 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. She is also undertaking an EMBA course at the China Europe International Business School. Ms. Wong became a chartered member of the Hong Kong Institute of Certified Public Accountants in 2003.

Mr. Ngai Wai Fung, aged 48, was appointed as a joint company secretary of our Company on 17 February 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.

DIRECTORS' REPORT

The Board is pleased to present its report and the audited financial statements of our Company and of our Group for the year ended 31 December 2009.

PRINCIPAL PLACE OF BUSINESS

Our Company's principal place of business in Hong Kong is at Suite 4313, Tower One, Times Square, Causeway Bay, Hong Kong and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111 Cayman Islands.

PRINCIPAL OPERATIONS AND ANALYSIS OF OPERATIONS

Based on the research information in the SAI Report, we were the largest domestic independent industrial gas supplier specializing in on-site gas supply in China in terms of total revenue as at 31 December 2009.

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 those whose premises are located on or in close proximity to our gas production facilities and to whom we supply industrial gases directly. Our merchant customers are generally liquid gas distributors who purchase industrial gases from us on a spot market basis from time to time.

The analysis of our Group's revenue are set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

Results of our Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 44.

FINAL DIVIDENDS

Our Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2009 (2008: Nil).

FINANCIAL SUMMARY

A four-year financial summary of the results and of the assets and liabilities of our Group is set out on page 104.

RESERVES

Movements in the reserves of our Group and our Company during the year are set out in consolidated statement of changes in equity and note 24(a) to the financial statements, respectively.

DISTRIBUTABLE RESERVES

Our Company's total distributable reserves as at 31 December 2009 amounted to RMB2,937 million.

SHARE CAPITAL

Movements in the share capital of our Company during the year ended 31 December 2009 are set out in note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in our Group's property, plant and equipment are set out in note 10 to the financial statements.

BORROWINGS AND CAPITALIZATION OF INTERESTS

Details of borrowings of our Group during the year are set out in note 19 to the financial statements. Details of our Group's capitalized interests expenses and other borrowing costs during the year are set out in note 4(a) to the financial statements.

RETIREMENT BENEFITS

Details of the retirement benefit plans of our Group are set out in note 4(b) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S LISTED SECURITIES

Neither our Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of our Company during the year under review.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved by a resolution of the shareholders on 12 September 2009 and adopted by a resolution of the Board on 12 September 2009. Unless it is terminated by the Board 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 on the date which it becomes unconditional. After the period, no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of this ten year period or otherwise as handled in accordance with the provisions of the Share Option Scheme. The amount payable by a participant upon acceptance of a grant of option is RMB1.00. 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 the options to subscribe for shares on the terms set out in 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.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the shares in issue as at the date of approval of the Share Options Scheme (ie. a total of 180,923,250 shares).

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.

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) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant, which must be a business day;

(b) the average closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

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, our Company may specify any such minimum period(s).

As at 31 December 2009, no options have been granted pursuant to the Share Option Scheme.

DIRECTORS' REPORT

DIRECTORS

The directors of our Company during the year and up to the date of this annual report are:

Executive Directors

Mr. Zhongguo Sun	(chairman and chief executive officer, appointed on 12 November 2007)
Mr. Zhao Xiangti	(appointed on 12 November 2007)
Mr. Chen Yan	(appointed on 18 December 2008)

Non-executive Director

Mr. Chen Dar Cin	(appointed on 15 July 2008)

Independent Non-executive Directors

Mr. Xu Zhao	(appointed on 8 August 2008 and resigned on 17 February 2009; further appointed on 12 September 2009)
Mr. Zheng Fuya	(appointed on 8 August 2008 and resigned on 17 February 2009; further appointed on 12 September 2009)
Dr. Wang Ching	(appointed on 4 December 2009)
Mr. Chau Tai-Long	(appointed on 8 August 2008 and resigned on 17 February 2009)
Mr. Kam Son Leong	(appointed on 12 September 2009 and resigned on 25 October 2009)

In accordance with Article 83 of the Articles of Association, Mr. Zhongguo Sun, Mr. Zhao Xiangti, Mr. Chen Yan, Mr. Chen Dar Cin, Mr. Xu Zhao, Mr. Zheng Fuya and Dr. Wang Ching being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

Brief biographical details of directors are set out in pages 20 to 22.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with our Company or any member of our Company which is not determinable by our Company within one year without the payment of compensation other than statutory compensation.

Directors' interests in contracts of significance

No contract of significance in relation to our Group's business to which our Company, any of its subsidiaries, its fellow subsidiaries or its parent company was a party and in which a director of our Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year under review.

Directors' rights to acquire shares or debentures

At no time during the year under review was our Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement that would enable the directors of our Company to acquire benefits by means of acquisition of shares in, or debentures of, our Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, were granted any right to subscribe for the equity or debt securities of our Company or any other body corporate or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The register of substantial shareholders required to be kept by our Company under section 336 of Part XV of the SFO shows that as at 31 December 2009, our Company had been notified of the following substantial shareholders' (within the meaning of the Listing Rules) interests and short positions in the shares or underlying shares of our Company, being interests of 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Number of Shares	Approximate percentage of shareholding
Baslow	Beneficial owner	181,661,461 (long position)	10.04%
Trevor Raymond Strutt[1]	Founder of a discretionary trust	181,661,461 (long position)	10.04%
Bubbly Brooke	Beneficial owner	295,200,000 (long position)	16.32%
Li Hongmei[2]	Founder of a discretionary trust	295,200,000 (long position)	16.32%
Peace & Smooth	Beneficial owner	181,498,231 (long position)	10.03%
Yang Yonggang[3]	Deemed interest, interest of controlled company	462,102,166 (long position)	25.54%

Name	Nature of interest	Number of Shares	Approximate percentage of shareholding
Nie Kuang[4]	Deemed interest, interest of controlled company	181,498,231 (long position)	10.03%
Rongton	Beneficial owner	280,603,935 (long position)	15.51%
Zhao Xiangti[5]	Deemed interest, interest of controlled company	280,603,935 (long position)	15.51%
Baring Private Equity Asia III Holding (7A) Limited	Beneficial owner	231,126,424 (long position)	12.77%
Baring Private Equity Asia GP III Limited[6]	Deemed interest, interest of controlled company	231,126,424 (long position)	12.77%
Jean Eric Salata[6]	Deemed interest, interest of controlled company	231,126,424 (long position)	12.77%

Notes:

(1) The entire issued share capital of Baslow is ultimately held by Equity Trustee Limited (''Equity Trustee''). Equity Trustee is a professional trustee company acting as the trustee of The TRS Trust. The TRS Trust is a discretionary trust set up by Mr. Strutt as settlor. The beneficiaries under The TRS Trust are family members of Mr. Strutt. Mr. Strutt as founder of The TRS Trust is deemed to be interested in all the Shares held by Baslow under the SFO.

(2) The entire issued share capital of Bubbly Brooke is ultimately held by Equity Trustee. Equity Trustee is a professional trustee company acting as the trustee of The LHM Family Trust. The LHM Family Trust is a discretionary trust set up by Ms. Li (Mr. Sun's mother in-law) as settlor. The beneficiaries under The LHM Family Trust are family members of Ms. Li. Ms. Li as founder of The LHM Family Trust is deemed to be interested in all the Shares held by Bubbly Brooke under the SFO.

(3) Mr. Yang controls 50% voting power in Peace & Smooth and 45% voting power in Rongtonand therefore, is deemed to be interested in a total of 462,102,166 Shares held by Peace & Smooth and Rongton.

(4) Mr. Nie Kuang controls 50% voting power in Peace & Smooth and therefore, is deemed to be interested in 181,498,231 Shares held by Peace & Smooth.

(5) Mr. Zhao controls 55% voting power in Rongton and therefore, is deemed to be interested in 280,603,935 Shares held by Rongton.

(6) Baring Private Equity Asia GP III Limited is the general partner of a limited partnership (Baring Private Equity Asia GP III, L.P.), which is the general partner of another limited partnership (The Baring Asia Private Equity Fund III, L.P.1), which is one of the limited liability partnerships comprising The Baring Asia Private Equity Fund III and which controls more than one-third of the issued shares in Baring Private Equity Asia III Holding (7A) Limited. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP III Limited. Each of Baring Private Equity Asia GP III Limited and Jean Eric Salata is therefore deemed to be interested in 231,126,424 Shares held by Baring Private Equity Asia III Holding (7A) Limited. Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

Save as disclosed above, as at 31 December 2009, our Company had not been notified of any substantial shareholder (other than a director or chief executive of our Company) of our Company as recorded in the register required to be kept by our Company under section 336 of the SFO as having an interest in 5% or more of the norminal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company, or any short position in the shares or underlying shares of our Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of our Company and there is no restriction against such rights which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of our Company have any ownership in other businesses which competes or is likely to compete, either directly or indirectly, with the businesses of our Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of our Company were entered into or existed during the year.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Our Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive directors and our Company considers that Mr. Xu Zhao, Mr. Zheng Fuya and Dr. Wang Ching to be independent.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, our Group had a total of 970 employees. Total staff costs (including directors' emoluments) incurred for the year ended 31 December 2009 amounted to approximately RMB78 million (2008: RMB51 million). Remuneration packages of the directors are recommended by the Remuneration Committee and approved by the Board. Employee remuneration will be determined by the management with reference to individual performance and experience and industry practice.

MAJOR SUPPLIERS AND CUSTOMERS

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 gas 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. Electricity is usually supplied to our on-site customers by local electricity companies which are state-owned enterprises. 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 73.1% (2008: 80.2%) of the total purchases for the year ended 31 December 2009. For the year ended 31 December 2009, our largest supplier accounted for approximately 29.5% (2008: 29.3%) of our total purchases.

Our five largest customers together accounted for approximately 64.8% (2008: 62.8%) of our total revenues for 31 December 2009. For the year ended 31 December 2009, our largest customer accounted for approximately 23.2% (2008: 21.5%) of our total turnover.

As far as our Company is aware, neither the directors, their associates, nor those substantial shareholders who are interested in more than 5% of the share or underlying shares of our Company had any interest in the five largest customers and suppliers of our Group.

CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions of our Company are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

On 28 November 2008, our Group entered into a joint venture agreement with Hengyang Valin to establish a joint venture with industrial gas supply company, Hengyang Yingde, in Hengyang city, Hunan province in the PRC. 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 Rule 14A.11(1) of the Listing Rules. Therefore, any transaction between our Group and Hengyang Valin (including its associates) are connected transactions of our Company pursuant to Rule 14A.13(1)(a) of the Listing Rules which will be subject to the requirements under Chapter 14A of the Listing Rules.

DESCRIPTION OF THE TRANSACTIONS

Hengyang Gas Supply Contract

On 28 November 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 30 October 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 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.

Transaction amounts for the year ended 31 December 2009

Prior to the commencement of gas supplies by Hengyang Yingde to Hengyang Valin in April 2009, there were no transactions between our Group and Hengyang Valin. The amount for the Gas Supply Transactions for the year ended 31 December 2009 was approximately RMB44 million, which represented the on-site sales revenue of Hengyang Yingde. The amount for the Supply-related Transactions for the year ended 31 December 2009 of gas supply by Hengyang Yingde to Hengyang Valin in was approximately RMB24 million, which represented the electricity and water expenses of Hengyang Yingde.

The annual cap set for the total Supply-related Transactions for the year ended 31 December 2009 was RMB34 million. The actual aggregate amount Supply-related Transactions for the year ended 31 December 2009 was RMB24 million.

The annual cap set for the total Gas Supply Transactions for the year ended 31 December 2009 was RMB83 million. The actual aggregate amount Gas Supply Transactions for the year ended 31 December 2009 was RMB44 million.

In respect of the above continuing connected transactions, the Hong Kong Stock Exchange has granted a waiver to our Company from strict compliance with the disclosure or where appropriate, the shareholders' approval requirements stipulated in Chapter 14A of the Listing Rules subject to certain conditions.

Our independent non-executive directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of our Group;
(2) on normal commercial terms; and
(3) in accordance with the relevant agreements entered into on terms which are fair and reasonable and in the interests of the shareholders of our Company as a whole.

Our Company proposed to revise the annual caps in respect of Supply-related Transactions for the year ending 31 December 2010 and thereafter, until 30 October 2029, details of which were disclosed in the announcement of our Company dated 29 March 2010.

OPINION OF AUDITORS ON CONTINUING CONNECTED TRANSACTIONS

The auditors of our Company have reviewed the continuing connected transactions mentioned above and issued a letter to the Board of directors, indicating that:

- those transactions have been approved by the Board of directors;
- they were not aware of any indications which would make them believe that prices charged for each of the continuing connected transactions selected were not conducted in line with the pricing terms set out in the relevant agreement governing such transactions;
- continuing connected transactions were conducted under the terms of the agreement signed in respect of each selected transactions; and
- the total amounts incurred in continuing connected transactions for the year ended 31 December 2009 have not exceeded the cap amounts as disclosed in the prospectus of our Company dated 24 September 2009.

SUFFICIENT PUBLIC FLOAT

As at the date of this annual report, based on the information that is publicly available to our Company and within the knowledge of the directors, as at the date of this annual report, our Company has maintained a sufficient public float of more than 25 percent of our Company's issued Shares as required under the Listing Rules during the year.

COMPLIANCE WITH THE MODEL CODE

Our Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding the securities transactions by the directors.

The Board is pleased to confirm, after making specific enquiries with all directors, that all directors have fully complied with standards required according to the Model Code set out in Appendix 10 of the Listing Rules during the year.

CORPORATE GOVERNANCE

Our Company is committed to maintaining a high level of corporate governance practices. Corporate governance practices adopted by our Company are set out in the Corporate Governance Report on pages 34 to 41.

AUDIT COMMITTEE

Our Company has established an audit committee comprising all three existing independent non-executive directors, namely Mr. Xu Zhao, Mr. Zheng Fuya and Dr. Wang Ching.

The audit committee has reviewed the consolidated financial statements for the year ended 31 December 2009, and is of the view that our Group's consolidated financial statements for the year ended 31 December 2009 are prepared in accordance with the applicable accounting standard, laws and regulations, and appropriate disclosures have already been made.

AUDITORS

The consolidated financial statements of our Group for the year ended 31 December 2009 have been audited by KPMG, Certified Public Accountants. A resolution for their re-appointment as auditors of our Company for the ensuring year will be proposed at the forthcoming annual general meeting.

By order of the Board

Zhongguo Sun
Chairman

Hong Kong, 29 March 2010

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of our Company for the year ended 31 December 2009.

COMMITMENT TO CORPORATE GOVERNANCE

The Board and the management of our Group are committed to achieving and maintaining high standards of corporate governance, which they consider to be critical in safeguarding the integrity of our Company's operations and maintaining investors' trust in our Company. The management also actively observes latest corporate governance developments in Hong Kong and overseas.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, our Company has complied with the provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year under review, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

Our Group has adopted a code of conduct regarding securities transactions by directors (the "Code of Conduct") on terms no less than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Our Company has made specific enquiries with each director and each of them confirmed that, throughout the period from its date of listing on 8 October 2009 to 31 December 2009, he had complied with all required standard under the Code of Conduct.

THE BOARD

Responsibilities

The Board is responsible for achieving the corporate goals, formulating the development strategy, regularly reviewing the organizational structure, and monitoring the business activities and the performance of management so as to protect and maximize the interests of our Company and our shareholders. Matters relating to the daily operations of our Group are delegated to the management. During the year, the Board considered and approved the annual budget and its performance under management supervision together with the business reports from the management. The Board also reviewed and approved the final results for the year ended 31 December 2009 and other critical business operations. The Board also assessed the internal control and the financial matters of our Group.

Board composition

The Board currently consists of seven members, including:

Executive Directors
Mr. Zhongguo Sun *(chairman and chief executive officer)*
Mr. Zhao Xiangti
Mr. Chen Yan

Non-executive Director
Mr. Chen Dar Cin

Independent Non-executive Directors
Mr. Xu Zhao
Mr. Zheng Fuya
Dr. Wang Ching

The members of the Board represent a diverse and rich industry background with appropriate professional qualifications. Please refer to the section headed "Biographies of Directors and Senior Management" for the profiles of our directors.

During the year, there were several changes in the Board which includes, inter alia:

(i) Mr. Kam Son Leong ceased to be an independent non-executive director of our Company after resigning for personal reasons (including family commitments) with effect from 25 October 2009; and

(ii) Dr. Wang Ching became an independent non-executive director of our Company after being appointed by the Board with effect from 4 December 2009.

The aforesaid change in the Board therefore caused our Company to be not in compliance with Rule 3.10(1) of the Listing Rules relating to appointment of a sufficient number of independent non-executive directors for a short period from 25 October 2009 to 3 December 2009.

To the best knowledge of the Board, there is no financial, business, family or other material/relevant relationship among members of the Board. Board members are free to exercise their independent judgement.

Under code provision A.4.1 of the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Listing Rules, non-executive directors should be appointed for a specific term, subject to re-election. Our non-executive director and three independent non-executive directors are each appointed for a term of three years, subject to re-election when appropriate by our Company in general meeting.

Chairman and Chief Executive Officer

As at the date of this annual report, the chairman and the chief executive officer of our Company is Mr. Zhongguo Sun. This deviates from code provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be segregated. The Board considers that this structure will not impair the balance of power and the authority of the Board. The Board currently comprises of three executive directors, one non-executive director and three independent non-executive directors, with independent non-executive directors representing approximately 42.9% of the Board, which is higher than the Recommended Best Practices of the Code under the Listing Rules. Such a high percentage of independent non-executive directors on the Board can ensure their views carrying significant weight and reflecting independence of the Board.

Mr. Sun was the main founder of our Group, he has been responsible for operational management since the establishment of our Group. He has played an important role during our expansion. Mr. Sun possesses rich working experience in the industrial gas industry and excellent operational management ability. At present, the Board believes that it is beneficial to the management and development of our Group's businesses for Mr. Sun to be both the chairman and chief executive officer as it helps to fasten the Board's decision-making. The Board would still consider segregating the role of chairman and chief executive officer to comply with the Code if appropriate.

Non-executive Director and Independent Non-executive Director

During the year ended 31 December 2009, apart from the period between the resignation of Mr. Kam Son Leong and the appointment of Dr. Wang Ching, the Board at all times met Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

Our Company has received annual confirmations from each of the three independent non-executive directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. Our Company considers that all existing independent non-executive directors are independent parties in accordance with the independence guidelines set out in the Listing Rules and are free of any relationship that could materially interfere with the exercise of their independent judgements.

BOARD MEETINGS

The Board conducts meeting on a regular basis and on an ad hoc basis, whenever it is needed. The Board had met once during the period from the date of listing on 8 October 2009 to 31 December 2009. The Board will meet regularly and Board meetings will be held at least four times a year. The attendance records of the Board meetings held during the period are set out below:

Name of Directors	Meeting attendance/number of meetings Board meetings
Executive Directors	
Mr. Zhongguo Sun	1 / 1
Mr. Zhao Xiangti	1 / 1
Mr. Chen Yan	1 / 1
Non-executive Director	
Mr. Chen Dar Cin	1 / 1
Independent Non-executive Directors	
Mr. Xu Zhao	1 / 1
Mr. Zheng Fuya	1 / 1
Mr. Kam Son Leong (resigned on 25 October 2009)	N/A
Dr. Wang Ching (appointed on 4 December 2009)	N/A

Notices of regular Board meetings are given to all directors at least 14 days before the meetings. For other Board committee meetings, reasonable notice is generally given.

The agendas and accompanying Board papers were given to all directors in a timely manner. All directors are properly discussed on issues arising at Board meetings by the chairman.

All directors have full and timely access to all relevant information with the advice of the joint company secretaries, to ensure that Board procedures and all applicable rules and regulations are followed. Upon making request to the Board, all directors may obtain independent professional advice at our Company's expense for carrying out their functions.

The joint company secretaries are responsible for taking and keeping minutes of all Board committee meetings. Draft and final versions of minutes are normally circulated to the directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

TRAINING FOR DIRECTORS

For each newly appointed director, he/she will be provided with an induction course so as to ensure that he/she has appropriate understanding of the business and operations of our Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary. To assist their continuous professional development, the joint company secretaries recommends directors to attend relevant seminars and courses.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

Our Company has arranged for appropriate liability insurance to indemnify our directors and senior officers for their liabilities arising out of corporate activities. For the year ended 31 December 2009, no claim has been made against our directors and senior officers.

Board Committees

The Board has set up four Board committees, namely, the audit committee, the remuneration committee, the nomination committee and the compliance committee (collectively the "Board Committees"), for overseeing particular aspects of our Company's affairs.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at our Company's expense.

Audit Committee

The Board established the audit committee on 12 September 2009, with the written terms of reference in compliance with the Listing Rules. It is chaired by Mr. Xu Zhao and comprises two other members, namely Mr. Zheng Fuya and Dr. Wang Ching, all of whom are independent non-executive directors. Mr. Chen Dar Cin was appointed to replace Mr. Kam Son Leong (resigned on 25 October 2009) as a member of the audit committee of our Company on 26 October 2009. Dr. Wang Ching was appointed to replace Mr. Chen Dar Cin as a member of the audit committee of our Company on 4 December 2009.

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.

For the period between the listing date on 8 October 2009 and 31 December 2009, the audit committee did not convene any meeting.

The audit committee has recommended to the Board that, subject to our shareholders' approval at the forthcoming annual general meeting, KPMG, be re-appointed as the external auditors of our Company.

Remuneration Committee

The Board established the remuneration committee on 12 September 2009, with the written terms of reference in compliance with the Listing Rules. Mr. Zhao Xiangti became the chairman of the remuneration committee following the resignation of Mr. Kam Son Leong as the chairman of the remuneration committee on 25 October 2009. Mr. Xu Zhao and Mr. Zheng Fuya are the other two members of the remuneration committee.

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.

The remuneration of directors are based on their skills, knowledge, involvement in our Company's affairs and the performance, together with reference to the profitability of our Company, remuneration benchmarks in the industry, and prevailing market conditions.

No director or senior executive will be involved in any discussion in connection with his or her own remuneration. The remuneration committee may also consult the chairman about their proposals relating to the remuneration of other executive directors and has access to professional advice if necessary. The major objective of the remuneration policy is to ensure that our Company is able to attract, retain, and motivate a high caliber team which is essential to the success of our Company.

For the period between the listing date on 8 October 2009 and 31 December 2009, the remuneration committee did not convene any meeting.

Nomination Committee

The Board established the nomination committee on 12 September 2009, with the written terms of reference in compliance with the Listing Rules. It is chaired by Mr. Zheng Fuya and comprises two other members, namely Mr. Xu Zhao and Mr. Zhao Xiangti. Mr. Zhao Xiangti was appointed to replace Mr. Kam Son Leong (resigned on 25 October 2009) as a member of the nomination committee of our Company on 26 October 2009.

The primary functions of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board.

The duties of the Nomination Committee also includes reviewing the structure, number and composition of the Board; submitting proposals to the Board on the appointment of chief executive officer; reviewing the independence of the independent non-executive directors and submit proposals to the Board. The authority and duties of the nomination committee are clearly sets out in its terms of reference.

For the period between the listing date on 8 October 2009 and 31 December 2009, the nomination committee did not convene any meeting.

Compliance Committee

The Board established the Compliance Committee on 12 September 2009 with the written terms of reference in compliance with the Listing Rules. It is chaired by Mr. Zhongguo Sun and comprises two other members, namely Mr. Zhao Xiangti and Mr. Zheng Fuya. The primary functions of the compliance committee are to ensure compliance on regulatory matters and corporate governance.

The work performed by the compliance committee during the year under review included review of the adequacy and effectiveness of the internal control system and making recommendation to the Board for improvement of internal control, credit control and risk management.

For the period between the listing date on 8 October 2009 and 31 December 2009, the compliance committee did not convene any meeting.

ACCOUNTABILITY

The directors of our Company acknowledged their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports. When the directors were aware of material uncertainties relating to events or conditions that might cast significant doubt upon our Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in this Corporate Governance Report.

INTERNAL CONTROL

The internal controls of our Group are designed to help our Group protect its assets and information. The presence of internal controls empowers our Group to implement best business practices in challenging business environments. Our Group's internal controls cover a number of in-house procedures and policies. The system comprises, among others, the relevant financial, operational and compliance controls and risk management procedures.

Our Group has not yet adopted Corporate Governance Code C.2.1 which provides that our Group should at least annually conduct a review of the effectiveness of the system of internal control of our Group. The management of our Group had conducted a general review of our Group's internal control system for the year ended 31 December 2009 and had submitted the recommendations of internal controls for consideration by the compliance committee and the Board.

INDEPENDENT AUDITOR'S REMUNERATION

Our Group's independent auditors is KPMG. KPMG is responsible for auditing and forming an independent opinion on our Group's annual consolidated financial statements.

During the year under review, the remunerations paid or payable to our Company's auditors, KPMG, in respect of its audit of our Group's consolidated financial statements for the year ended 31 December 2009 were RMB2,150,000.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting.

Upon the implementation of the amendments of the Listing Rules with effect from 1 January 2009, all resolutions proposed at shareholders' meetings will be voted by poll. The poll voting results will be posted on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and our Company (www.yingdegases.com) on the same day of the relevant general meetings.

Further information about investor relations are set out on page 18.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibilities for the preparation of the financial statements of our Group and ensure that financial statements are in accordance with statutory requirements and applicable accounting standards.

The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon our Company's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDERS OF
YINGDE GASES GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yingde Gases Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 103, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Turnover	3	**2,065,685**	1,411,713
Cost of sales		**(1,290,505)**	(828,156)
Gross profit		**775,180**	583,557
Other revenue		**1,326**	1,352
Selling expenses		**(18,627)**	(15,088)
Administrative expenses		**(137,491)**	(79,946)
Profit from operations		**620,388**	489,875
Finance income	4(a)	**6,370**	36,469
Finance costs	4(a)	**(61,237)**	(58,492)
Profit before taxation	4	**565,521**	467,852
Income tax	5	**(33,946)**	(39,192)
Profit and total comprehensive income for the year		**531,575**	428,660
Attributable to:			
Equity shareholders of the Company	8	**530,037**	430,133
Minority interests		**1,538**	(1,473)
Profit and total comprehensive income for the year		**531,575**	428,660
Earnings per share (RMB)	9		
– Basic		**0.340**	0.293
– Diluted		**0.340**	0.279

The notes on pages 51 to 103 form part of these financial statements. Details of dividends are set out in Note 24(b).

CONSOLIDATED BALANCE SHEET

as at 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment, net	10	**2,191,897**	1,751,968
Construction in progress	11	**681,105**	488,655
Lease prepayments	12	**16,882**	17,245
Intangible assets	13	**9,597**	10,199
Receivables under finance lease	14	**14,752**	13,053
Other non-current assets		**156,275**	131,809
Deferred tax assets	5(d)	**2,680**	2,680
Total non-current assets		**3,073,188**	2,415,609
Current assets			
Inventories		**6,857**	9,646
Trade and other receivables	16	**371,584**	126,676
Receivables under finance lease	14	**2,117**	1,872
Income tax recoverable	5(c)	**3,133**	130
Pledged bank deposits	17	**114,860**	227,422
Cash and cash equivalents	18	**2,102,462**	28,463
Total current assets		**2,601,013**	394,209
Current liabilities			
Bank and other loans	19	**782,983**	500,262
Trade and other payables	20	**479,070**	572,710
Obligations under finance lease	21	**2,963**	2,963
Convertible redeemable preferred shares	22	**—**	141,224
Income tax payable	5(c)	**9,756**	7,057
Total current liabilities		**1,274,772**	1,224,216
Net current assets/(liabilities)		**1,326,241**	(830,007)
Total assets less current liabilities		**4,399,429**	1,585,602

The notes on pages 51 to 103 form part of these financial statements.

CONSOLIDATED BALANCE SHEET (continued)

as at 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current liabilities			
Bank and other loans	19	521,200	400,350
Obligations under finance lease	21	28,773	29,385
Deferred tax liabilities	5(d)	24,621	10,991
Total non-current liabilities		574,594	440,726
Net assets		3,824,835	1,144,876
Equity			
Share capital	23	12	–
Reserves		3,775,538	1,133,129
Total equity attributable to equity shareholders of the Company		3,775,550	1,133,129
Minority interests		49,285	11,747
Total equity		3,824,835	1,144,876

Approved and authorised for issue by the board of directors on 29 March 2010.

Zhongguo Sun
Director

Zhao Xiangti
Director

The notes on pages 51 to 103 form part of these financial statements.

BALANCE SHEET

as at 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Investments in subsidiaries	15	**1,044,169**	–
Current assets			
Other receivables	16	**130,252**	–
Cash and cash equivalents	18	**1,809,106**	–
Total current assets		**1,939,358**	–
Current liabilities			
Accrued expenses and other payables	20	**46,674**	–
Total current liabilities		**46,674**	–
Net current assets		**1,892,684**	–
Net assets		**2,936,853**	–
Equity			
Share capital	23	**12**	–
Reserves	24(a)	**2,936,841**	–
Total equity		**2,936,853**	–

Approved and authorised for issue by the board of directors on 29 March 2010.

Zhongguo Sun
Director

Zhao Xiangti
Director

The notes on pages 51 to 103 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company							
		Share capital	**Share premium**	**Statutory reserve**	**Other reserve**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 23)	(Note 24(c))	(Note 24(d))					
As 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	24(b)	–	–	–	–	(79,903)	(79,903)	–	(79,903)
As at 31 December 2008		–	–	39,532	569,434	524,163	1,133,129	11,747	1,144,876
As at 1 January 2009		–	–	39,532	569,434	524,163	1,133,129	11,747	1,144,876
Reorganisation	23	9	776,577	–	(776,586)	–	–	–	–
Conversion of convertible redeemable preferred shares	22	1	267,582	–	(106,544)	–	161,039	–	161,039
Issue of new shares, net of issuing expenses	23	2	1,951,343	–	–	–	1,951,345	–	1,951,345
Capital contribution from a minority shareholder		–	–	–	–	–	–	36,000	36,000
Total comprehensive income for the year		–	–	–	–	530,037	530,037	1,538	531,575
As at 31 December 2009		12	2,995,502	39,532	(313,696)	1,054,200	3,775,550	49,285	3,824,835

The notes on pages 51 to 103 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before taxation		565,521	467,852
Adjustments for:			
Depreciation		113,713	75,903
Amortisation		1,021	994
Finance income		(6,370)	(36,469)
Finance costs		61,237	58,492
Net (gain)/loss on disposal of property, plant and equipment		(67)	104
Decrease/(increase) in inventories		2,789	(4,633)
(Increase)/decrease in trade and other receivables		(183,984)	22,622
Increase in trade and other payables		10,190	7,581
		564,050	592,446
Interest received		4,458	5,291
Interest paid		(69,447)	(66,096)
Income tax paid		(35,468)	(29,589)
Income tax refund		14,848	11,749
Net cash generated from operating activities		478,441	513,801
Investing activities			
Capital expenditure		(888,404)	(670,023)
Decrease/(increase) in pledged bank deposits		112,562	(72,892)
Proceeds from disposal of property, plant and equipment		258	–
Collection of receivables under finance lease		2,031	1,904
Net cash used in investing activities		(773,553)	(741,011)

The notes on pages 51 to 103 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT (continued)

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Financing activities			
Proceeds from bank and other loans		1,140,542	580,700
Repayment of bank and other loans		(736,971)	(414,690)
Proceeds from issuing of new shares		2,092,282	–
Payment of issuing expenses		(126,449)	–
Advances/loans from shareholders		–	1,415
Repayment of advances/loans from shareholders		–	(1,400)
Dividends paid		–	(79,903)
Net cash generated from financing activities		2,369,404	86,122
Net increase/(decrease) in cash and cash equivalents		2,074,292	(141,088)
Cash and cash equivalents as at 1 January		28,463	169,562
Effect of foreign exchange rate changes		(293)	(11)
Cash and cash equivalents as at 31 December	18	2,102,462	28,463

Notes:

Major non-cash transactions

In March 2009, a minority shareholder contributed certain production facilities for payment of capital contribution amounting to RMB36,000,000.

The notes on pages 51 to 103 form part of these financial statements.

1 CORPORATE INFORMATION AND GROUP REORGANISATION

Yingde Gases Group Company Limited (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. The Company and its subsidiaries (the "Group") are principally engaged in the production and sales of industrial gases in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation completed on 10 July 2009 (the "Reorganisation") to rationalise the group structure for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 24 September 2009. The Company's shares were listed on the Stock Exchange on 8 October 2009.

The Group is regarded as a continuing group resulting from the Reorganisation under common control. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since their respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding Company of the Group pursuant to the Reorganisation.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group are set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. For the purpose of preparing these financial statements, the Group has adopted all these new and revised IFRSs throughout the years presented, except for any new standards or interpretations that are not yet effective for the current accounting period. The new and revised standards and interpretations issued but not yet effective for the year ended 31 December 2009 are set out in Note 29.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries. The measurement basis used in the preparation of the financial statements is the historical cost basis as modified by derivative financial instruments (see Note 2(d)) that are stated at fair value.

The preparation of financial statements 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.

Judgements made by management in the application of IFRSs that have significant effect on these financial statements and major sources of estimation uncertainty are discussed in Note 28.

(c) 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.

An investment in subsidiaries is consolidated into the consolidated financial statements 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 consolidated financial statements. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and minority interests (continued)

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 consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders 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 consolidated balance sheet in accordance with Notes 2(k) or (m) depending on the nature of the liability.

In the Company's balance sheet, an investment in subsidiaries is stated at cost less impairment losses (see Note 2(h)).

(d) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(h)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost. Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)). 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 and other equipment	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.

(f) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(h)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful life of 5 to 20 years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(ii) Assets acquired under finance lease

Where the Group acquires the use of assets under finance lease, 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 lease. 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 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(h). 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Lease (continued)

(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 lease. 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 (see Note 2(h)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

(h) Impairment of assets

(i) Impairment of receivables

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; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(i) Impairment of receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the receivables' 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 receivables 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 receivables 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.

When the recovery of a debtor is considered doubtful but not remote, 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(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;

— investments in subsidiaries; and

— 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 inflows largely 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— 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 year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 2(h)(i) and (ii)).

(i) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 2(h)), 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 of doubtful debts.

(k) 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.

(l) Convertible redeemable preferred shares

The Group's convertible redeemable preferred shares that can be converted to equity share capital at the option of the shareholder, 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.

At initial recognition the liability component of convertible redeemable preferred shares 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.

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 preferred shares are converted or redeemed.

If the preferred shares are 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 preferred shares are redeemed, the other reserve is released directly to retained earnings.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(q)(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.

(n) 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.

(o) Employee benefits

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.

(p) Income tax

Income tax for the year 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 year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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

— 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.

(q) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

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 2(q)(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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) Sale 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 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.

(s) Translation of foreign currencies

Foreign currency transactions during the year 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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.

(u) Related parties

For the purposes of these financial statements, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive 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 or 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 consolidated financial statements 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.

3 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.

During the year ended 31 December 2009, the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB479,515,000, RMB247,870,000 and RMB231,380,000 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.

Details of concentration of credit risk arising from the customers are set out in Note 27(a).

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2009 RMB'000	2008 RMB'000
(a) Finance income/(costs):		
Interest income	4,458	5,291
Finance income on receivables under finance lease	1,616	1,555
Fair value adjustment on convertible redeemable preferred shares (Note 22)	–	21,301
Foreign currency exchange gain	296	8,322
Finance income	6,370	36,469
Interest on bank and other loans wholly repayable within five years	(69,578)	(66,184)
Finance charges on obligations under finance lease	(2,588)	(2,633)
Interest on the liability component of convertible redeemable preferred shares (Note 22)	(6,787)	(9,148)
Total interest expenses	(78,953)	(77,965)
Less: borrowing costs capitalised	31,574	22,200
	(47,379)	(55,765)
Fair value adjustment on convertible redeemable preferred shares (Note 22)	(13,133)	–
Foreign currency exchange loss	(725)	(2,727)
Finance costs	(61,237)	(58,492)
	(54,867)	(22,023)

Borrowing costs have been capitalised at the following rates:

	2009	2008
Capitalisation rate (per annum)	5.4% - 7.9%	5.7% - 8.5%

	2009 RMB'000	2008 RMB'000
(b) Staff costs:		
Salaries, wages, bonuses and benefits	74,278	48,162
Contributions to defined contribution retirement schemes	3,432	2,794
	77,710	50,956

Staff costs included directors' remuneration (see Note 6).

4 PROFIT BEFORE TAXATION (continued)

Profit before taxation is arrived at after charging/(crediting) (continued):

(b) Staff costs (continued)

Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries 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 year.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

	2009 RMB'000	2008 RMB'000
(c) Other items:		
Electricty	**1,131,717**	718,419
Depreciation	**113,713**	75,903
Amortisation		
- Land lease premium	**363**	352
- Intangible assets	**658**	642
Auditors' remuneration: audit service	**2,229**	108
Consulting fees (Note (i))	**802**	1,540
Listing expenses allocated to profit or loss	**41,679**	–
Operating lease charges: minimum lease payment (land and buildings)	**4,816**	4,452
Net (gain)/loss on disposal of property, plant and equipment	**(67)**	104
Impairment losses		
- Trade and other receivables	**–**	10,721
- Prepayment for equipment	**–**	2,395
Write-back of claims (Note (ii))	**–**	(2,020)

Notes:

(i) Consulting fees mainly represent fees paid to independent third parties for investment consulting and financing advisory services.

(ii) In 2006, a claim was brought by a customer because a subsidiary of the Group did not produce sufficient gas products to satisfy the minimum quantity requirement pursuant to the terms of the sales contract. Provision for claims of RMB2,500,000 were accrued by the Group as at 31 December 2007. In 2008, the subsidiary settled the claim with the customer for RMB480,000. 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) Taxation in profit or loss

	2009 RMB'000	2008 RMB'000
Provision for PRC income tax for the year	20,316	30,881
Deferred tax - origination of temporary differences	13,630	8,311
	33,946	39,192

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2009 RMB'000	2008 RMB'000
Profit before taxation	565,521	467,852
Expected PRC income tax expense at the statutory tax rate of 25%	141,380	116,963
Tax effect of non-deductible expenses	6,665	4,672
Differential tax rate on subsidiaries' results	(109,235)	(93,434)
Tax credit of domestic equipment purchases (Note (ii))	(18,494)	–
Tax on distributable profits of subsidiaries in the PRC (Note (iii))	13,630	10,991
Actual income tax expense	33,946	39,192

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

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 current and prior years.

The provision for PRC current income tax is based on a statutory rate of 25% (2008: 25%) of the assessable profit as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Group, which are entitled to full or 50% exemption of the income tax pursuant to the grandfathering arrangement under the Corporate Income Tax Law of the PRC.

(ii) Before 31 December 2007, certain subsidiaries of the Group 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 since 1 January 2008. During the year ended 31 December 2009, certain subsidiaries utilised the unused tax credit of RMB18,494,000 granted by the relevant local tax authorities prior to 31 December 2007 (2008: Nil).

(iii) Withholding tax at 10%, unless reduced by a treaty or agreement, is imposed when dividends are distributed by a PRC-resident enterprise to its immediate holding company outside mainland China for earnings generated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

5 INCOME TAX (continued)

(c) Income tax (recoverable)/payable in the consolidated balance sheet

	2009 RMB'000	2008 RMB'000
As at 1 January	6,927	(6,114)
Provision for PRC income tax for the year	20,316	30,881
PRC income tax paid	(35,468)	(29,589)
PRC income tax refund	14,848	11,749
As at 31 December	6,623	6,927
Representing:		
Income tax recoverable	(3,133)	(130)
Income tax payable	9,756	7,057
	6,623	6,927

(d) Deferred tax assets and liabilities recognised

(i) The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements are as follows:

The Group	**Allowance for doubtful debts** RMB'000	**Profits expected to distribute** RMB'000	**Total** RMB'000
Deferred tax arising from:			
As at 1 January 2008	–	–	–
(Credited)/charged to profit or loss	(2,680)	10,991	8,311
As at 31 December 2008	(2,680)	10,991	8,311
As at 1 January 2009	(2,680)	10,991	8,311
Charged to profit or loss	–	13,630	13,630
As at 31 December 2009	(2,680)	24,621	21,941

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.

5 INCOME TAX (continued)

(d) Deferred tax assets and liabilities recognised (continued)

(ii) Reconciliation to the consolidated balance sheet:

	2009 RMB'000	2008 RMB'000
Net deferred tax asset recognised on the balance sheet	**2,680**	2,680
Net deferred tax liability recognised on the balance sheet	**(24,621)**	(10,991)
	(21,941)	(8,311)

(e) Deferred tax liabilities not recognised

As at 31 December 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 RMB777,118,000 (2008: RMB373,284,000). Deferred tax liabilities of approximately RMB77,712,000 (2008: RMB37,328,000) 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.

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	2009				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Zhongguo Sun	–	1,200	1,200	–	2,400
Zhao Xiangti	–	684	–	29	713
Chen Yan	–	493	1,200	–	1,693
Non-executive director					
Chen Da Cin	–	–	–	–	–
Independent non-executive directors					
Xu Zhao	88	–	–	–	88
Zheng Fuya	75	–	–	–	75
Kam Son Leong (resigned on 25 October 2009)	31	–	–	–	31
Wang Ching (appointed on 4 December 2009)	9	–	–	–	9
Total	203	2,377	2,400	29	5,009

	2008				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Zhongguo Sun	–	1,351	–	–	1,351
Zhao Xiangti	–	685	–	22	707
Chen Yan	–	492	500	–	992
Non-executive director					
Chen Da Cin	–	–	–	–	–
Independent non-executive directors					
Xu Zhao	–	–	–	–	–
Zheng Fuya	–	–	–	–	–
Kam Son Leong	–	–	–	–	–
Total	–	2,528	500	22	3,050

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, one (2008: one) is director whose emoluments are disclosed in Note 6. The aggregate of the emoluments in respect of the other four (2008: four) individuals are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	4,237	3,425
Discretionary bonuses	6,589	2,580
Retirement scheme contributions	–	79
	10,826	6,084

The emoluments of the four (2008: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2009	2008
HKD1,000,001 to HKD1,500,000 (RMB880,000 to RMB1,321,000)	–	1
HKD1,500,001 to HKD2,000,000 (RMB1,321,000 to RMB1,761,000)	–	3
HKD2,000,001 to HKD2,500,000 (RMB1,761,000 to RMB2,201,000)	2	–
HKD2,500,001 to HKD3,000,000 (RMB2,201,000 to RMB2,641,000)	1	–
HKD4,500,001 to HKD5,000,000 (RMB3,962,000 to RMB4,402,000)	1	–
	4	4

8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB58,661,000 (2008: Nil) which has been dealt with in the financial statements of the Company.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB474,717,000 (2008: RMB371,612,000) and the weighted average number of 1,395,574,000 ordinary shares (2008: 1,270,000,000 ordinary shares) in issue during the year, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (basic)

	2009 RMB'000	2008 RMB'000
Profit attributable to equity shareholders of the Company	530,037	430,133
Profit attributable to the holders of convertible redeemable preferred shares	(55,320)	(58,521)
Profit attributable to ordinary equity shareholders of the Company	474,717	371,612

(ii) Weighted average number of ordinary shares (basic)

	2009 '000	2008 '000
Issued ordinary shares as at 1 January	1,270,000	1,270,000
Effect of issues of ordinary shares under the public offering	78,999	–
Effect of conversion of convertible redeemable preferred shares	46,575	–
Weighted average number of ordinary shares as at 31 December	1,395,574	1,270,000

9 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the year ended 31 December 2009. The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to ordinary equity shareholders of the Company of RMB409,689,000 and the weighted average number of 1,470,000,000 ordinary shares, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2008 RMB'000
Profit attributable to ordinary equity shareholders of the Company	371,612
Profit attributable to the holders of convertible redeemable preferred shares	58,521
After tax effect of income recognised in respect of convertible redeemable preferred shares	(20,444)
Profit attributable to ordinary equity shareholders of the Company (diluted)	409,689

(ii) Weighted average number of ordinary shares (diluted)

	2008 '000
Weighted average number of ordinary shares	1,270,000
Effect of convertible redeemable preferred shares	200,000
Weighted average number of ordinary shares (diluted) as at 31 December	1,470,000

10 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles and other equipment RMB'000	Total RMB'000
Costs:				
As 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)
As at 31 December 2008	60,547	1,859,243	24,771	1,944,561
As at 1 January 2009	60,547	1,859,243	24,771	1,944,561
Additions	–	68,224	17,078	85,302
Transferred from construction in progress	73,310	395,221	–	468,531
Disposal	–	–	(773)	(773)
As at 31 December 2009	133,857	2,322,688	41,076	2,497,621
Accumulated depreciation:				
As 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
As at 31 December 2008	(6,522)	(175,338)	(10,733)	(192,593)
As at 1 January 2009	(6,522)	(175,338)	(10,733)	(192,593)
Charge for the year	(4,485)	(104,750)	(4,478)	(113,713)
Written back on disposal	–	–	582	582
As at 31 December 2009	(11,007)	(280,088)	(14,629)	(305,724)
Net book value:				
As at 31 December 2009	122,850	2,042,600	26,447	2,191,897
As at 31 December 2008	54,025	1,683,905	14,038	1,751,968

10 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) All the Group's property, plant and equipment are located in the PRC.

(b) As at 31 December 2009, certain of the Group's bank and other loans were secured by the Group's plant and machinery with net book value of RMB868,862,000 (2008: RMB541,360,000).

(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:

	2009 RMB'000	2008 RMB'000
Net book value of plant and machinery held under finance lease	26,858	28,480

(d) The Group has entered into long-term gas supply agreements with certain customers for periods up to 25 years. Certain of the Group's buildings are located on land leased from these customers. Accordingly, building ownership certificate is not obtained in respect of such buildings. The net book value of such buildings amounted to RMB42,365,000 as at 31 December 2009 (2008: RMB33,444,000).

(e) As at 31 December 2009, the Group was in the process of applying for the ownership certificate for certain buildings with an aggregate net book value amounting to RMB11,424,000 (2008: RMB11,439,000). 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

	The Group	
	2009 RMB'000	2008 RMB'000
As at 1 January	488,655	291,874
Additions	663,340	896,624
Transferred to property, plant and equipment	(468,531)	(690,533)
Transferred to receivables under finance lease	(2,359)	(9,310)
As at 31 December	681,105	488,655

12 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Land use rights held under long term leases	**16,882**	17,245

The land use rights are amortised on a straight-line basis over the operating lease periods of 50 years.

As at 31 December 2009, certain of the Group's bank and other loans were secured by the Group's land use rights with net book value of RMB3,274,000 (2008: RMB17,245,000).

13 INTANGIBLE ASSETS

	The Group	
	2009	2008
	RMB'000	RMB'000
Cost:		
As at 1 January	**12,390**	12,216
Additions	**56**	174
As at 31 December	**12,446**	12,390
Accumulated amortisation:		
As at 1 January	**(2,191)**	(1,549)
Charge for the year	**(658)**	(642)
As at 31 December	**(2,849)**	(2,191)
Net book value:		
As at 31 December	**9,597**	10,199

Intangible assets mainly represent patented technology in the Group's subsidiary, Zhangjiagang Yingde Gases Co., Ltd. ("Zhangjiagang Yingde"), which is amortised over 20 years, being 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:

	The Group			
	2009		2008	
	Present value of the minimum lease payments RMB'000	**Gross investment RMB'000**	Present value of the minimum lease payments RMB'000	Gross investment RMB'000
Within 1 year	**2,117**	**2,245**	1,872	1,988
After 1 year but within 2 years	**1,898**	**2,245**	1,674	1,988
After 2 years but within 5 years	**4,603**	**6,734**	4,041	5,964
After 5 years	**8,251**	**23,140**	7,338	21,276
	14,752	**32,119**	13,053	29,228
Total	**16,869**	**34,364**	14,925	31,216
Less: total future interest income		**(17,495)**		(16,291)
Present value of lease receivables		**16,869**		14,925

15 INVESTMENTS IN SUBSIDIARIES

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	1,044,169	—

The following list contains the subsidiaries of the Group as at 31 December 2009:

Name of company	Place of incorporation/ establishment	Issued and fully paid up capital	Ownership interest held by Company	Ownership interest held by Subsidiary	Principal activities
Yingde Gases Investment Limited ("Yingde BVI")	BVI	USD14,700	100%	—	Investment holding
Ace Turbo Group Limited	BVI	USD1	—	100%	Import of equipment
Yingde Gases (Hong Kong) Company Limited (previously named Wellsmith Investment Limited)	Hong Kong	HKD10,000	—	100%	Investment holding
Hunan Yingde Gases Co., Ltd.	PRC	RMB246,000,000	—	100%	Production and sales of industrial gases
Zhuhai Yingde Gases Co., Ltd.	PRC	RMB140,000,000	—	100%	Production and sales of industrial gases
Jiangsu Yingde Gases Co., Ltd.	PRC	RMB44,000,000	—	100%	Production and sales of industrial gases
Nanjing Xingang Argon Co., Ltd. ("Nanjing Xingang")	PRC	USD2,100,000	—	100%	Production and sales of industrial gases
Shaanxi Yingde Gases Co., Ltd.	PRC	RMB110,000,000	—	100%	Production and sales of industrial gases
Tianjin Yingde Gases Co., Ltd.	PRC	RMB60,000,000	—	100%	Production and sales of industrial gases

(Expressed in Renminbi)

15 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid up capital	Ownership interest held by Company	Ownership interest held by Subsidiary	Principal activities
Zhangjiagang Yingde Gases Co., Ltd.	PRC	USD10,000,000	—	75%	Under construction
Yangzhou Yingde Gases Co., Ltd.	PRC	USD11,499,970	—	100%	Production and sales of industrial gases
Rizhao Yingde Gases Co., Ltd.	PRC	RMB219,400,000	—	100%	Production and sales of industrial gases
Zibo Yingde Gases Co., Ltd.	PRC	USD9,750,000	—	100%	Production and sales of industrial gases
Hebei Yingde Gases Co., Ltd.	PRC	RMB152,000,000	—	100%	Production and sales of industrial gases
Huai'an Yingda Gases Co., Ltd.	PRC	RMB64,000,000	—	100%	Production and sales of industrial gases
Laiwu Yingde Gases Co., Ltd.	PRC	USD10,049,964	—	100%	Production and sales of industrial gases
Zhuzhou Yingde Gases Co., Ltd.	PRC	USD8,000,000	—	100%	Production and sales of industrial gases
Guizhou Yingde Gases Co., Ltd.	PRC	USD20,000,000	—	100%	Under construction
Jiangsu Yingde Logistics Co., Ltd.	PRC	RMB5,000,000	—	100%	Transportation
Hengyang Yingde Gases Co., Ltd.	PRC	RMB120,000,000	—	70%	Production and sales of industrial gases
Shanxi Yingde Gases Co., Ltd.	PRC	Note	—	100%	Under construction
Jiangyin Yingde Gases Co., Ltd.	PRC	USD500,000	—	100%	Under construction

Note: Capital of USD10,000,000 was fully paid up in January 2010.

16 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**234,921**	108,665	**—**	—
Bills receivable	**73,191**	9,216	**—**	—
Less: allowance for doubtful debts	**(10,721)**	(10,721)	**—**	—
	297,391	107,160	**—**	—
Deposits and other receivables	**74,193**	19,516	**—**	—
Amounts due from subsidiaries	**—**	—	**130,252**	—
	371,584	126,676	**130,252**	—

All of the trade and other 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 of the balance sheet date:

	The Group	
	2009	2008
	RMB'000	RMB'000
Current	**239,903**	107,160
Less than 1 month past due	**16,460**	—
1 to 3 months past due	**41,028**	—
Amounts past due	**57,488**	—
	297,391	107,160

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 27(a).

16 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables 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 bills receivables directly (see Note 2(h)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
As at 1 January	**10,721**	—
Impairment loss recognised	**—**	10,721
As at 31 December	**10,721**	10,721

During the year ended 31 December 2008, 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. All other 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 mainly for issuing bank accepted bills to the Group.

18 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**2,102,462**	28,463	**1,809,106**	—

The Group's cash and bank balances in the PRC amounted to RMB281,669,000 as at 31 December 2009 (2008: RMB28,348,000). 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 balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	**2009**	2008
	'000	'000	**'000**	'000
Hong Kong dollars	**HKD140,666**	HKD 131	**HKD140,643**	HKD —
United States dollars	**USD249,786**	USD 8	**USD246,819**	USD —

19 BANK AND OTHER LOANS

(a) The bank and other loans comprise:

	The Group	
	2009	2008
	RMB'000	RMB'000
Short-term loans	**505,000**	329,200
Current portion of long-term loans	**277,983**	171,062
	782,983	500,262
Long-term portion of long-term loans	**521,200**	400,350
	1,304,183	900,612

The interest rates per annum of bank loans and other loans were:

	The Group	
	2009	2008
Short-term loans	**5.0% - 6.9%**	2.5% - 9.7%
Long-term loans	**5.4% - 10.4%**	5.7% - 10.4%

19 BANK AND OTHER LOANS (continued)

(b) The bank and other loans were repayable as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**782,983**	500,262
After 1 year but within 2 years	**221,630**	226,590
After 2 years but within 5 years	**299,570**	173,760
	1,304,183	900,612

(c) The bank and other loans were secured as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Bank loans		
- unsecured	**—**	22,000
- secured	**1,254,013**	828,442
	1,254,013	850,442
Other loans		
- secured	**50,170**	50,170
	1,304,183	900,612

(d) The carrying value of assets secured for bank and other loans were as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Property, plant and equipment	**868,862**	541,360
Lease prepayments	**3,274**	17,245
	872,136	558,605

In addition, certain bank loans were secured by the Group's 75% equity interests in Zhuhai Yingde Gases Co., Ltd., Shaanxi Yingde Gases Co., Ltd., Tianjin Yingde Gases Co., Ltd. and Rizhao Yingde Gases Co., Ltd. as at 31 December 2009.

20 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**3,912**	5,719	**—**	—
Bills payable	**146,617**	150,123	**—**	—
Payable for property, plant and equipment	**254,849**	369,792	**—**	—
Accrued expenses and other payables	**73,692**	47,076	**18,089**	—
Amounts due to subsidiaries	**—**	—	**28,585**	—
	479,070	572,710	**46,674**	—

An ageing analysis of trade payables is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Due within 1 month or on demand	**3,459**	4,851
Due after 1 month but within 3 months	**448**	728
Due after 3 months but within 6 months	**5**	140
	3,912	5,719

21 OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2009, the Group had obligations under finance lease repayable as follows:

	2009		2008	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
With 1 year	2,963	3,200	2,963	3,200
After 1 year but within 2 years	2,743	3,200	2,743	3,200
After 2 years but within 5 years	7,070	9,600	7,070	9,600
After 5 years	18,960	49,600	19,572	52,800
	28,773	62,400	29,385	65,600
Total	31,736	65,600	32,348	68,800
Less: total future interest expenses		(33,864)		(36,452)
Present value of lease obligations		31,736		32,348

22 CONVERTIBLE REDEEMABLE PREFERRED SHARES

	Liability component RMB'000	Derivative component (currency swap) RMB'000	Total RMB'000
As 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)
As at 1 January 2009	124,994	16,230	141,224
Interest charged during the year	6,787	—	6,787
Fair value adjustment	—	13,133	13,133
Foreign currency exchange gain	(105)	—	(105)
Conversion	(131,676)	(29,363)	(161,039)
As at 31 December 2009	—	—	—

22 CONVERTIBLE REDEEMABLE PREFERRED SHARES (continued)

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 subscription agreement for CRPS (the "CRPS Subscription Agreement").

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.

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. The CRPS were subsequently swapped by the Company's convertible redeemable preferred shares as part of the Reorganisation. The Company's convertible redeemable preferred shares were converted into the Company's ordinary shares upon its listing on 8 October 2009.

The CRPS were accounted for as hybrid financial instrument containing (i) derivative component on currency swap; (ii) liability component; and (iii) equity component. The derivative component is carried at fair value and the liability component is carried at amortised cost.

22 CONVERTIBLE REDEEMABLE PREFERRED SHARES (continued)

The fair values of the derivative component of the CRPS were valued by the directors with reference to valuation report issued by Jones Lang LaSalle Sallmanns Limited using the binomial option pricing model and discounted cash flows method. Inputs of used in the model are as follows:

	8 October 2009	31 December 2008
Fixed exchange rate RMB:USD	7.999	7.999
Spot exchange rate RMB:USD	6.829	6.835
Forward exchange rate RMB:USD	6.628	7.234
Maturity date	31 December 2010	31 December 2010
Risk-free interest rate	0.45%	0.76%

Upon the conversion of the convertible redeemable preferred shares into the Company's ordinary shares on 8 October 2009, the other reserve, amounting to RMB106,544,000, together with the carrying amount of the liability for the convertible redeemable preferred shares at the time of conversion, amounting to RMB161,039,000, were transferred to share capital and share premium as consideration for the ordinary shares issued.

23 SHARE CAPITAL

	2009		2008	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Authorised:				
Ordinary shares of USD0.000001 each	50,000,000		49,600,000	
Preferred shares of USD0.000001 each	—		400,000	
Issued and fully paid:				
As at 1 January	1,000	—	—	—
Sub-divison	—	—	1,000	—
Reorganisation	1,269,000	9	—	—
Conversion of convertible redeemable preferred shares	200,000	1	—	—
Shares issued under the public offering	339,233	2	—	—
As at 31 December	1,809,233	12	1,000	—

23 SHARE CAPITAL (continued)

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 USD1.00 each was sub-divided into 1,000,000 shares of USD0.000001 each, after which the authorised share capital of the Company of USD50,000 was redesignated into 49,600,000,000 ordinary shares of USD0.000001 each and 400,000,000 preferred shares of USD0.000001 each.

On 10 July 2009, the authorised share capital of the Company divided into 49,600,000,000 ordinary shares of USD0.000001 par value each and 400,000,000 preferred shares of USD0.000001 par value each were redesignated as 49,800,000,000 ordinary shares of USD0.000001 par value each and 200,000,000 preferred shares of USD0.000001 par value each.

As part of the Reorganisation (see Note 1), on 10 July 2009, the Company, Yingde BVI and the then shareholders of Yingde BVI entered into a share exchange agreement pursuant to which the Company became the sole shareholder of Yingde BVI and the Company issued to the then shareholders of Yingde BVI the shares in the Company as consideration for exchanging their shareholding interest in Yingde BVI. Upon completion of the share exchange, the total number of shares in the Company in issue was increased to 1,270,000,000 ordinary shares and 200,000,000 preferred shares.

On 12 September 2009, the shareholders of the Company resolved that the Company's authorised share capital of USD50,000 was redesignated and reclassified into 50,000,000,000 ordinary shares of USD0.000001 each.

On 8 October 2009, the following share transactions were completed:

– The Company's convertible redeemable preferred shares were converted into the Company's ordinary shares (see Note 22).

– The Company issued 339,232,500 ordinary shares with par value of USD0.000001 each at a price of HKD7.00 per share by way of public offering of the Company's ordinary shares to Hong Kong and overseas investors. The Company raised approximately HKD2,214,669,000 (equivalent to RMB1,951,345,000) in total net of share issuing expenses. The excess of the net proceeds over the nominal value of the shares issued were credited to the share premium account of the Company.

24 RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of the Group's reserves is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2008 and 31 December 2008	–	–	–	–	–
As at 1 January 2009	–	–	–	–	–
Reorganisation	9	776,577	106,544	–	883,130
Conversion of convertible redeemable preferred shares	1	267,582	(106,544)	–	161,039
Issue of new shares, net of issuing expenses	2	1,951,343	–	–	1,951,345
Total comprehensive income for the year	–	–	–	(58,661)	(58,661)
As at 31 December 2009	12	2,995,502	–	(58,661)	2,936,853

Details of movements of the Company's share capital are set out in Note 23.

(b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2009 (2008: Nil).

Dividends for the year ended 31 December 2008 represent dividends declared and paid by Yingde BVI to its then shareholders prior to the Reorganisation of the Company. 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 these financial statements.

24 RESERVES AND DIVIDENDS (continued)

(c) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(d) 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 statutory reserve can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(e) Distributability of reserves

As at 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB2,936,841,000 (2008: Nil).

(f) 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.

25 MATERIAL 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 6 and certain of the highest paid employees as disclosed in Note 7, is as follows:

	2009 RMB'000	2008 RMB'000
Short-term employee benefits	**13,644**	6,445
Post-employment benefits	**29**	22
	13,673	6,467

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) Transactions during the year

	2009 RMB'000	2008 RMB'000
Advances/loans received from shareholders	**—**	1,415
Repayment of advances/loans from shareholders	**—**	1,400
Interest on loans from shareholders	**—**	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 31 December 2009.

26 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2009, the Group had capital commitments for acquisition and construction of properties and equipment as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Authorised and contracted for	**592,894**	375,226
Authorised but not contracted for	**1,926,015**	783,890
	2,518,909	1,159,116

(b) Operating lease commitments

As at 31 December 2009, the Group's total future minimum lease payments under non-cancellable operating leases in respect of land and properties, are payable as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**4,008**	4,651
After 1 year but within 5 years	**9,436**	10,449
After 5 years	**24,633**	24,366
	38,077	39,466

None of the leases includes contingent rentals.

26 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Investment commitment

According to the agreement entered into between Yingde BVI and the on-site customer of Guizhou Yingde Gases Co. Ltd. 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.

Commitments under the agreement to make minimum payments in future years are as follows:

	2009	2008
	RMB'000	RMB'000
Within 1 year	**1,325**	1,735
After 1 year but within 5 years	**5,302**	6,938
After 5 years	**28,827**	39,459
	35,454	48,132

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 was Nil during the year ended 31 December 2009 (2008: RMB2,350,000).

(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. As at 31 December 2009, the Group 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. The potential 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 these financial statements.

27 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. As at 31 December 2009, 35% (2008: 20%) and 76% (2008: 71%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers respectively. 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 consolidated 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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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 financial assets 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 decrease profit after tax by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	The Group	
	2009	2008
	RMB'000	RMB'000
Effect on profit	**91,472**	9

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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Liquidity risk (continued)

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.

	2009					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Bank and other loans	1,304,183	1,418,115	840,201	250,365	327,549	—
Trade and other payables	479,070	479,070	479,070	—	—	—
Obligations under finance lease	31,736	65,600	3,200	3,200	9,600	49,600
	1,814,989	1,962,785	1,322,471	253,565	337,149	49,600

	2008					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years 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 lease	32,348	68,800	3,200	3,200	9,600	52,800
Convertible redeemable preferred shares	141,224	162,380	—	162,380	—	—
	1,646,894	1,807,130	1,126,449	419,550	208,331	52,800

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Interest rate risk

The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 19 and 21 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:

	The Group	
	2009	2008
	RMB'000	RMB'000
Effect on profit	**7,157**	5,727

(e) Fair values

In respect of cash and cash equivalents, pledged bank deposits, trade and other receivables, and trade and other payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

In respect of bank and other loans, receivables/obligations under finance lease and the host liability in respect of convertible redeemable preferred shares, the carrying amounts are not materially different from their fair values as at 31 December 2009 and 2008. The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair value of derivatives embedded in the convertible redeemable preferred shares is measured using the binomial option pricing model and discounted cash flows method in which all significant inputs are directly or indirectly based on observable market data.

28 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 these financial statements. 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 these financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these financial statements.

(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.

28 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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

The Group has entered into long-term gas supply contracts with on-site customers for periods up 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 terms 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.

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.

(Expressed in Renminbi)

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
IFRS 3 (Revised), *Business combinations*	1 July 2009
Amendments to IAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to IAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1 July 2009
IFRIC 17, *Distributions of non-cash assets to owners*	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 IFRS 2, *Share-based payment – Group cash-settled share-based payment transactions*	1 January 2010
Amendments to IAS 32, *Financial instruments : Presentation – classification of rights issues*	1 February 2010
IFRIC 19, *Extinguishing financial liabilities with equity instruments*	1 July 2010
Amendment to IFRS 1, *First-time adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for first-time adopters*	1 July 2010
Revised IAS 24*, Related Party Disclosure (revised 2009): Impact on current period reporting by government-related entities*	1 January 2011
Amendments to IFRIC 14, IAS 19, *The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*	1 January 2011
IFRS 9, *Financial instruments; Basis conclusions on IFRS9; Amendments to other IFRSs and guidance on IFRS 9*	1 January 2013

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.

FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			
	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009** **RMB'000**
Turnover	485,054	783,717	1,411,713	**2,065,685**
Gross profit	228,488	319,551	583,557	**775,180**
Profit from operations	179,898	252,002	489,875	**620,388**
Profit before taxation	24,004	183,938	467,852	**565,521**
Profit and total comprehensive income for the year	24,004	175,883	428,660	**531,575**
Attributable to:				
Equity Shareholders of the Company	(6,729)	177,049	430,133	**530,037**
Minority interests	30,733	(1,166)	(1,473)	**1,538**

SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December			
	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009** **RMB'000**
Total non-current assets	729,760	1,538,375	2,415,609	**3,073,188**
Total current assets	244,652	506,792	394,209	**2,601,013**
Total assets	974,412	2,045,167	2,809,818	**5,674,201**
Total current liabilities	(530,016)	(801,336)	(1,224,216)	**(1,274,772)**
Total assets less current liabilities	444,396	1,243,831	1,585,602	**4,399,429**
Total non-current liabilities	(160,477)	(447,712)	(440,726)	**(574,594)**
Net assets	283,919	796,119	1,144,876	**3,824,835**
Total equity	283,919	796,119	1,144,876	**3,824,835**

MISCELLANEOUS

INTERESTS AND SHORT POSITION OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES, DEBENTURES OF OUR COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2009, the interests and short positions of each director and chief executives of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be entered in the register kept by our Company under Section 352 of the SFO or as otherwise notified to our Company and the Hong Kong Stock Exchange by our Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules contained in Appendix 10 were as follows: (1) Mr. Zhao Xiangti controls 55% voting power in Rongton and therefore, is deemed to be interested in 280,603,935 (approximately 15.51%) (long position) Shares in our Company held by Rongton and (2) the entire issued share capital of Bubbly Brooke Holdings Limited is ultimately owned by Equity Trustee. Equity Trustee is a professional trustee company acting as the trustee of The LHM Family Trust. The LHM Family Trust is a discretionary trust set up by Ms. Li Hongmei (Mr. Zhongguo Sun's mother-in-law) as settlor. Mr. Sun is a beneficiary of The LHM Family Trust and therefore, is deemed to be interested in 295,200,000 (approximately 16.32%) (long position) Shares in our Company under The LHM Family Trust pursuant to the SFO.

Save as disclosed above, as at 31 December 2009, none of the directors and the chief executives of our Company or their associates (including their spouses and children under 18 years of age) had any interest or short positions in any of the shares, underlying shares or debentures of our Company or any of its associated corporations, recorded in the register required to be kept under section 352 of the SFO or required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code.

CORPORATE INFORMATION

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COMPLIANCE ADVISOR

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HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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Wanchai
Hong Kong

LISTING DATE

8 October 2009

AUTHORIZED REPRESENTATIVES

Mr. Zhongguo Sun
Ms. Wong Sze Wing

ALTERNATE AUTHORIZED REPRESENTATIVE

Mr. Chen Dar Cin

STOCK CODE

02168

COMPANY WEBSITE

www.yingdegases.com

INVESTOR RELATIONS CONTACT

information@ying-de.com.cn

HEADQUARTERS/PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 4313, Tower One
Time Square, Causeway Bay
Hong Kong

DEFINITIONS

"Ace Turbo"	Ace Turbo Group Limited, a company incorporated in the British Virgin Islands on 1 July 2008 and a wholly-owned subsidiary of our Company
"Baslow"	Baslow Technology Limited, an investment holding company incorporated in the British Virgin Islands
"Board"	the board of directors of our Company
"Bubbly Brooke"	Bubbly Brooke Holdings Limited, an investment holding company incorporated in the British Virgin Islands
"Business Day"	a day that is not a Saturday, Sunday or public holiday in Hong Kong
"CAGR"	compound annual growth rate
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and the "PRC" do not include Taiwan, the Macau Special Administrative Region and Hong Kong
"Guizhou Yingde"	Guizhou Yingde Gases Company Limited* (貴州盈德氣體有限公司), a company established in the PRC on 4 September 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 4 December 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 23 December 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

DEFINITIONS

"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 26 January 2007 and a wholly-owned subsidiary of our Company
"Hunan Yingde"	Hunan Yingde Gases Company Limited* (湖南盈德氣體有限公司), a company established in the PRC on 29 October 2001 and a wholly-owned subsidiary of our Company
"IFRS"	International Financial Reporting Standards
"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 15 April 2003 and a wholly-owned subsidiary of our Company
"Jiangyin Yingde"	Jiangyin Yingde Gases Company Limited* (江陰盈德氣體有限公司), a company established in the PRC on 12 November 2009 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 30 January 2007 and a wholly-owned subsidiary of our Company
"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 11 June 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
"Prospectus"	the prospectus of our Company dated 24 September 2009
"Renminbi" or "RMB"	the lawful currency of the PRC
"Rizhao Yingde"	Rizhao Yingde Gases Company Limited* (日照盈德氣體有限公司), a company established in the PRC on 30 October 2006 and a wholly-owned subsidiary of our Company

DEFINITIONS

"Rongton"	Rongton Investments Limited, an investment holding company incorporated in the British Virgin Islands
"SAI Report"	the industry report dated 22 March 2010 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 24 June 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 3 September 2009 and a wholly-owned subsidiary of our Company
"Share(s)"	ordinary share(s) with nominal value of US$0.000001 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally approved by our shareholders on 12 September 2009 and approved and adopted by the board of directors of our Company on 12 September 2009
"Tianjin Yingde"	Tianjin Yingde Gases Company Limited* (天津盈德氣體有限公司), a company established in the PRC on 17 September 2004 and a wholly-owned subsidiary of our Company
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$", "USD" or "US dollars"	United States dollars, the lawful currency of the United States

"Yingde Hong Kong"	Yingde Gases (Hong Kong) Company Limited, a company incorporated in Hong Kong on 20 June 2007 and a wholly-owned subsidiary 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 12 April 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 18 April 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 15 October 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 31 December 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 8 April 2003 and a wholly-owned subsidiary of our Company
"Zhuzhou Yingde"	Zhuzhou Yingde Gases Company Limited* (株州盈德氣體有限公司), a company established in the PRC on 22 March 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 8 November 2006 and a wholly-owned subsidiary of our Company

In this annual report:

— "Company", "our Company", "our", "we" and "us" refer to Yingde Gases Group Company Limited 盈德氣體集團有限公司, an exempted company incorporated in the Cayman Islands with limited liability on 25 September 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; and

— the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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