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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- Turnover of our Group was RMB1,316 million, representing an increase of 43.5% compared with the corresponding period in 2009.
- Profit attributable to equity shareholders of our Company amounted to RMB326 million, representing an increase of 40.0% compared with the corresponding period in 2009.
- Basic earnings per Share was RMB0.18, representing an increase of 13.9% compared with the corresponding period in 2009.

RESULTS

The board (the "Board") of directors (the "Directors") of Yingde Gases Group Company Limited (our "Company" together with its subsidiaries, referred as our "Group") is pleased to announce the unaudited consolidated results of our Group for the six months ended 30 June 2010 as follows:

FINANCIAL INFORMATION

Financial information extracted from the unaudited interim financial report of our Group for the six months ended 30 June 2010, together with comparative figures for the six months ended 30 June 2009, prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting", adopted by the International Accounting Standards Board and the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2010 — unaudited
(Expressed in Renminbi)

	Note	**Six months ended 30 June**	
		2010	**2009**
		RMB'000	RMB'000
Turnover		1,316,087	917,163
Cost of sales		(787,909)	(586,072)
Gross profit		528,178	331,091
Other revenue		2,124	208
Selling expenses		(20,510)	(7,834)
Administrative expenses		(60,132)	(45,448)
Profit from operations		449,660	278,017
Finance income	3(a)	4,756	2,771
Finance costs	3(a)	(51,787)	(44,030)
Profit before taxation	3	402,629	236,758
Income tax	4	(76,920)	(4,234)
Profit and total comprehensive income for the period		325,709	232,524
Attributable to:			
Equity shareholders of the Company		325,597	232,487
Minority interests		112	37
Profit and total comprehensive income for the period		325,709	232,524
Earnings per share (RMB)	5		
Basic		0.180	0.158
Diluted		0.180	0.158

CONSOLIDATED BALANCE SHEET

at 30 June 2010 — unaudited

(Expressed in Renminbi)

	Note	**At 30 June 2010** RMB'000	**At 31 December 2009** RMB'000
Non-current assets			
Property, plant and equipment, net		2,434,779	2,191,897
Construction in progress		784,201	681,105
Lease prepayments		34,010	16,882
Intangible assets		19,204	9,597
Receivables under finance lease		14,507	14,752
Other non-current assets		245,799	156,275
Deferred tax assets		2,680	2,680
Total non-current assets		3,535,180	3,073,188
Current assets			
Inventories		17,206	6,857
Trade and other receivables	6	628,125	371,584
Receivables under finance lease		2,117	2,117
Income tax recoverable		1,592	3,133
Pledged bank deposits		88,438	114,860
Cash and cash equivalents		1,688,774	2,102,462
Total current assets		2,426,252	2,601,013
Current liabilities			
Bank and other loans		726,140	782,983
Trade and other payables		477,755	479,070
Obligations under finance lease		3,077	2,963
Income tax payable		47,143	9,756
Total current liabilities		1,254,115	1,274,772
Net current assets		1,172,137	1,326,241
Total assets less current liabilities		4,707,317	4,399,429

CONSOLIDATED BALANCE SHEET (continued)
at 30 June 2010 — unaudited
(Expressed in Renminbi)

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Non-current liabilities		
Bank and other loans	481,040	521,200
Obligations under finance lease	29,880	28,773
Deferred tax liabilities	35,618	24,621
Total non-current liabilities	546,538	574,594
Net assets	4,160,779	3,824,835
Equity		
Share capital	12	12
Reserves	4,101,135	3,775,538
Total equity attributable to equity shareholders of the Company	4,101,147	3,775,550
Minority interests	59,632	49,285
Total equity	4,160,779	3,824,835

Notes to the unaudited financial information

1 Group reorganisation

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 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'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 relevant comparative information of the Group has been prepared as if the current group structure had been in existence throughout the period ended 30 June 2009, 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 Segment reporting

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.

3 Profit before taxation

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

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
(a) Finance income/(costs):		
Interest income	3,658	1,798
Finance income on receivables under finance lease	877	796
Foreign currency exchange gain	221	177
Finance income	4,756	2,771
Interest on bank and other loans	(38,437)	(34,510)
Finance charges on obligations under finance lease	(1,221)	(1,244)
Interest on the liability component of convertible redeemable preferred shares	–	(4,373)
Total interest expenses	(39,658)	(40,127)
Less: borrowing costs capitalised	5,520	7,213
	(34,138)	(32,914)
Fair value adjustment on convertible redeemable preferred shares	–	(10,953)
Foreign currency exchange loss	(17,649)	(163)
Finance costs	(51,787)	(44,030)
	(47,031)	(41,259)

	Six months ended 30 June 2010 RMB'000	2009 *RMB'000*
(b) Other items:		
Electricity	694,135	513,045
Depreciation	67,657	52,983
Amortisation		
— Land lease premium	245	181
— Intangible assets	327	331
Staff costs	47,116	35,784
Operating lease charges: minimum lease payment (land and buildings)	2,877	2,243
Net gain on disposal of property, plant and equipment	(14)	(10)

4 Income tax

	Six months ended 30 June	
	2010	**2009**
	RMB'000	RMB'000
Provision/(write-back) of PRC income tax for the period	68,568	(1,727)
Deferred tax	8,352	5,961
	76,920	4,234

(a) 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.

No provision has been made for Hong Kong profits tax as the Group does not earn any income subject to Hong Kong profits tax during the current and prior periods.

The provision for PRC current income tax is based on a statutory rate of 25% (six months ended 30 June 2009: 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.

(b) 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 six months ended 30 June 2010, certain subsidiaries utilised the unused tax credit of RMB7,477,000 granted by the relevant local tax authorities prior to 31 December 2007 (six months ended 30 June 2009: RMB18,494,000).

(c) 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 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to ordinary equity shareholders of the Company for the period of RMB325,597,000 (six months ended 30 June 2009: RMB200,856,000) and the number of shares in issue during the six months ended 30 June 2010 of 1,809,232,500 ordinary shares (six months ended 30 June 2009: 1,270,000,000 ordinary shares in issue pursuant to the Reorganisation as if these shares were outstanding throughout the six months ended 30 June 2009).

Profit attributable to ordinary equity shareholders of the Company:

	Six months ended 30 June	
	2010	**2009**
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company	325,597	232,487
Profit attributable to the holders of convertible redeemable preferred shares	–	(31,631)
Profit attributable to ordinary equity shareholders of the Company (basic)	325,597	200,856

(b) Diluted earnings per share

The amount of diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during both the current and prior periods. Since the impact on earnings of conversion of convertible redeemable preferred shares to ordinary shares is greater than that on the weighted average number of ordinary shares, convertible redeemable preferred shares were treated as anti-dilutive during the six months ended 30 June 2009.

6 Trade and other receivables

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade receivables	411,027	234,921
Bills receivable	102,943	73,191
Less: allowance for doubtful debts	(10,721)	(10,721)
	503,249	297,391
Deposits and other receivables	124,876	74,193
	628,125	371,584

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables and bills receivable (net of allowance for doubtful debts) with the following ageing analysis:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Current	405,345	239,903
Less than 1 month past due	26,538	16,460
1 to 3 months past due	33,513	41,028
More than 3 months but less than 12 months past due	37,853	–
	503,249	297,391

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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Embarking on 2010, driven by the recovery of the global economy, the PRC economy maintained its growth momentum and the domestic demand for industrial gas saw a steady increase. While the global economy gradually returned to its growth track, the PRC delivered an outstanding performance, made a swift recovery and is regarded as one of the countries with the strongest growth potential. As a leading company in the domestic industrial gas industry, we leveraged on the growth momentum of the economy in the first half of the year, actively expanded our customer base for on-site gas supply, maintained business growth and focused on the "Go To Market" strategy for our merchant gas operation, thereby fostering our business growth for the first half of 2010.

Review of On-Site Gas Supply Operation

We are the largest independent on-site industrial gas supplier in the PRC with oxygen, nitrogen and argon as our major gas products. For the six months ended 30 June 2010, our on-site gas supply accounted for approximately 81.7% of revenue from operations of our Group. To increase and stabilize our revenue in the future, our Group has expanded our target customers to include, but not limited to, companies in the iron and steel, chemicals and non-ferrous metals industries and will identify more quality customers.

During the period ended 30 June 2010, two on-site gas supply facilities of our Group commenced production and our Group had a total of 23 projects in operation and 16 new projects under development. The total installed capacity amounted to 452,800 Nm^3/hr in terms of installed oxygen capacity, representing a 6.7% increase as compared with 424,300 Nm^3/hr as at 31 December 2009. During the period under review, our Group sold 3,260 million Nm^3 of industrial gas in aggregate, representing a period-to-period growth of 26.5%. The total sales volume of oxygen products, nitrogen products and argon products were 1,664 million Nm^3, 1,393 million Nm^3 and 54 million Nm^3, respectively. It is expected that the total installed oxygen capacity will amount to 1,008,800 Nm^3/hr in 2013 upon completion of all projects under development.

Review of Merchant Gas Operation

In the first half of 2010, the prices of liquid gases have increased substantially as a result of recovering of merchant gas market.

Our Group has accelerated the growth of our merchant gas operation through the "Go To Market" strategy implemented by our Group since the second half of 2009 and has increased the revenue from our merchant gas operation. In the first half of 2010, the total turnover of our Group's merchant gas operation amounted to RMB241 million, representing a period-on-period growth of 145.6%, which helped our Group to achieve better results for our merchant industrial gas operation.

FINANCIAL REVIEW

We have again achieved encouraging results in the first half of 2010. For the six months ended 30 June 2010, our Group's turnover amounted to RMB1,316 million, representing a 43.5% increase as compared with RMB917 million for the same period in 2009. The significant increase in turnover was mainly attributable to two new production facilities coming into operation and significant rise of prices of liquid gases. For the six months ended 30 June 2010, our Group recorded gross profit of RMB528 million, representing an increase of 59.5% as compared with the same period in 2009, thus driving the overall gross profit margin to 40.1%. In addition, our Group recorded profit attributable to equity shareholders of our Company of RMB326 million. The earnings per share was RMB0.18.

Turnover

Our turnover consists of proceeds from the sale of industrial gas products. Our turnover is recognized when our gas products are delivered to the customers' premises 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.

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

	For the six months ended 30 June			
	2010		**2009**	
	RMB'000	(%)	RMB'000	(%)
Turnover				
On-site	1,074,965	81.7	818,969	89.3
Merchant	241,122	18.3	98,194	10.7
Total	1,316,087	100.0	917,163	100.0

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

	For the six months ended 30 June	
	2010	**2009**
	Unit price (RMB/Nm^3)	
Oxygen	0.90	0.69
Nitrogen	0.73	0.68
Argon	2.93	1.60
Weighted average unit price	1.31	0.89

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

Cost of sales

Our cost of sales comprises utility expenses, depreciation expenses for property, plant and equipment related to production, staff costs for our production team and other expenses. Utility expenses, mainly consisting of electricity expenses, comprised 88.1% and 87.5% of our total cost of sales for the six months ended 30 June 2010 and 2009, 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 we pay to our employees or make for the benefit of our employees of our production team. Other expenses primarily consist of other consumables and repair and maintenance.

Cost of sales increased by 34.4% from RMB586 million for the six months ended 30 June 2009 to RMB788 million for the six months ended 30 June 2010 which is mainly driven by greater turnover. Cost of sales as a percentage of turnover decreased from 63.9% for the six months ended 30 June 2009 to 59.9% for the six months ended 30 June 2010 mainly due to the significant rise in price of liquid gases for the first half of 2010 as mentioned above.

Income tax expenses

Income tax expenses increased 1,716.7% from RMB4 million for the six months ended 30 June 2009 to RMB77 million for the six months ended 30 June 2010, primarily due to certain subsidiaries being subject to higher income tax rates in the first half of 2010 as compared with the corresponding period of 2009. The following table below sets out the applicable enterprise income tax rate:

Entity	**Tax holiday period**	**Applicable tax rate**	
		For the six months ended 30 June	
		2010	**2009**
Zhuhai Yingde	2005-2009	25%	12.5%
Rizhao Yingde	2008-2012	12.5%	–
Hebei Yingde	2008-2012	12.5%	–
Zibo Yingde	2008-2012	12.5%	–
Huai’an Yingda	2008-2012	12.5%	–
Laiwu Yingde	2008-2012	12.5%	–

Bank and other loans

	At 30 June 2010 RMB'000	**At 31 December 2009** RMB'000
Short-term loans	375,000	505,000
Current portion of long-term loans	351,140	277,983
	726,140	782,983
Long-term portion of long-term loans	481,040	521,200
	1,207,180	1,304,183

As at 30 June 2010, the carrying value of assets secured for bank and other loans was RMB804 million (as at 31 December 2009: RMB872 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 30 June 2010.

Liquidity and capital resources

We have 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 30 June 2010, the total assets of our Group was approximately RMB5,961 million, representing an increase of RMB287 million as compared with the amounts as at 31 December 2009. The cash at bank and in hand was RMB1,689 million, representing a decrease of RMB414 million as compared with the amounts as at 31 December 2009. The current ratio of our Group was 193.5%. The gearing ratio of our Group which is calculated as total liabilities divided by total assets was 30.2%.

Capital expenditure

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

The total capital expenditure for the six months ended 30 June 2010 were RMB573 million (six months ended 30 June 2009: RMB382 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 shares issued in October 2009, and bank borrowings.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

FUTURE OUTLOOK

As a leading enterprise in the industrial gas industry, we will seize the current opportunities arising from the steadily growing economy in the PRC and the growing importance of the industrial gas market by close market monitoring and customer diversification, in order to ensure the stability of our Group's gas supply and boost our capacity. Against the challenges set by the steel industry in the future, our Group will use our best endeavors in maintaining the on-site gas operation and adopting an aggressive retail strategy to generate the greatest returns to the shareholders.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Our Company is committed to high standards of corporate governance. The Board of Directors of our Company believes that our Company has complied with all the code provisions of the Code in Appendix 14 of the Listing Rules for the six months ended 30 June 2010 except for the deviation from the Code provision A.2.1, which stipulates that the roles of chairman and chief executive officer should be separated. The chairman and the chief executive officer of our Company is Mr. Zhongguo Sun. Nevertheless, the Board considers that this structure will not impair the balance of power and the authority of the Board. The Board currently comprises four executive directors 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 is the main founder of our Group and 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.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

Our Company has adopted the Code of Conduct on terms no less than the required standards of the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors of our Company have confirmed that they have made specific enquiry to all Directors of our Company, all the Directors have complied with all required standards under the Code of Conduct throughout the period from 1 January 2010 to 30 June 2010.

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

During the period from 1 January 2010 to 30 June 2010, neither our Company nor any of our subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, our Company has established an audit committee (the "Audit Committee") comprising three independent non-executive directors, namely Mr. Xu Zhao (chairman of the Audit Committee), Mr. Zheng Fuya, and Dr. Wang Ching. The Audit Committee has reviewed the unaudited interim results of our Group for the six months ended 30 June 2010.

By order of the Board
Yingde Gases Group Company Limited
Zhongguo Sun
Chairman

Hong Kong, 24 August 2010

As at the date of this announcement, the executive directors of the Company are Mr. Zhongguo Sun, Mr. Zhao Xiangti, Mr. Chen Yan and Mr. Trevor Raymond Strutt; and the independent non-executive directors of the Company are Mr. Xu Zhao, Mr. Zheng Fuya and Dr. Wang Ching.