If you are in any doubt as to any aspect of this Response Document or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yingde Gases Group Company Limited, you should at once hand this Response Document to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

RESPONSE DOCUMENT RELATING TO VOLUNTARY CONDITIONAL CASH OFFERS BY UBS AG, HONG KONG BRANCH ON BEHALF OF PAGAC II-2 LIMITED TO ACQUIRE ALL ISSUED SHARES OF YINGDE GASES GROUP COMPANY LIMITED (OTHER THAN THOSE ALREADY ACQUIRED OR AGREED TO BE ACQUIRED BY PAGAC II-2 LIMITED AND PARTIES ACTING IN CONCERT WITH IT) AND FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF YINGDE GASES GROUP COMPANY LIMITED

Financial adviser to the Company

Morgan Stanley

Independent Financial Adviser to the Independent Board Committee

Rothschild

Terms used in this cover shall have the same meanings as defined in this Response Document.

A letter from the Board is set out on pages 5 to 12 of this Response Document. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Offers are set out on pages 13 to 16 of this Response Document. A letter from Rothschild (Hong Kong) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice and recommendation in connection with the Offers, is set out on pages 17 to 44 of this Response Document.

25 March 2017

CONTENTS

In this Response Document, the following expressions have the meanings set out below, unless the context requires otherwise:

acting in concert	has the meaning given to it in the Takeovers Code
Anglo Chinese	Anglo Chinese Corporate Finance, Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the financial adviser to Mr. Zhongguo Sun and Mr. Trevor Strutt, both being Directors
associate(s)	has the meaning given to it in the Takeovers Code
Board	the board of Directors
Business Day	a day on which the Stock Exchange is open for the transaction of business
Company	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
concert parties	in respect of a person, persons acting in concert with such a person
Director(s)	director(s) of the Company
Executive	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
Form(s) of Acceptance	the form(s) of acceptance and transfer in respect of the Offers accompanying(ies) the Offer Document
Group	the Company and its subsidiaries
HK$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China
Independent Board Committee	the independent committee of the Board (comprising Mr. Zheng Fuya, Dr. Wang Ching, Mr. Zhihe Mah and Mr. Rawen Zhi Hong Huang, all being independent non-executive Directors) established for the purpose of advising the Independent Shareholders in respect of the Offers

Independent Financial Adviser	Rothschild (Hong Kong) Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and the independent financial adviser to the Independent Board Committee in respect of the Offers
Independent Shareholders	holder(s) of the Share(s) other than (i) the Offeror and parties acting in concert with it; and (ii) Mr. Zhongguo Sun and Mr. Trevor Strutt, both being executive Directors, and their respective associates
Latest Practicable Date	23 March 2017, being the latest practicable date prior to the printing of this Response Document for the purpose of ascertaining certain information for inclusion in this Response Document
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Memorandum of Undertaking	the memorandum of undertaking dated 27 February 2017 between Mr. Zhongguo Sun, Mr. Trevor Raymond Strutt, Baslow Technology Limited, Bubbly Brooke Holdings Limited and the Offeror as described in the Rule 3.5 Announcement and in the Offer Document
Morgan Stanley	Morgan Stanley Asia Limited, a company incorporated in Hong Kong, that is licensed for Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the financial adviser to the Company in relation to the Offers
Offer Document	the offer document dated 10 March 2017 issued by the Offeror in respect of the Offers in accordance with the Takeovers Code containing, among other things, detailed terms of the Offers, together with the Form(s) of Acceptance
Offer Period	has the meaning ascribed to it under the Takeovers Code, being the period commencing on 9 January 2017 (the date of the announcement of the Company in relation to the interest of Air Products and Chemicals, Inc., to acquire the Company by way of a scheme of arrangement in consideration of cash) and ending on the close of the Offers
Offer Share(s)	the Shares which are subject to the Offers

Offeror	PAGAC II-2 Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and whose registered office is at Jayla Place, P.O. Box 216, Road Town, Tortola, British Virgin Islands
Offers	the Share Offer and the Option Offer
Option(s)	the outstanding option(s) granted by the Company pursuant to the Share Option Scheme
Option Offer	the offer to be made by UBS AG, Hong Kong Branch on behalf of the Offeror in compliance with Rule 13 of the Takeovers Code for cancellation of all the outstanding Options in accordance with the terms and conditions set out in the Rule 3.5 Announcement and in the Offer Document
Optionholder(s)	the holder(s) of the Options
Registrar	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, being the branch share registrar and the transfer office of the Company
Relevant Period	the period commencing from 9 July 2016, being the date falling six months preceding the date of the commencement of the Offer Period, up to and including the Latest Practicable Date
Response Document	this response document issued by the Company in accordance with the Takeovers Code in respect of the Offers
RMB	Renminbi, the lawful currency of the People's Republic of China
Rule 3.5 Announcement	the announcement issued by the Offeror dated 7 March 2017 in relation to, amongst others, the Offers
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	ordinary shares of US$0.000001 each in the share capital of the Company
Shareholder(s)	holders of Shares

Share Offer	the voluntary conditional cash offer to be made by UBS AG, Hong Kong Branch on behalf of the Offeror for all Offer Shares (other than those already acquired or agreed to be acquired by the Offeror and parties acting in concert with it) in accordance with the Takeovers Code
Share Offer Price	the price of HK$6.00 per Offer Share payable by the Offeror to the Shareholders for each Offer Share tendered under the Share Offer
Share Option Scheme	the share option scheme adopted by the Company on 12 September 2009, as amended from time to time
Stock Exchange	The Stock Exchange of Hong Kong Limited
subsidiary	has the meaning given to it under the Listing Rules
Takeovers Code	the Hong Kong Code on Takeovers and Mergers
US$	the United States dollars, the lawful currency of the United States of America
%	per cent.

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)

Executive Directors:
Mr. Zhongguo Sun
Mr. Trevor Raymond Strutt

Independent non-executive Directors:
Mr. Zheng Fuya
Dr. Wang Ching
Mr. Zhihe Mah
Mr. Rawen Zhi Hong Huang

Registered office:
Cricket Square,
Hutchins Drive
PO Box 2681,
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 3212-13
32/F., Tower Two
Times Square,
Causeway Bay
Hong Kong

25 March 2017

To the Independent Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL CASH OFFERS BY UBS AG, HONG KONG BRANCH ON BEHALF OF PAGAC II-2 LIMITED TO ACQUIRE ALL ISSUED SHARES OF YINGDE GASES GROUP COMPANY LIMITED (OTHER THAN THOSE ALREADY ACQUIRED OR AGREED TO BE ACQUIRED BY PAGAC II-2 LIMITED AND PARTIES ACTING IN CONCERT WITH IT) AND FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF YINGDE GASES GROUP COMPANY LIMITED

INTRODUCTION

On 7 March 2017, the Offeror announced that UBS AG, Hong Kong Branch would make a voluntary conditional cash offer on behalf of the Offeror to acquire all the issued shares in the issued share capital of the Company (other than those already owned and/or agreed to be acquired by the Offeror and/or parties acting in concert with it) and for cancellation of all outstanding options pursuant to terms as disclosed in the Rule 3.5 Announcement.

In accordance with Rule 2.1 of the Takeovers Code, the Company is required to establish an independent board committee of the Board to advise the Independent Shareholders in respect of the Offers. The Independent Board Committee comprising Mr. Zheng Fuya, Dr. Wang Ching, Mr. Zhihe Mah and Mr. Rawen Zhi Hong Huang, all being independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Offers.

Rothschild (Hong Kong) Limited has been appointed as an independent financial adviser to advise the Independent Board Committee in respect of the Offers. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee. The letter of advice from the Independent Financial Adviser addressed to Independent Board Committee is set out in pages 17 to 44 of this Response Document.

The purpose of this Response Document is to provide you with, among other things, information relating to the Group and the Offers, the background leading to the Offers, the recommendation of the Board and the Independent Board Committee to the Independent Shareholders in respect of the Offers, and the advice of from the Independent Financial Adviser to the Independent Board Committee on the Offers.

You are advised to read this Response Document, the recommendation of the Board, the recommendation of the Independent Board Committee and the advice from the Independent Financial Adviser carefully before taking any action in respect of the Offers.

THE OFFERS

The terms of the Offers are set out in the Offer Document and the Form(s) of Acceptance. You are recommended to refer to the Offer Document and the Form(s) of Acceptance for further details.

UBS AG, Hong Kong Branch is, on behalf of the Offeror, making the Offers on the following basis:

Share Offer:

For each Offer Share . . . . .HK$6.00 in cash

Option Offer:

For cancellation of each outstanding Option with exercise price lower than the Share Offer Price	HK$6.00 less the exercise price in respect of the relevant outstanding Option in cash
For cancellation of each outstanding Option with exercise price above the Share Offer Price	HK$0.001 in cash

As at the Latest Practicable Date, the Company has 1,890,573,500 Shares in issue.

According to the information contained in the Offer Document, as at 10 March 2017, PAG Asia II LP ("**PAG Asia**"), being the sole shareholder of the Offeror, was interested in 21,135,500 Shares, representing 1.12% of the total issued share capital of the Company. Further, according to (i) a public disclosure form filed by the Offeror pursuant to Rule 22 of the Takeovers Code dated 13 March 2017, the Offeror acquired an interest in 8,000,000 Shares at HK$6.00 per Share on 10 March 2017; and (ii) a public disclosure form filed by the Offeror pursuant to Rule 22 of the Takeovers Code dated 14 March 2017, the Offeror acquired an interest in 79,674,730 Shares and 190,000,000 Shares on 13 March 2017, both at HK$6.00 per Share. As disclosed in the latest disclosure of interest notices filed by PAG Asia pursuant to Part XV of the SFO dated 12 March 2017, PAG Asia was interested in 896,017,276 Shares, representing approximately 47.39% of the total issued share capital of the Company.

According to a public disclosure form filed by Rongton Investments Limited ("**Rongton**") pursuant to Rule 22 of the Takeovers Code dated 15 March 2017, Rongton sold 190,000,000 Shares (representing approximately 10.05% of the total issued share capital of the Company) on 13 March 2017 at HK$6.00 per Share and as a result Rongton was interested in 43,129,585 Shares representing approximately 2.28% of the total issued share capital of the Company as disclosed in the same form. As disclosed in the Offer Document, Rongton was a company wholly-owned by Mr. Zhao Xiangti ("**Mr. Zhao**"), a former Director who entered into a memorandum of undertaking with the Offeror dated 28 February 2017 to undertake to accept the Offers in respect of the Shares he was interested in pursuant to the terms therein.

The Share Offer will be conditional upon valid acceptances of the Offers being received by 4:00 p.m. on the Closing Date (as defined in the Offer Document) (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in the Company.

Further details of the Offers including, among others, the expected timetable and the terms and procedures of acceptance of the Offers, are set out in the Offer Document and the Form(s) of Acceptance.

Shareholders are reminded of the right to withdraw their acceptance of the Offers under Rule 17 of the Takeovers Code which provides that:

"An acceptor shall be entitled to withdraw his acceptance after 21 days from the first closing date of the offer, if the offer has not by then become unconditional as to acceptances. This entitlement to withdraw shall be exercisable until such time as the offer becomes or is declared unconditional as to acceptances: however, on the 60th day (or any date beyond which the offeror has stated that its offer will not be extended) the final time for the withdrawal must coincide with the final time for the lodgement of acceptances set out in Rule 15.5, and this time must not be later than 4.00 p.m."

INFORMATION ON THE OFFEROR

Please refer to the Offer Document for the information on the Offeror.

INFORMATION ON THE GROUP

The Group is principally engaged in the design and construction of equipment and the production and sales of industrial gases in the People's Republic of China. The financial information about the Company is set out in Appendix I to this Response Document. Furthermore, please see the Profit Warning and Financial Update announcement of the Company dated 23 March 2017 (as attached in Appendix II to this Response Document) on an update of its financial position. Please also refer to the section headed "E. Material Change" in Appendix I to this Response Document for further details in relation to the material change of the Company since 31 December 2015.

As disclosed in the section headed "Intention of the Offeror in relation to the Group" in the Letter from UBS in the Offer Document:

"It is the Offeror's intention to acquire more than 50% of the voting rights of the Company pursuant to the Offers. The Offeror intends to maintain the Company's existing principal activities. After completion of the Offers, the Offeror will assist the Company to review its existing funding programs in place, to optimise its capital structure to ensure adequate liquidity in the context of the Company's business activities, and in general to assist in improving the Company's operations to create shareholder value. No major changes are expected to be introduced in the existing principal business of the Group, including any redeployment of fixed assets of the Group.

The Offeror intends to nominate personnel with relevant industry experience as chairman of the Board, chief executive officer and executive director(s) of the Company after the completion of the Offers, and any such nomination will be made in compliance with the Takeovers Code and the Listing Rules. Apart from the aforesaid, the Offeror does not anticipate the Offers to result in any change in the employment status of any other employees of the Group."

The executive Board (which comprises the executive Directors) considers that the intention of the Offeror in relation to the Group, to maintain the Group's existing principal activities, and the anticipation of the Offeror, that the Offer shall not result in any change in the employment status of any employees of the Group below Board level, are welcome.

As at the Latest Practicable Date, the Company (i) had not entered into any agreement, arrangement, understanding or negotiation about any acquisition or disposal of assets or business (whether concluded or not), save for the sale process of the Company as disclosed in the Company's announcements dated 13 February 2017, 1 March 2017, 7 March 2017 and 13 March 2017; and (ii) did not have any assets injections agreed or under negotiation.

LISTING STATUS OF THE COMPANY

As disclosed in the paragraph headed "Listing Status of the Company" in the section headed "Letter from the Board" in the Offer Document:

"If the Compulsory Acquisition Condition is met, the Offeror intends to privatize the Company by availing itself of and exercising the powers of compulsory acquisition of those Shares not acquired by the Offeror under the Share Offer in accordance with section 88 of the Cayman Islands Companies Law and the requirements of the Rule 2.11 of the Takeovers Code. Upon completion of the compulsory acquisition, the Company will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. The Offeror will comply with Rule 15.6 of the Takeovers Code which requires that the Offers may not remain open for more than four (4) months from the posting of the Offer Document, unless the Offeror has by that time become entitled to exercise the right of compulsory acquisition.

If the Compulsory Acquisition Condition is not met, the issued Shares will remain listed on the Stock Exchange after the close of the Offers. Pursuant to the Listing Rules, if, at the closing of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares. In order to ensure that within a reasonable period after the close of the Offers, there will be not less than 25% of the Company's entire issued ordinary share capital held by the public, the Offeror will undertake to the Stock Exchange to take appropriate steps within a reasonable period following the close of the Offers to ensure that at least 25% of the Shares will be held by the public.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatize the Company by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Law, acceptance of the Share Offer and purchases made by the Offeror and its Concert Parties during the four months after posting of the Offer Document total 90% or more of the disinterested Shares (as defined in the Takeovers Code)."

The Company understands that if the Compulsory Acquisition Condition is not met, pursuant to Rule 14.81(3) of the Listing Rules, the Offeror intends the Company to remain listed on the Stock Exchange and the directors of the Offeror and the new directors to be appointed to the Board (if any) are required to jointly and severally undertake to the Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

STATEMENT FROM THE CHAIRMAN - BACKGROUND TO THE OFFERS

As the Chairman of the Board I wish to remind you of the events which have led to the Offers and the expressions of interest in acquiring your Company. On 5 November 2016 a purported board meeting was held at which my and Trevor Strutt's executive roles in your Company were re-designated as non-executive directorships. We were excluded from the day-to-day management of the Company from that date until 8 March 2017. On 5 November 2016 three new directors were appointed and the Company entered into an agreement to place 378,000,000 new Shares, representing approximately 20% of the issued share capital of the Company, to Originwater Hong Kong Environmental Protection Co., Limited ("**Originwater**"), of which company Mr. He Yuanping ("**Mr. He**") was sole director. Originwater already owned 4.21% of the issued share capital of your Company. Mr. He became a director of your Company in 2013 following his nomination by Mr. Zhao Xiangti, a director of your Company until 8 March 2017.

Both I and Trevor Strutt were shocked by what we considered to be a board coup and the proposed placing which we considered to be designed to consolidate board control with effective shareholding control. We were determined to prevent this from occurring and engaged at our own expense Anglo Chinese to advise us.

On 12 December 2016 we released an open letter in which we stated that we were requisitioning an Extraordinary General Meeting of the Company at which resolutions would be proposed to remove Mr. Zhao and Mr. He from the board together with the new directors that had purportedly been appointed on 5 November 2016. Trevor Strutt and I also announced that we would solicit offers for your Company and provided the terms were fair and reasonable, we would commit our shares to such offers. We and Anglo Chinese commenced approaching potentially interested parties, including the Offeror, immediately after the open letter was issued. Our reasons for this course of action was that we considered that Mr. Zhao and Originwater had sought to consolidate control of your Company without consulting you and without ensuring that an offer was made for all the shares at the same price. Our intention was and is to place the decision as to the future of your Company in your hands as its owners.

We had to take further steps to prevent a smaller placing of new Shares to Originwater, including obtaining an injunction in the Grand Court of the Cayman Islands to restrain the Company from issuing new Shares.

At the last possible date available under the Articles of Association the Company convened our requisitioned meeting for 8 March 2017. It subsequently also convened a meeting to be held an hour before our requisitioned meeting to remove us as Directors.

Pursuant to our statement in the open letter we secured an offer for your Shares at HK$6.00 per Share, which was at the top of the range indicated by Air Products and Chemicals, Inc, as set out in its announcement dated 20 January 2017. However the Offeror required us to enter into the Memorandum of Undertaking.

At the extraordinary general meetings of the Company held on 8 March 2017 (the "**EGMs**") the resolutions to remove me and Mr. Strutt failed and the resolutions to remove Mr. Zhao, Mr. He and the new directors purported to have been appointed on 5 November 2016 were passed. We thank the shareholders for their support and faith enabling us again to resume the day-to-day management of your Company.

We believe we have delivered on our undertaking to solicit an offer for your Company to which, if we considered it to be fair and reasonable, we would commit. We continue to seek a higher offer for your Shares which pursuant to the terms of the Memorandum of Undertaking is still possible (please note that I and Mr. Strutt have undertaken to accept the Offers in respect of their shareholdings in the Company pursuant to the terms and conditions of the Memorandum of Undertaking).

If no competing offer as defined in the Memorandum of Undertaking is announced by 4:00 p.m.on the first closing date of the Offers on 10 April 2017 (unless extended by the Offeror) (the "**First Closing Date**") we will be obliged to tender for acceptance of the Offers in respect of our Shares representing 29.48% of the issued share capital of your Company. The Offeror, based on the latest disclosures currently holds 15.3821% of the issued share capital of the Company and together with the Shares which are subject to the Memorandum of Undertaking and the memorandum of undertaking entered into by Mr. Zhao dated 28 February 2017 has interest in and will receive acceptances for a further 31.81% of the issued share capital of the Company. Provided that acceptances are received for less than 53,101,975 Shares, representing approximately 2.81% of the issued share capital of the Company by 14 days after the First Closing Date the Memorandum of Undertaking will lapse. You the Shareholders can still dictate whether the Offers become unconditional although the number of Shares assenting the Offer to result in it becoming unconditional is considerably less than we intended when we signed the Memorandum of Undertaking to secure the Offers.

As at the Latest Practicable Date, (i) other than the consideration to be received from the Offeror for tendering acceptance of the Offers under the Memorandum of Undertaking (if so tendered), there is no any other consideration, compensations or benefits in whatever form received by Mr. Sun, Mr. Strutt or their respective concert parties from the Offeror or its concert parties; and (ii) there is no any special deal under Rule 25 of the Takeovers Code between Mr. Sun, Mr. Strutt or their respective concert parties on the one hand and the Offeror and its concert parties on the other hand.

RECOMMENDATION

Based on the circumstances of the Company as at the Latest Practicable Date and having considered the terms of the Offers and the advice from the Independent Financial Adviser to the Independent Board Committee, the Board considers that (i) the terms of the Offers are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) in the absence of another offer to acquire all the Shares with an offer price per Share that is higher than the Share Offer Price, the Board recommends that the Independent Shareholders and Optionholders should accept the Offers.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 13 to 16 of this Response Document which contains its recommendation to the Independent Shareholders in respect of the Offers and the letter from the Independent Financial Adviser set out on pages 17 to 44 of this Response Document which contains its advice to the Independent Board Committee in relation to the Offers and the principal factors and reasons taken into consideration in arriving at its recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Response Document.

You are also recommended to read carefully further details in respect of the Offers as set out in the Offer Document and the Form(s) of Acceptance and Transfer which contain details of the Offers before deciding whether or not to accept the Offers.

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

The following is the text of the letter from the Independent Committee setting out its recommendation to the Independent Shareholders in relation to the Offers.

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)

25 March 2017

To the Independent Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL CASH OFFERS BY UBS AG, HONG KONG BRANCH ON BEHALF OF PAGAC II-2 LIMITED TO ACQUIRE ALL ISSUED SHARES OF YINGDE GASES GROUP COMPANY LIMITED (OTHER THAN THOSE ALREADY ACQUIRED OR AGREED TO BE ACQUIRED BY PAGAC II-2 LIMITED AND PARTIES ACTING IN CONCERT WITH IT) AND FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF YINGDE GASES GROUP COMPANY LIMITED

We refer to the Response Document dated 25 March 2017 issued by the Company in response to the Offers, of which this letter forms part. Unless the context specifies otherwise, capitalised terms used in this letter have the same meanings as defined in the Response Document.

We have been appointed by the Board as members of the Independent Board Committee to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as your interests are concerned and to make a recommendation as to acceptance or rejection of the Offers. Rothschild (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise us in this respect. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the "Letter from the Independent Financial Adviser" on pages 17 to 44 of the Response Document.

Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Response Document.

We have considered the terms of the Offers and the advice and recommendation from the Independent Financial Adviser, including the principal factors taken into consideration by it in arriving at its opinion and in particular:

(a) Whilst growth was observed in the revenues and EBITDA of the Group for the three years ended 31 December 2015 and the six months ended 30 June 2016, net profits during such period have been negatively affected by (among others) the increase in net finance costs. Net debt increased to RMB9,077 million as at 30 June 2016 from RMB6,671 million as at 31 December 2013. The net gearing ratio was 129.6% and the net current liabilities of the Group was RMB1,338 million as at 30 June 2016. The ratios set out in Table 3 in the "Letter from the Independent Financial Adviser" showed increase in collection period of trade receivables and decrease in cash conversion cycles. These are signals indicating possible deterioration of liquidity situation due to the prevailing capital structure of the Company.

(b) 2016 was a year with challenges and uncertainties for the Company. Notable events are summarised in "1. Background to the Offers — Letter from the Independent Financial Adviser".

(c) The Company aims to announce the 2016 Annual Results (as defined in "Letter from the Independent Financial Adviser") on 31 March 2017. Shareholders are advised to review and take into account such financial results when they become available. As at the Latest Practicable Date, the audited consolidated financial statements of the Group for the year ended 31 December 2016, whether in draft or final form, are not yet available for the Independent Financial Adviser's review.

(d) The Company has disclosed in the Profit Warning and Financial Update Announcement (as defined in "Letter from the Independent Financial Adviser") and "Financial information of the Group — E. Material change" in Appendix I a list of events which may have a material adverse impact on the financial or trading position or outlook of the Group since 31 December 2015. The Company has stated in the Profit Warning and Financial Update Announcement that "According to the Company's preliminary assessment of impairments, potential impairments and other adjustments to the unaudited consolidated management accounts of the Company and its subsidiaries for the year ended 31 December 2016, the Company's financial position may be materially adversely impacted" and that "The Board is also in discussion with other creditors and rating agencies of the Company in light of the recent developments at the Company".

(e) S&P has downgraded the credit rating of the Company to "CCC-" on 23 December 2016 and Fitch has placed the Company's Long-Term Issuer Default Rating and senior unsecured rating of "B+" on Rating Watch Negative on 21 March 2017. These may increase the financing costs of the Company.

(f) Against this background, the Independent Financial Adviser considers and concurs with the Offeror that the Offers can provide the Shareholders and Optionholders with an opportunity to realise their investment.

(g) The Share Offer Price represents 86.5% to 109.1% premia over the average closing prices per Share on the Last Unaffected Day (as defined in "Letter from the Independent Financial Adviser") and 85.5% to 100.9% premia over the average closing prices per Share on the Last Undisturbed Day (as defined in "Letter from the Independent Financial Adviser"), both significant premia. These premia are at the top end of the Comparable Voluntary Cash Offers Precedents (as defined in "Letter from the Independent Financial Adviser"). In addition, the Share Offer Price is higher than the highest closing price during the 12-month period prior to the Last Undisturbed Day.

(h) The Offers are conditional as to acceptance only and are not subject to any regulatory approval, in particular the Ministry of Commerce of the PRC.

(i) There is no assurance that the Share price or the trading liquidity of the Shares will stay at the current level in the absence of the Offers and any competing offers (as defined in the Memorandum of Undertaking) or higher offer (if any) may be subject to more stringent conditions thus posting uncertainties over its completion or speed of completion.

(j) It is uncertain that the Board, or, upon successful completion of the Offers, the Offeror could achieve positive changes in the new future in the absence of detailed business plan on the Group.

Accordingly, we are of the view the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned and we recommend that the Independent Shareholders and the Optionholders to accept the Share Offer and the Option Offer. Unless a Competing Offer or a higher offer is announced, Shareholders should accept the Share Offer by the First Closing Date. If the Offers do not become unconditional as to acceptances on First Closing Date, the Offeror is under no obligation to extend the Offers. In the event a Competing Offer or higher offer is announced, we will provide our further opinion and recommendation to Shareholders.

In making this recommendation, we note that the Shareholders and Optionholders are at liberty to accept according to their personal preference and circumstances and they should consult their own professional advisers for professional advice. Shareholders and Optionholders who are confident of the future prospects of the Company and/or do wish to continue to retain an exposure in the Company or who are not attracted by the capital value of the consideration as compared with the historical trading performance or their respective investment costs of the Shares may wish not to accept the Offers.

We note that current trading prices of the Shares are above the Share Offer Price. There is no assurance that the trading price of the Share would continue to be above the Share Offer Price during the Offer Period. In considering whether or not to accept the Offers, Shareholders and Optionholders should take into account all factors that we have set out in our letter as well as the advice and recommendation from the Independent Financial Adviser as a whole. In the event that the market price of the Shares exceeds the Share Offer Price during the period while the Share Offer is open and the sales proceeds (net of transaction costs) exceed the amount receivable under the Share Offer, Shareholders should consider not accepting the Share Offer and consider seeking to sell their Shares in the market if they so wish.

Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers.

Yours faithfully,
For and on behalf of the Independent Board Committee of
YINGDE GASES GROUP COMPANY LIMITED

Mr. Zheng Fuya	**Dr. Wang Ching**	**Mr. Zhihe Mah** *(see note 1)*	**Mr. Rawen Zhi Hong Huang** *(see note 2)*
Independent non-executive Director	Independent non-executive Director	Independent non-executive Director	Independent non-executive Director

Notes:

(1) As disclosed in the Company's annual report 2015, Mr. Trevor Raymond Strutt worked in BOC Group Plc., during which period he came to know Mr. Mah who worked in Lien Hwa Industrial Gases, a joint venture company of BOC Group Plc. Mr. Mah worked in the Company from 2008 to 2013.

(2) According to Mr. Huang, in relation to Oasis Management Company Ltd. ("**Oasis**"):

- Mr. Huang worked for Oasis from April 2012 to August 2014 as an investment analyst (such relationship has been disclosed in the Company's announcement dated 13 March 2017).

- Oasis is one of the investors in Petrel Capital Greater China Fund ("**Petrel Fund**") from November 2015 to present (which has no influence on the investment decision making of Petrel Fund). Mr. Huang is the founder and portfolio manager of Petrel Capital Management Limited ("**Petrel Management**") which is the manager to Petrel Fund. Mr. Huang is also one of the investors in Petrel Fund.

- As disclosed in the Company's announcement dated 13 March 2017, Petrel Fund holds 580,000 shares of the Company (representing 0.03% of the issued share capital of the Company as at the date thereof). Mr. Huang is the founder, sole shareholder and manager of Petrel Management which is the manager to Petrel Fund.

The following is the text of the letter from the Independent Financial Adviser appointed to advise the Independent Board Committee, which has been prepared for the purpose of incorporation into this Response Document, setting out its advice to the Independent Board Committee in connection with the Offers.

25 March 2017

To the Independent Board Committee and the Independent Shareholders of Yingde Gases Group Company Limited

Dear Sir / Madam,

VOLUNTARY CONDITIONAL CASH OFFERS BY UBS AG HONG KONG BRANCH ON BEHALF OF PAGAC II-2 LIMITED TO ACQUIRE ALL ISSUED SHARES OF YINGDE GASES GROUP COMPANY LIMITED (OTHER THAN THOSE ALREADY ACQUIRED OR AGREED TO BE ACQUIRED BY PAGAC II-2 LIMITED AND PARTIES ACTING IN CONCERT WITH IT) AND FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF YINGDE GASES GROUP COMPANY LIMITED

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders with respect to the Offers, details of which are contained in the Offer Document and have been referred to in the "Letter from the Board" set out in the Response Document, of which the letter forms part. The terms used in this letter shall have the same meanings as defined elsewhere in the Response Document unless the context otherwise requires.

On 12 March 2017, Rothschild (Hong Kong) Limited ("**Rothschild**") was appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Offers. Our appointment was approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

An Independent Board Committee comprising Mr. Zheng Fuya, Dr Wang Ching, Mr. Zhihe Mah and Mr. Rawen Huang, all of whom are independent non-executive Directors, has been established for the purpose of advising the Shareholders and Optionholders in connection with the Offers. Other than members of the Independent Board Committee, none of the Directors is considered independent for the purpose of giving any advice or recommendation to the Shareholders and Optionholders in relation to the Offers.

Rothschild

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Rothschild is not associated with the Company, the Directors, the Offeror or their respective associates, nor do we have any shareholding in any members of the Group, or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group that could reasonably be regarded as relevant to the independence of Rothschild. Apart from normal professional fees payable to us, no arrangement exists whereby we will receive any fees or benefits from the Company, the Directors or any of their respective associates in connection with this appointment as the Independent Financial Adviser.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and certain information available from the public domain (including the announcements, circulars, annual and interim reports of the Company) up to the Latest Practicable Date, and have assumed that any of the above information and representations made to us are true, accurate and complete in all material respects at the time when they were made and up to the Latest Practicable Date and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in both the Offer Document and the Response Document are, and have remained to be, true, accurate and complete in all respects, fair and reasonable up to the Latest Practicable Date and Shareholders and Optionholders will be notified of any material changes as soon as possible, and accordingly, we have relied upon.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate, incomplete or misleading, save for the fact that we have never had any chance to review, whether in their draft or final form, the audited financial statements of the Group for the year ended 31 December 2016, which will contain the most up to date information about the financial position of the Company as at 31 December 2016. Except as mentioned above, we have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. The Directors have declared in a responsibility statement set out in the "General information" section in Appendix II to the Response Document that they jointly and severally accepted full responsibility for the accuracy of the information contained (other than information relating to the Offeror and parties acting in concert with it, the terms of the Offers and the intention of the Offeror regarding the Group) in the Response Document and confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Response Document have been arrived at after due and careful consideration and there are no other facts not contained in the Response Document the omission of which would make any statement or opinion in the Response Document misleading.

We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied to us.

We have not considered the tax consequences or regulatory implications on the Shareholders and Optionholders of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, Shareholders or Optionholders who are residents outside of Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offers and, if in any doubt, should consult their own professional advisers.

THE OFFERS

UBS AG, Hong Kong Branch, on behalf of the Offeror, is making the Offers in compliance with the Takeovers Code on the following basis:

Share Offer

For each Offer Share . . . . .HK$6.00 in cash

Option Offer

For cancellation of each outstanding Option with exercise price lower than the Share Offer Price . . . . .HK$6.00 less the exercise price in respect of the relevant outstanding Option in cash

For cancellation of each outstanding Option with exercise price above the Share Offer Price . . . . .HK$0.001 in cash

The Share Offer will be conditional upon valid acceptances of the Offers being received by 4:00 p.m. on the Closing Date (as defined in the Offer Document) (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in the Company. The Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offers are not subject to any regulatory approval, in particular the Ministry of Commerce of the PRC.

The Offeror has reserved the right to revise the terms of the Offers in accordance with the provision detailed in “Commitment by the Covenanting Shareholders to accept the Offers under the Irrevocable Undertakings — Competing Offers” in the “Letter from UBS” in the Offer Document, which will be made in accordance with the Takeovers Code.

Further details of the Offers including, among others, the expected timetable and the terms and procedures of acceptance of the Offers, are set out in the Offer Document and the Form(s) of Acceptance.

PRINCIPAL FACTORS, REASONS AND ANALYSES

In arriving at our opinion, we have taken into consideration the following principal factors, reasons and analyses:

1. Background to the Offers

The Group is principally engaged in the design and construction of equipment and the production and sales of industrial gas products including, but not limited to, oxygen, nitrogen and argon, to on-site and merchant customers in the People's Republic of China.

Since early 2016, the Company has encountered a number of situations which created uncertainties over the development of its business which in turn may have an impact on its financial performance and stability. Notable situations include, but not limited to:

(a) Dispute with a key customer over the operation rights of its on-site facilities and trade receivables which a settlement proposal has since been reached (please refer to the series of announcements[1] made by the Company whereby this incident was first disclosed in an announcement dated 22 March 2016).

(b) Disputes among certain Directors which lasted for several months until votes were taken at an extraordinary general meeting of the Company held on 8 March 2017 (please refer to the series of announcements[2] made by the Company whereby this incident was first disclosed in an announcement dated 6 November 2016). With effect from 12 March 2017, Mr. Sun has been appointed as the chairman and the chief executive officer of the Company and has been redesignated as an executive Director, and Mr. Strutt has been appointed as the Chief Operation Officer of the Company, and has been redesignated as an executive Director.

Notes:

1 The announcements of the Company on 22 March 2016, 25 July 2016 and 15 January 2017

2 The announcements of the Company on 6 November 2016, 8 November 2016, 2 December 2016, 14 December 2016, 18 December 2016, 22 December 2016, 23 December 2016, 28 December 2016, 4 January 2017, 9 January 2017, 10 January 2017, 12 January 2017, 15 January 2017, 19 January 2017, 20 January 2017, 23 January 2017, 26 January 2017, 27 January 2017, 6 February 2017, 8 February 2017, 9 February 2017, 13 February 2017, 15 February 2017, 21 February 2017, 27 February 2017, 28 February 2017, 1 March 2017, 3 March 2017, 6 March 2017, 7 March 2017 and 13 March 2017

(c) A new offshore bank loan with an effective annual interest rate which is approximately twice the interest rate of the original loan was put in place to minimise the adverse impact that may be triggered by substantive default of the original loan and cross-default of other relevant loan agreements of the Company (please refer the announcements dated 6 November 2016 and 2 January 2017).

(d) Mr. Zhongguo Sun ("**Mr. Sun**"), Mr. Trevor Raymond Strutt ("**Mr. Strutt**") and Mr. Xiangti Zhao ("**Mr. Zhao**") signed memoranda of undertaking with the Offeror in February 2017 (please refer to the Company's announcement dated 1 March 2017 whereby this incident was first disclosed). Following the signing of the memoranda of undertaking, the Offers were announced on 7 March 2017.

Please refer to the relevant announcements made by the Company for further details and developments regarding each incident.

2. Intention of the Offeror in relation to the Group

The intention of the Offeror in relation to the Group is set out in the "Letter from UBS" in the Offer Document. It is noted that the Offeror intends to:

(a) maintain the Company's existing principal activities;

(b) assist the Company to review its existing funding programmes in place with a view to optimise its capital structure to ensure adequate liquidity in the context of the Company's business activities, and in general to assist in improving the Company's operations to create shareholder value; and

(c) nominate personnel with relevant industry experience as chairman of the Board, chief executive officer and executive Director(s) after completion of the Offer. Apart from the aforementioned, the Offeror does not anticipate the Offers will result in any change in the employment status of any other employees of the Group.

It is also noted that no major changes are expected to be introduced by the Offeror to the existing principal business of the Group, including any redeployment of fixed assets of the Group.

PAG is one of the largest Asia-based private equity firms with about US$16 billion in capital under management. The Offeror is a subsidiary of the buyout fund under PAG with US$3.6 billion of committed capital.

The Offeror is making the Offers as the Offeror believes the completion of the Offers can bring stability to the Company's shareholding base and thus help to stabilise the Company's business, employee base and customer relationships. The Offeror also believes stabilisation of the Company will improve rating agency views on the Company's outstanding debt issues, which were negatively impacted by the recent shareholders dispute and management disruption.

The Offers sets a valuation benchmark for the Company, which allows the Shareholders and Optionholders to realise their investment at a premium to the trading price of the Shares. Whilst there is no certainty on the successful implementation of the intention of the Offeror after completion of the Offers, we have no reasons to doubt its ability to provide the resources necessary to implement such intention. We also concur that the Offers can provide the Shareholders and Optionholders with an opportunity to realise their investment.

3. Financial performance of the Group

The Company aims to announce the annual results of the Group for the year ended 31 December 2016 ("**2016 Annual Results**") on 31 March 2017. As at the Latest Practicable Date, the audited consolidated financial statements of the Group for the year ended 31 December 2016, whether in draft or final form, are not yet available for our review. In view of such, we could only rely on the financial results of the Company for the three years ended 31 December 2015 and for the six months ended 30 June 2015 and 2016 for the purpose of our analysis of the financial performance of the Group.

(a) ***Historical financial performance***

Table 1 — Summary of selected financial and operational information of the Group

	Audited For the year ended 31 December			**Unaudited For the six months ended 30 June**	
	2013 *(RMB million)*	**2014** *(RMB million)*	**2015** *(RMB million)*	**2015 1H** *(RMB million)*	**2016 1H** *(RMB million)*
Revenue	**6,866**	**7,716**	**7,919**	**3,799**	**4,140**
Growth rate (%)	*38.5%*	*12.4%*	*2.6%*	*3.4%*	*9.0%*
Revenue breakdown					
Sales of industrial gases to on-site customers	6,044	6,704	6,886	3,349	3,464
Percentage of revenue (%)	*88.0%*	*86.9%*	*87.0%*	*88.1%*	*83.7%*
Sales of industrial gases to merchant customers	762	914	825	406	402
Percentage of revenue (%)	*11.1%*	*11.8%*	*10.4%*	*10.7%*	*9.7%*

	Audited For the year ended 31 December			Unaudited For the six months ended 30 June	
	2013	**2014**	**2015**	**2015 1H**	**2016 1H**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*
Others	59	98	208	45	274
Percentage of revenue (%)	*0.9%*	*1.3%*	*2.6%*	*1.2%*	*6.6%*
Earnings before interest, tax, depreciation and amortisation (“EBITDA[1]”)	**2,044**	**2,491**	**2,642**	**1,276**	**1,521**
Growth rate (%)	*40.1%*	*21.9%*	*6.1%*	*7.4%*	*19.2%*
Margin (%)	*29.8%*	*32.3%*	*33.4%*	*33.6%*	*36.7%*
Net finance costs[2]	(303)	(492)	(937)	(306)	(443)
Growth rate (%)	59.0%	62.2%	90.5%	16.6%	44.8%
Interest coverage ratio (times)[3]	5.0	3.7	2.0	3.0	2.5
Profit and total other comprehensive income for the year attributable to equity Shareholders (“Net Profit”)	**908**	**904**	**536**	**416**	**387**
Growth rate (%)	*17.9%*	*(0.4%)*	*(40.7%)*	*2.3%*	*(7.0%)*
Margin (%)	*13.2%*	*11.7%*	*6.8%*	*11.0%*	*9.3%*
Weighted average unit price (RMB / Nm^3) to merchant customers	0.92	0.81	0.79	0.81	0.76
Growth rate (%)	(16.4%)	(12.0%)	(2.5%)	(1.2%)	(6.2%)

Source: Annual reports of the Company for the three years ended 31 December 2015, interim reports for the six month ended 30 June 2015 and 2016

Note: Subject to rounding differences

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1 EBITDA is calculated as profit before income tax, finance costs, depreciation, amortisation and share of results of associates and joint ventures, if any. EBITDA is commonly used in the manufacturing industries worldwide as an indicator of operation performance because it is less likely to be affected by differences in accounting standards according to different jurisdictions and capital structure. However, EBITDA is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities

2 Net finance costs is calculated by finance income minus finance costs

3 Interest coverage ratio is calculated as dividing profit before income tax, finance costs and share of results of associates and joint ventures by net finance costs

(i) *Revenue*

Revenue increased from RMB6,866 million for the year ended 31 December 2013 to RMB7,919 million for the year ended 31 December 2015, representing a compound annual growth rate ("**CAGR**") of approximately 7.4%. Sales of industrial gases to on-site customers remain the major revenue source amounting to approximately 87.0% of the Group's revenue in 2015. The revenue growth of this segment was primarily achieved by the increase in production and sales volume contributed by the commencement of on-site facilities and the full ramp-up of facilities that built in previous years. Sales of industrial gases to merchant clients remain the second largest revenue source amounting to approximately 10.4% of the Group's revenue in 2015. The increase in sales and volume production for industrial gases to merchant clients was offset by the decrease in the weighted average unit price of the products sold to merchant customers.

Other revenue refers to construction and operating service for downstream customers during the period. This segment is increasingly important to the Group's revenue due to the Group's strategy to expand their target markets through industry diversification and enhance their competitive strength in providing customised, unique and efficient solutions to clients. In 2016, the Group also secured an operation service contract with China National Coal Group Co., Ltd..

Revenue in the first half of 2016 also showed stronger revenue growth over the same period in 2015, reflecting the Company's steady revenue growth.

(ii) *EBITDA and EBITDA margin*

EBITDA amounted to RMB2,044 million, RMB2,491 million and RMB2,642 million for the three years ended 31 December 2015 respectively, representing a CAGR of approximately 13.7%. EBITDA in the first half of 2016 recorded an increase of approximately 19.2% when compared to the same period in 2015. The improvement in EBITDA margin was driven by effective cost control reflected in lower cost of sales and selling expense as a percentage of revenue. The fact that the Group recorded a higher growth rate in EBITDA with respect to revenue also indicates the improvement in operating efficiency.

(iii) *Net finance costs*

The Group experienced a significant increase in net finance costs during the three years ended 31 December 2015. The net finance costs increased from RMB303 million for the year ended 31 December 2013 to RMB937 million for the year ended 31 December 2015, representing CAGR of approximately 75.8%. For the six months ended 30 June 2016, net finance cost increased by approximately 44.8% to RMB443 million when compared to the same period in 2015. The increase in net finance costs was mainly due to the increase in amount of debt outstanding couple with exchange loss due to the depreciation of RMB associated with US$-denominated debts outstanding.

Interest coverage ratio is commonly used to measure how comfortably a company can pay its interest on outstanding debts through the earnings generated from its operating activities, thus the ability of a company to meet its interest obligations. The interest coverage ratio dropped from 5.0 times in 2013 to 2.0 times in 2015. This is a strong indication that the interest expense arise from its borrowings is increasing to such an extent that the Group's earnings in 2013 was sufficient to cover 5 times its interest obligations and deteriorated to just 2 times the earnings in 2015.

(iv) *Net Profit*

Net Profit dropped from RMB908 million for the year ended 31 December 2013 to RMB536 million for the year ended 31 December 2015 mainly due to aforesaid increase in net finance costs. Net Profit for the six months ended 30 June 2016 dropped by approximately 7.0% when compared to the same period in 2015.

(b) ***Balance sheet position***

Table 2 — Summary of consolidated statement of financial position

	Audited As at 31 December			**Unaudited As at 30 June**
	2013 *(RMB million)*	**2014** *(RMB million)*	**2015** *(RMB million)*	**2016** *(RMB million)*
Non-current assets	14,281	15,565	15,791	15,963
Current assets	2,271	3,686	3,783	4,297
Total assets	16,552	19,251	19,574	20,260
Non-current liabilities	(6,579)	(7,854)	(8,432)	(7,622)
Current liabilities	(3,743)	(4,654)	(4,264)	(5,635)
Total liabilities	(10,322)	(12,508)	(12,696)	(13,257)

	Audited As at 31 December			**Unaudited As at 30 June**
	2013 *(RMB million)*	**2014** *(RMB million)*	**2015** *(RMB million)*	**2016** *(RMB million)*
Equity attributable to owners of the Company	6,125	6,636	6,708	6,835
Non-controlling interests	105	108	171	168
Total equity	6,230	6,744	6,879	7,003
Trade and other receivables that are past due (net of allowance for doubtful debts)	329	837	915	N/A
Percentage over total current assets (%)	*14.5%*	*22.7%*	*24.2%*	*N/A*
Net debt[4]	(6,671)	(8,494)	(8,985)	(9,077)
Net current liabilities[5]	(1,473)	(968)	(481)	(1,338)

Source: Annual reports of the Company for the three years ended 31 December 2015, interim reports for the six month ended 30 June 2015 and 2016

Note: Subject to rounding differences

(i) *Assets*

As at 30 June 2016, the Group's non-current assets amounted to RMB15,791 million, representing approximately 80.7% of the total assets. Non-current assets mainly comprised (aa) property, plant and equipment of RMB10,302 million, and (bb) construction in progress of RMB3,011 million.

The Group's total assets amounted to RMB20,260 million as at 30 June 2016.

(ii) *Trade and other receivables*

As at 31 December 2013, 2014 and 2015, there were significant increases in the amount of trade and other receivables that were past due. The percentages of these assets towards current assets were approximately 14.5%, 22.7% and 24.2% as at each of 31 December 2013, 2014 and 2015 respectively. This indicates a likelihood that an increasing percentage of revenue originated from customers with trade receivables that could not be collected on time.

4 Net debt includes bank borrowings in the current and non-current liabilities minus cash and cash equivalents

5 Net current liabilities is calculated by deducting current asset from current liabilities

(iii) *Indebtedness and liabilities*

Net debt was RMB6,671 million, RMB8,494 million and RMB8,985 million as at 31 December 2013, 2014 and 2015 respectively, and RMB9,077 million as at 30 June 2016. The net gearing ratios (calculated by dividing net debt by total equity) were approximately 107.1%, 126.0% and 130.6% as at 31 December 2013, 2014 and 2015, respectively, and approximately 129.6% as at 30 June 2016.

As noted in "Financial information of the Group — D. Indebtedness" in Appendix I, as at 31 December 2016, the Group had unaudited outstanding liabilities of approximately RMB10,724 million, of which approximately RMB10,384 million are borrowings in the form of loans, notes and corporate bonds.

(iv) *Liquidity*

Table 3 — Summary of liquidity position of the Group

	Audited As at 31 December			**Unaudited As at 30 June**
	2013 *(RMB million)*	**2014** *(RMB million)*	**2015** *(RMB million)*	**2016** *(RMB million)*
Trade receivables turnover (days)[6]	41	62	82	N/A
Trade payables turnover (days)[7]	176	158	158	N/A
Inventory turnover (days)[8]	5	6	7	N/A
Cash conversion cycle (days)[9]	(130)	(90)	(69)	N/A
Current ratio (times)	0.61	0.79	0.89	0.76

Source: Annual reports of the Company for the three years ended 31 December 2015, interim reports for the six month ended 30 June 2015 and 2016

Note: Subject to rounding differences

6 Calculated on the average of the beginning and ending trade receivables balances for the year, divided by turnover for the year, multiplied by 360 days for a year in respect of the year indicated

7 Calculated on the average of the beginning and ending trade payables balances for the year, divided by cost of sales for the year, multiplied by 360 days for a year in respect of the year indicated

8 Calculated on the average of the beginning and ending inventory for the year, divided by cost of sales for the year, multiplied by 360 days for a year in respect of the year indicated

9 Calculated on the sum of trade receivable turnover days and inventory turnover days minus trade payables turnover days

The trade receivables turnover days doubled from 41 days for the year ended 31 December 2013 to 82 days for the year ended 31 December 2015. Trade payables turnover days reduced from 176 days for the year ended 31 December 2013 to 158 days for the year ended 31 December 2015.

Cash conversion cycle measures the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sales to customers. A more negative cash conversion cycle days indicate a better liquidity situation (ie cash is being retained by the company for a longer period). The cash conversion cycle days of the Group increased from negative 130 days for the year ended 31 December 2013 to negative 69 days for the year ended 31 December 2015, which indicate a deteriorating liquidity situation.

Current ratio is another commonly used liquidity ratio that measures Company's ability to pay its current liabilities with its current assets. A current ratio less than one usually refers to net current liabilities, which is a situation where a company's liquid assets are not sufficient to meet its current debt obligation, which indicates a shortage of liquidity of the Company.

From the above analysis of the Group's financial performance for the three years ended 31 December 2015 and the six months ended 30 June 2016, the Group's revenue recorded steady growth against a weakening macro-economy in China over the period. In addition to revenue growth, EBITDA margins have also improved. However, the Group's Net Profit and Net Profit margins have decreased as a result of increasing net finance cost which can be attributable to its adopted capital structure. The net gearing ratio of the Group has increased from approximately 107.1% as at 31 December 2013 to approximately 129.6% as at 30 June 2016. The interest coverage ratio has declined from 5 times in the year ended 31 December 2013 to 2.5 times in the six months ended 30 June 2016 and the current ratio was below one (time) throughout the period under review.

It is also worth noting that the Company's credit rating was downgraded by Standard and Poor's Financial Services LLC ("**S&P**") from "BB" on 2 April 2013 to "B-" on 15 December 2016 and further downgraded to "CCC-" on 23 December 2016. On 21 March 2017, Fitch Ratings ("**Fitch**") has placed the Company's Long-Term Issuer Default Rating and senior unsecured rating of "B+" on Rating Watch Negative. The downgrade of credit rating of the Company has the effect of increasing the financial costs of its borrowings.

As the financial results of the Company for the year ended 31 December 2016 are not available as at the Latest Practicable Date, Shareholders and Optionholders should note the limitation in this review in light of what the Company had experienced in 2016.

4. Recent update in relation to 2016 Annual Results

On 23 March 2017, the Company issued an announcement to update the Shareholders and potential investors that the Company is in the course of addressing certain issues and outstanding information in order to finalise the preliminary results of the Group in respect of the financial year ended 31 December 2016 ("Profit Warning and Financial Update Announcement"). Please refer to Appendix II to this Response Document for further details. According to such announcement, the Company is aiming to announce the 2016 Annual Results on 31 March 2017 and the issues and outstanding information listed in the Profit Warning and Financial Update Announcement have been reproduced below:

"(i) changes in the composition of the board of directors after the Company's extraordinary general meetings on 8 March 2017 and changes in its senior management since 8 March 2017 such that the auditors need to obtain the views of the new management in settling its audit of the Group's accounts for the year ended 31 December 2016;

(ii) carrying amount of assets in the property, plant and equipment and construction in progress assets relating to one project, which requires further supporting information, including potential external valuation, as part of the Company's assessment process; and

(iii) the indebtedness position of the Company as further elaborated below."

According to the Company's preliminary assessment of impairment, potential impairments and other adjustments to the unaudited consolidated management accounts of the Group for the year ended 31 December 2016, the Company's financial position may be materially adversely impacted.

Furthermore, according to the Profit Warning and Financial Update Announcement, "the Company understands from its auditors that, if the auditors of the Company cannot obtain the required information and resolve the outstanding audit by 31 March 2017 when the Company plans to announce its annual results for the year ended 31 December 2016, the auditors may have to issue a modified audit opinion for the Company's accounts for the year ended 31 December 2016. The Company will continue to work with the auditors with a view to avoiding any modification of the auditors' opinion".

The Board is also in discussion with other creditors and rating agencies of the Company in light of the recent developments at the Company.

Please refer the Profit Warning and Financial Update Announcement as well as the headings under "D. Indebtedness" and "E. Material change" set out in "Financial information of the Group" in Appendix I to the Response Documents for further details.

Notwithstanding the above, as at the Latest Practicable Date, the audited consolidated financial statements of the Group for the year ended 31 December 2016, whether in draft or final form, are not yet available for our review. In view of such, we could only rely on the financial results of the

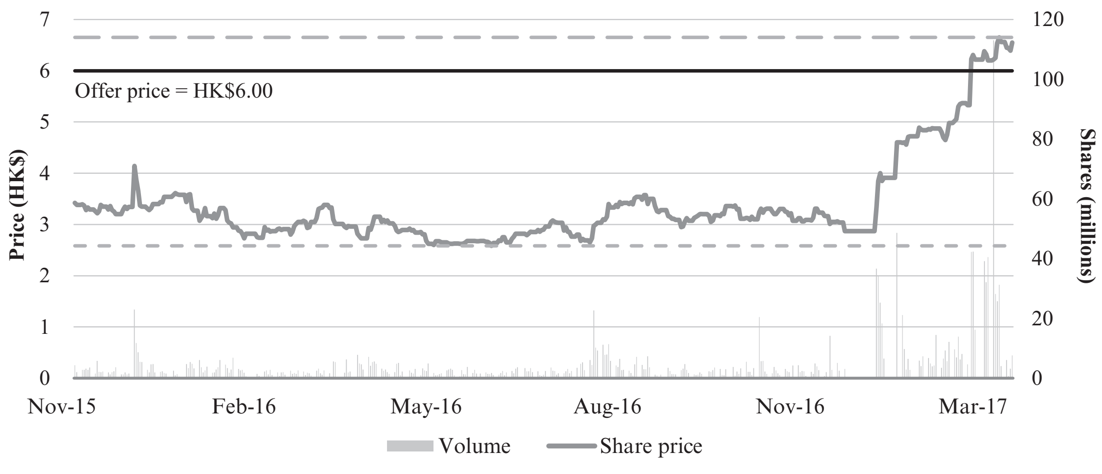
Company for the three year ended 31 December 2015 and for the six months ended 30 June 2015 and 2016 for the purpose of our analysis of the financial performance of the Group. Furthermore, it is uncertain that the Board, or, upon successful completion of the Offers, the Offeror could achieve positive changes in the new future in the absence of detailed business plan on the Group.

5. Analysis on Share Offer Price

The Share Offer Price is HK$6.00 in cash for each Share under the Share Offer. In assessing the valuation of the Shares, we have used a number of commonly used methodologies to analyse the Share Offer Price, namely: (a) the "public trading analysis"; (b) general cash offers of companies listed in Hong Kong; (c) the "comparable companies analysis"; (d) the "comparable transaction analysis"; and (e) the "trading liquidity analysis".

(a) ***Public trading analysis***

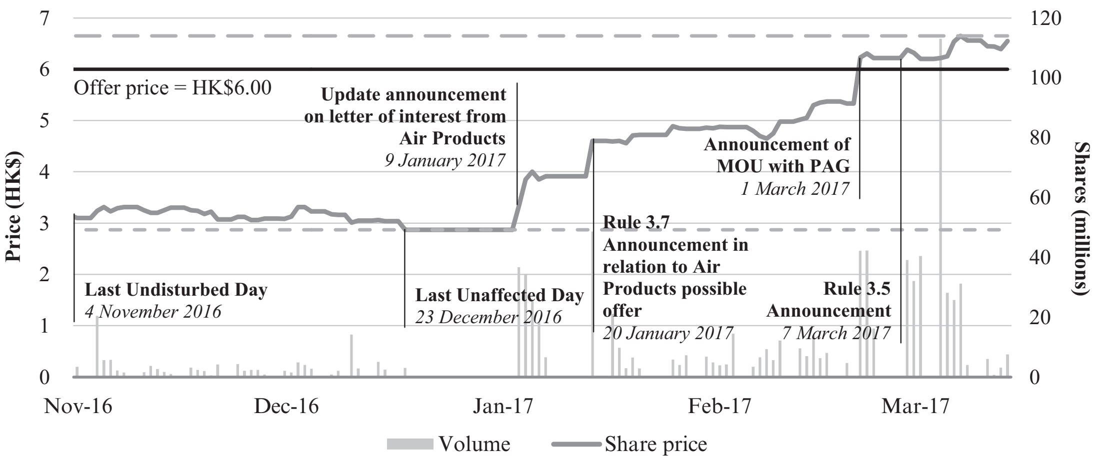
Chart 4 — Share price performance from 5 November 2015 up to and including the Latest Practicable Date



Source: Bloomberg

During the one-year period from 5 November 2015 to 4 November 2016 ("**Last Undisturbed Day**") being the last trading day prior to the date of re-designation of Directors on 5 November 2016, the daily closing prices of the Company were relatively stable at an average closing price of HK$3.07 per Share and within a high-low range of HK$2.58 to HK$4.14 per Share. The closing price went up marginally by 4.5% from HK$3.10 on the Last Undisturbed Day to close at HK$3.24 on 7 November 2016, being the first trading day after the re-designation of Directors. The closing price went down to HK$2.87 per Share on the Last Unaffected Day (as defined below).

Chart 5 — Share price performance from the Last Undisturbed Day up to and including the Latest Practicable Date



Source: Bloomberg

The share price started to turn on 23 December 2016 (the "**Last Unaffected Day**"), being the last trading day prior to the date of the APD Announcement (as defined below), with a closing price of HK$2.87 per Share. We observed the following events which may have an impact on the Share price performance since the Last Unaffected Day:

(i) The trading of the Shares was suspended during the morning session on 23 December 2016 and resumed on 9 January 2017 after the announcement in relation to the possible offer from Air Products and Chemicals, Inc. (the "**APD Announcement**"). The closing price went up by approximately 16.4% from HK$2.87 per Share on the Last Unaffected Day (i.e. 23 December 2016) to HK$3.34 per Share on 9 January 2017.

(ii) The trading of the Shares was suspended from 16 January 2017 and resumed on 20 January 2017 after Air Products and Chemicals, Inc. issued a Rule 3.7 announcement in relation to the acquisition of the Company by way of a scheme of arrangement. The closing price went up by approximately 17.6% from HK$3.91 per Share on 13 January 2017 to HK$4.60 per Share on 20 January 2017.

(iii) The trading of the Shares was suspended from 28 February 2017 and resumed on 1 March 2017 after the Company published the announcement in relation to the legally binding memoranda of undertaking between the Offeror (and concert parties) and each of Mr. Sun, Mr. Strutt and Mr. Zhao. The closing price went up by approximately 16.9% from HK$5.33 per Share on 27 February 2017 to HK$6.23 per Share on 1 March 2017.

(iv) The trading of the Shares was suspended from 6 March 2017 and resumed on 8 March 2017 after the Offeror made the Rule 3.5 Announcement after the trading hours on 7 March 2017. The closing price went up by approximately 2.6% from HK$6.22 per Share on 3 March 2017 to HK$6.38 per Share on 8 March 2017.

Considering the share price reaction to these events, we have compared the Share Offer Price with the closing prices reference to both the Last Undisturbed Day and the Last Unaffected Day, the results of which are set out in Table 6 below. The Share Offer Price represents a significant premium with respect to both the Last Undisturbed Price and Last Unaffected Price.

Table 6 — Share Offer Price comparison

	Last Undisturbed Day (4 November 2016)		Last Unaffected Day (23 December 2016)	
Comparison to average prices	**Average closing prices[1]**	**Premium represented by the Share Offer Price HK$6.00 per Share**	**Average closing prices[2]**	**Premium represented by the Share Offer Price HK$6.00 per Share**
Closing price on the day	HK$3.10	93.5%	HK$2.87	109.1%
5 trading days	HK$3.12	92.4%	HK$3.01	99.6%
10 trading days	HK$3.20	87.4%	HK$3.12	92.2%
30 trading days	HK$3.15	90.2%	HK$3.16	89.8%
60 trading days	HK$3.23	85.5%	HK$3.16	89.6%
90 trading days	HK$3.11	93.1%	HK$3.22	86.5%
180 trading days	HK$2.99	100.9%	HK$3.01	99.2%

Source: Bloomberg

Notes:

1. *Average closing price inclusive of the closing price of the Last Undisturbed Day*

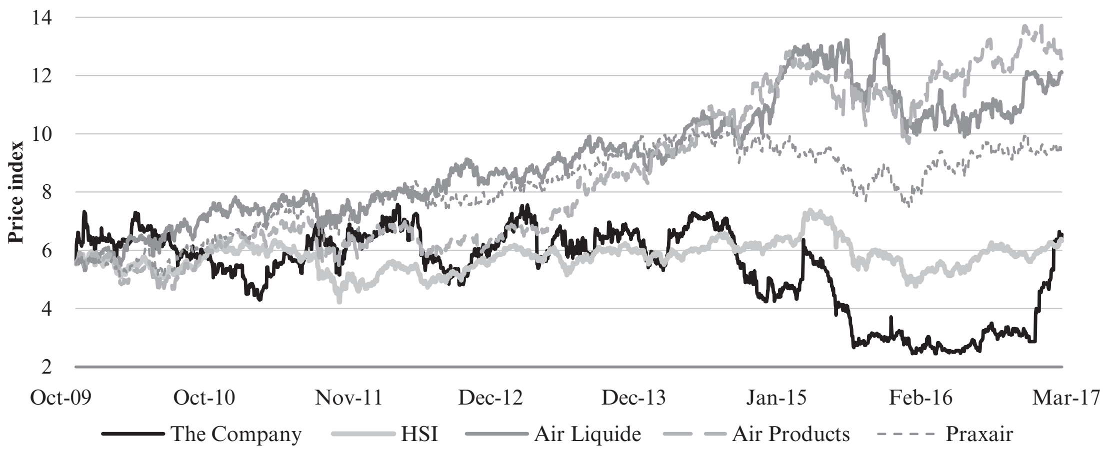
2. *Average closing price inclusive of the closing price of the Last Unaffected Day*

3. *Subject to rounding differences*

After the Rule 3.5 Announcement on 7 March 2017 and up to and including the Last Practicable Date, the closing price per Share traded at 3.3% to 10.8% above the Share Offer Price of HK$6.00. We believe the higher price exceeding the Share Offer Price is due to market speculation on possible competing offer(s) given how the memoranda of undertaking have been structured. Please refer to the Offer Document for further details of the memoranda of undertaking.

In addition to the above, we have compared the long-term share performance of the Company relative to the Hang Seng Index ("**HSI**") and the comparable companies ("**Comparable Companies**") during the period between the IPO date of the Company (i.e. 7 October 2009) and up to and including the Latest Practicable Date. The Comparable Companies are Air Liquide SA ("**Air Liquide**"), Air Products and Chemicals, Inc. ("**Air Products**"), Linde AG ("**Linde**"), Praxair, Inc ("**Praxair**"). The selection criteria of the Comparable Companies are set out in section (c) below in details. The Share price performance of the Company was generally in line with HSI and Comparable Companies but a downturn of performance of Shares was observed since late 2013. We do not consider the share performance of the Comparable Companies exhibit a downtrend which the Company has followed.

Chart 7 — Relative share price performance of the Company, HSI and the Comparable Companies from 7 October 2009 up to and including the Latest Practicable Date



Source: Bloomberg

Notes:

1. *Prices adjusted for dividends*
2. *The closing prices of the Comparable Companies and HSI are rebased to the share price of the Company on first trading day*

(b) ***Comparable transactions analysis***

(i) *General cash offers of companies listed in Hong Kong*

Based on publicly available information, we have identified a set of comparable voluntary cash offer precedents ("**Comparable Voluntary Cash Offer Precedents**") for listed companies in Hong Kong with the following criteria: (aa) the Offeror being a minority shareholder with shareholding less than 30% or a third party; (bb) cash consideration only; and (cc) announced and completed between 1 January 2014 and the Latest Practicable Date. We note that these precedents involved companies in different industries and with different underlying reasons for their respective offers, and hence have their limitations. However, we consider the Comparable Voluntary Cash Offer Precedents can provide a general reference of the transaction of this type in the Hong Kong market. The list of Comparable Voluntary Cash Offer Precedents is exhaustive and is a fair representation of transactions comparable to the Company.

Table 8 — Comparable Voluntary Cash Offer Precedents

		Premium over/ (discount to) the average closing price prior to respective last trading day							Premium over/ (discount) to audited NAV
Company	**Date announced**	**1 trading day**	**5 trading days**	**10 trading days**	**30 trading days**	**60 trading days**	**90 trading days**	**180 trading days**	
United Pacific Industries Limited	25 November 2016	8.4%	5.1%	3.8%	4.7%	2.9%	8.9%	8.6%	40.1%
Luen Thai Holdings Limited	26 October 2016	(2.7)%	(2.7)%	1.7%	14.7%	27.2%	34.3%	43.2%	(37.3)%
Perfectech International Holdings Limited	3 October 2016	8.0%	7.4%	6.8%	12.0%	16.3%	15.1%	19.7%	198.6%
EPI (Holdings) Limited	31 August 2016	0.0%	8.4%	11.6%	14.1%	15.6%	10.6%	0.6%	n.m.[1]
Wang On Group Limited	16 June 2014	25.0%	26.0%	25.8%	26.5%	32.0%	41.1%	51.6%	(61.6)%
Average		7.7%	8.8%	9.9%	14.4%	18.8%	22.0%	24.7%	34.9%
Median		8.0%	7.4%	6.8%	14.1%	16.3%	15.1%	19.7%	1.4%
The Company under the Offers	Last Undisturbed Day	93.5%	92.4%	87.4%	90.2%	85.5%	93.1%	100.9%	47.8%
	Last Unaffected Day	109.1%	99.6%	92.2%	89.8%	89.6%	86.5%	99.2%	47.8%
	Last Trading Day	(3.5)%	1.8%	8.8%	21.2%	47.1%	58.6%	77.9%	47.8%

Source: Bloomberg, website of the Stock Exchange and the Company

Notes:

1. *The audited net asset value per share as at 31 December 2015 was HK$(0.03); the offer price represented 110.6% premium over the unaudited net asset value per share as at 30 June 2016*

2. *Subject to rounding differences*

The average premia implied by the offer prices over the prevailing 1-day, 5-day, 10-day, 30-day, 60-day, 90-day and 180-day closing price under the Comparable Voluntary Cash Offer Precedents were approximately 7.7%, 8.8%, 9.9%, 14.4%, 18.8%, 22.0% and 24.7% respectively. Save for the comparison of the Share Offer Price over the 1-day, 5-day and 10-day closing prices on the Last Trading Day, the premia represented by the Share Offer Price are significantly higher.

The average premia implied by the offer prices over the net asset value ("**NAV**") per share of the companies under the Comparable Cash Offer Precedents was approximately 47.8%. The premium represented by the Share Offer Price is higher than the average.

(ii) *Comparable transactions analysis*

We have also reviewed comparable transactions involving any acquisition of companies or assets in the industrial gas production sector globally. The following criteria have been taken into account: (i) completed between 1 January 2014 and the Latest Practicable Date; (ii) the target company is a listed company with similar principal business as the Company; (iii) the transaction involved an acquisition of control; and (iv) the implied equity value of the Company is HK$5,000 million or above. One transaction met these criteria.

On 23 May 2016, Air Liquide completed the privatisation of Airgas, Inc. ("Airgas") at a valuation of total enterprise value of US$13.4 billion with an implied 2015 EV/EBITDA and 2015 P/E multiples of 12.8 times and 28.0 times respectively, which we note are higher than the corresponding multiples of the Company under the Share Price of 7.5 times 2015 EBITDA and 21.2 times 2015 earnings respectively.

Due to the incomparable circumstances that the products and geographical mix of Airgas are different to the Company, the Air Liquide/Airgas transaction is of a strategic nature and different growth prospects may have been factored into the valuation, we have included this for general reference only.

(c) ***Comparable trading analysis***

The Group is principally engaged in the design and construction of equipment and the production and sales of industrial gases products including but not limited to oxygen, nitrogen and argon, to on-site and merchant customers in the People's Republic of China. The Company is the only industrial gas producer and supplier listed in Hong Kong. In light of this, we have considered companies listed on other stock exchanges. In identifying the comparable companies, we have first shortlisted publicly listed industrial gas producer and suppliers globally with a market capitalisation of at least HK$5,000 million. We then selected comparable companies that derived at least 75% of its revenue from production and distribution of industrial gas. Companies that fit the criteria are Air Liquide, Air Products, Linde, Praxair and Taiyo Nippon Sanso Corporation ("**Taiyo**"). We have excluded Taiyo since it is listed in Japan and subject to the specific circumstances of the Japanese economy and capital market making it less comparable to the other companies listed on other global stock exchanges. As such the remaining four companies being Air Liquide, Air Products, Linde and Praxair (collectively as "**Comparable Companies**") have been selected as the comparable companies for the purpose of this analysis. The list of Comparable Companies is exhaustive and is a fair representation of companies comparable to the Company.

It was announced by Praxair that it approached Linde on 29 November 2016 about resuming discussion regarding a potential merger. Subsequently, on 20 December 2016, Praxair and Linde jointly announced their intention to combine in a merger of equals. The transaction is still in progress as of the Latest Practicable Date and we have not noted any material change to their respective share prices before or after the announcement of Praxair on 29 November 2016.

Whilst the Comparable Companies have been selected, we would note that:

(i) the market capitalisation of the Comparable Companies is significantly larger than the Company, hence, a premium factor would often be enjoyed by these large capitalisation companies over the smaller companies; and

(ii) a significant majority of the revenues of these Comparable Companies is generated from outside of Asia, thus their business is subject to a different macro environment than the Company.

These factors, among others, make the Comparable Companies less comparable.

Table 9 — Sector and geographical breakdown of revenue of Comparable Companies

Company	Percentage of revenue derived from industrial gases products	Revenue derived in Asia
Air Liquide	90%	23%
Air Products	76%	17%
Linde	85%	23%
Praxair	94%	14%
The Company	97%	100%

Source: Annual report of Comparable Companies

Note:

1. *Revenue figures based on latest financial statement for each company, 2015 financial statements for the year ended 31 December 2015 for Air Liquide, Linde, Praxair and the Company. 2015 financial statement for the year ended 30 September 2015 for Air Products.*

As the financial results of the Company for the year ended 31 December 2016 are not available as at the Latest Practicable Date, the trading multiples analysis was performed using historical results in 2015. We would highlight that this is not a common approach to trading multiple analysis as it may affect the accuracy of the results of such analysis since the market prices as at the Latest Practicable Date would have reflected the latest financial performance in 2016 as well as up to date information relevant to the Comparable Companies. Furthermore, the Company stated that its financial position for the year ended 31 December 2016 may be materially adversely impacted by the issues mentioned in the Profit Warning and Financial Update Announcement. With this limitation, Table 10 below sets out the results of the analysis:

Table 10 — Comparable Companies trading multiples

Comparable Companies	Stock code	Listing location	Market capitalisation[1]	EV[2]/ EBITDA[3]	P/E[3]	Price / net asset value[4]	Net debt / Equity
			(HK$million)[5]	*(times)*	*(times)*	*(times)*	*(%)*
Air Liquide	AI-FR	Paris	341,918	11.9	23.0	3.3	58.3%
Praxair	PX-US	New York	262,389	12.6	21.6	7.6	206.8%
Linde	LIN-DE	Germany	237,693	9.4	24.2	1.9	55.3%
Air Products	APD-US	New York	235,398	12.8	23.1	4.2	73.6%
Average				11.7	23.0	4.3	98.5%
Median				12.3	23.1	3.7	66.0%
The Company	2168-HK	Hong Kong	11,343	7.5	21.2	1.7	134.0%

Source: Bloomberg, website of the Stock Exchange and the Company

Notes:

1. *As at the Latest Practicable Date*
2. *Enterprise value calculated based on market capitalisation and net debt (being the net financial debt less net assets held for sale less joint ventures) and minority interest published in the latest financial statements of the respective companies and adjusted for the dividend amount announced in the latest financial statements of the respective companies but for which the ex-date was between the date of the publication of the latest financial statements and 22 March 2017.*
3. *EBITDA and profit calculated based on latest financial statement for each company, 2015 financial statements for the year ended 31 December 2015 for Air Liquide, Linde, Praxair and the Company. 2015 financial statement for the year ended 30 September 2015 for Air Products.*
4. *Net asset value calculated based on latest financial statement for each company, 2015 financial statements for the year ended 31 December 2015 for Air Liquide, Linde, Praxair and the Company. 2015 financial statement for the year ended 30 September 2015 for Air Products.*
5. *Exchange rate on EUR/HKD=8.385, USD/HKD=7.767 as at 22 March 2017.*

Our observations from the analysis as set out in Table 10 above are:

(i) EV/EBITDA multiple captured performance of the Group based on its operating performance. EV/EBITDA multiple of the Company based on the Share Offer Price of 7.5 times is lower than the low end of the EV/EBITDA multiple of 9.4 times;

(ii) P/E multiple was commonly used by retail investors and captured the financial costs impact of the Group. P/E multiple of the Company based on the Share Offer Price of 21.2 times is slightly lower than the low end of the P/E multiple of 21.6 times;

(iii) P/NAV ratio of the Company based on the Share Offer Price of 1.7 times is lower than the low end of the P/NAV ratio of 1.9 times; and

(iv) the Company had the second largest net gearing ratio when compared with Comparable Companies. The gearing ratio of the Company based on financial results as at 31 December 2015 was 134.0%, which is significantly higher than the average of the Comparable Companies of 98.5%.

The aforementioned limitations over the comparability of the Comparable Companies as well as the non-availability of the 2016 Annual Results (resulting in the use of results in 2015) have undermined the reliability of the trading multiple analysis, thus, rendering, in our view, to be not meaningful. Therefore, we have based our opinion on the other methodologies presented in this letter and the trading multiple analysis is included in this letter for illustration purpose only.

(d) ***Trading liquidity analysis***

The table below sets out the monthly trading volume of the Shares, the average daily trading volume as a percentage of the issued share capital of the Company per month and the average daily trading volume as a percentage of the Shares held by the public per month for the period from 1 March 2016 to the Latest Practicable Date. We note that trading volume of the Shares maintained at a relatively low level for the period from 1 March 2016 to the Last Unaffected Day, except in August 2016 the trading volume increased after the 2016 interim results announcement of the Company. The Shares experienced high trading volume during 2017. We consider such increase in trading volume to be attributable to the Offers and may not be sustainable after the close of the Offers and in the absence of competing offer as defined in the Memorandum of Undertaking.

Table 11 — Liquidity analysis of the Shares

	Number of trading days	Total monthly trading volume	Average daily trading volume as % of total issued share capital	Average daily trading volume as % of public float Shares
	(Days)	*(Shares)*		
2016				
March	21	48,916,601	0.12%	0.21%
April	20	76,700,998	0.20%	0.35%
May	21	45,773,033	0.12%	0.20%
June	21	40,526,290	0.10%	0.18%
July	20	43,395,012	0.11%	0.20%
August	22	138,284,355	0.33%	0.57%
September	21	61,657,149	0.16%	0.27%
October	19	42,613,295	0.12%	0.20%
November	22	75,778,423	0.18%	0.34%
December	14	48,718,506	0.18%	0.34%
2017				
January	11	212,955,083	1.02%	1.87%
February	19	137,820,603	0.38%	0.70%
March (up to and including Latest Practicable Day)	15	432,082,267	1.52%	2.79%

Source: Bloomberg

Note: Subject to rounding differences

We set out below the average daily trading volume of the shares as a percentage of public float shares of the Comparable Companies as comparison for the Company.

Table 12 — Liquidity analysis of the Shares relative to the Comparable Companies

Comparable Companies	Average daily trading volume of the shares as a percentage of public float shares from 24 August 2015 to Last Unaffected Day	Average daily trading volume of the shares as a percentage of public float shares from 9 January 2017 to Latest Practicable Date
Air Liquide	0.29%	0.20%
Air Products	0.71%	0.71%
Linde	0.34%	0.27%
Praxair	0.47%	0.51%
Simple average	**0.45%**	**0.42%**
The Company	0.28%	1.68%

Source: Bloomberg

As shown in Table 12 above, the average daily trading volume of the shares as a percentage of public float shares of the Company was lower than that of the Comparable Companies during the period from 24 December 2015 to Last Unaffected Day but significantly higher during the period from 9 January 2017 to Latest Practicable Date.

6. The Option Offer

The Offeror will make an offer of HK$6.00 less the exercise price in respect of the relevant outstanding Option in cash to the Optionholders for cancellation of each outstanding option with exercise price lower than the Share Offer Price each Option. The consideration for the cancellation of each Option will be the see-through price based on the Share Offer Price. For outstanding Options with the exercise price above the Share Offer Price, the "see-through" price is zero and the offer price for the Option Offer will be a nominal value of HK$0.001 per Option.

As at the Latest Practicable Date, there were total of 3,832,500 Options outstanding with an exercise price of HK$3.35 each in respect of the Options granted on 20 November 2015 and HK$6.62 each in respect of the Options granted on 16 October 2014. The "see-through" price for the Options granted on 20 November 2015 is HK$2.65 each and the price for the Options granted on 16 October 2014 is HK$0.001 each.

7. Other considerations

(a) ***Listing status of the Company and compulsory acquisition***

As set out in the "Letter from UBS — Listing status of the Company" in the Offer Document, the Offeror intends to privatise the Company if the compulsory acquisition condition is met. In case the compulsory acquisition condition is not met, the issued Shares will remain listed on the Stock

Exchange after the close of the Offers. The Offeror will undertake to the Stock Exchange to take appropriate steps within a reasonable period following the Offers to ensure that at least 25% of the Shares will be held by the public. In the event that steps are taken to restore the public float, the Share price may be under pressure (the extent of which cannot of assessed at this stage).

(b) ***Memorandum of Undertaking***

Mr. Sun and Mr. Strutt are the executive Directors. According to the Memorandum of Undertaking, each of Mr. Sun, Mr. Strutt, Bubbly Brooke Holdings Limited and Baslow Technology Limited has irrevocably undertaken to the Offeror to accept the Offers in respect of the Options held by Mr. Sun and Mr. Strutt and the Shares held by Bubbly Brooke Holdings Limited and Baslow Technology Limited subject to provisions under the headings "Conditions to Strutt & Sun Irrevocable Undertaking" and "Competing Offer" set out in the "Letter from UBS — Commitment by the Covenanting Shareholders to accept the Offers under the Irrevocable Undertakings — (ii) Principal terms of the Strutt & Sun Irrevocable Undertaking — Conditions to Strutt & Sun Irrevocable Undertaking" in the Offer Document. We note from the "Letter from the Board" in the Response Document that Mr. Sun and Mr. Strutt believed that the signing of the Memorandum of Undertaking was consistent with the undertaking they had given to shareholders to solicit an offer for the Company to which, provided the terms are considered by Mr. Sun and Mr. Strutt to be fair and reasonable, they would commit their Shares. We note further that, if no competing offer as defined in the Memorandum of Undertaking is announced by 4 p.m. on the first closing date of the Offers on 10 April 2017 (unless extended by the Offeror) ("**First Closing Date**"), Mr. Sun and Mr. Strutt (together with their respective associates) will be obliged to tender for acceptance of the Offers in respect of their Shares representing 29.48% of the issued share capital of the Company.

(c) ***The Offeror's shareholding in the Company as at the Latest Practicable Date***

As noted from the "Letter from the Board" in the Response Document, the Offeror, based on the disclosures as at the Latest Practicable Date, held 15.3821% of the issued share capital of the Company and together with the Shares which are subject to the memoranda of undertaking (including the one signed by Mr. Zhao on 28 February 2017 and taking into account the remaining shares held by Mr. Zhao and his associates) has interest in and will receive acceptances for a further 31.81% of the issued share capital of the Company. Provided that acceptances are received for less than 53,101,975 Shares, representing approximately 2.81% of the issued share capital of the Company by 14 days after the First Closing Date, the Memorandum of Undertaking will lapse.

(d) **2016 Annual Results**

The Board announced, on 21 March 2017, that a meeting of the Board will be held on 31 March 2017 (Friday) for the purpose of, among other matters, considering and approving the annual results of the Company and its subsidiaries for the year ended 31 December 2016 and its publication and considering the payment of a final dividend, if any. **Shareholders and Optionholders are advised to review and take into account the 2016 Annual Results (which are expected to be announced by the Company on 31 March 2017) before accepting or rejecting the Offers. Rothschild will update our opinion and recommendation after the 2016 Annual Results is announced.**

SUMMARY

Having considered the analysis above and the principal factors and reasons behind the Offers, we conclude that the main benefit of the Offers is to provide Shareholders and Optionholders with an opportunity to redirect their capital at a premium over the market price of the Shares into other more attractive investment opportunities in the current market environment. We draw your attention to the following key factors in arriving at our conclusions to the Offers:

(a) Whilst growth was observed in the revenues and EBITDA of the Group for the three years ended 31 December 2015 and the six months ended 30 June 2016, net profits during such period have been negatively affected by (among others) the increase in net finance costs. Net debt increased to RMB9,077 million as at 30 June 2016 from RMB6,671 million as at 31 December 2013. The net gearing ratio was 129.6% and the net current liabilities of the Group was RMB1,338 million as at 30 June 2016. The ratios set out in Table 3 showed increase in collection period of trade receivables and decrease in cash conversion cycles. These are signals indicating possible deterioration of liquidity situation due to the prevailing capital structure of the Company.

(b) 2016 was a year with challenges and uncertainties for the Company. Notable events are summarised in "1. Background to the Offers" above.

(c) The Company aims to announce the 2016 Annual Results on 31 March 2017. Shareholders are advised to review and take into account such financial results when they become available. As at the Latest Practicable Date, the audited consolidated financial statements of the Group for the year ended 31 December 2016, whether in draft or final form, are not yet available for our review.

(d) The Company has disclosed in the Profit Warning and Financial Update Announcement and "Financial information of the Group — E. Material change" in Appendix I a list of events which may have a material adverse impact on the financial or trading position or outlook of the Group since 31 December 2015. The Company has stated in the Profit Warning and Financial Update Announcement that "According to the Company's preliminary assessment of impairments, potential impairments and other adjustments to the unaudited consolidated management accounts of the Company and its subsidiaries for the year ended 31 December 2016, the Company's financial position may be materially adversely impacted and that "The Board is also in discussion with other creditors and rating agencies of the Company in light of the recent developments at the Company".

(e) S&P has downgraded the credit rating of the Company to "CCC-" on 23 December 2016 and Fitch has placed the Company's Long-Term Issuer Default Rating and senior unsecured rating of "B+" on Rating Watch Negative on 21 March 2017. These may increase the financing costs of the Company.

(f) Against this background, we consider and concur with the Offeror that the Offers can provide the Shareholders and Optionholders with an opportunity to realise their investment.

(g) The Share Offer Price represents 86.5% to 109.1% premia over the average closing prices per Share on the Last Unaffected Day and 85.5% to 100.9% premia over the average closing prices per Share on the Last Undisturbed Day, both significant premia. These premia are at the top end of the Comparable Voluntary Cash Offers Precedents. In addition, the Share Offer Price is higher than the highest closing price during the 12-month period prior to the Last Undisturbed Day.

(h) The Offers are conditional as to acceptance only and are not subject to any regulatory approval, in particular the Ministry of Commerce of the PRC.

(i) There is no assurance that the Share price or the trading liquidity of the Shares will stay at the current level in the absence of the Offers, and competing offers (as defined in the Memorandum of Undertaking) or higher offers (if any) may be subject to more stringent conditions thus posting uncertainties over its completion or speed of completion.

(j) It is uncertain that the Board, or, upon successful completion of the Offers, the Offeror could achieve positive changes in the new future in the absence of detailed business plan on the Group.

Shareholders and Optionholders should carefully consider the above factors when deciding on the acceptance or rejection of the Offers.

OPINION AND RECOMMENDATIONS

Having considered the above principal factors and reasons, we consider the terms of the Share Offer to be fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Shareholders to accept the Share Offer. Unless a competing offer or a higher offer is announced, Shareholders should accept the Share Offer by the First Closing Date. If the Offers do not become unconditional as to acceptances on First Closing Date, the Offeror is under no obligation to extend the Offers.

In respect of the Option Offer, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. We advise the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

In the event a competing offer or higher offer is announced, the Independent Board Committee and us will provide further opinion and recommendations to Shareholders and the Optionholders.

Shareholders are reminded of the right to withdraw their acceptance of the Offers under Rule 17 of the Takeovers Code which provides that:

"*An acceptor shall be entitled to withdraw his acceptance after 21 days from the first closing date of the offer, if the offer has not by then become unconditional as to acceptances. This entitlement to withdraw shall be exercisable until such time as the offer becomes or is declared* *unconditional as to acceptances: however, on the 60th day (or any date beyond which the offeror has stated that its offer will not be extended) the final time for the withdrawal must coincide with the final time for the lodgement of acceptances set out in Rule 15.5, and this time must not be later than 4.00 p.m.*"

In making this recommendation, we note that the Shareholders and Optionholders are at liberty to accept according to their personal preference and circumstances and they should consult their own professional advisers for professional advice. Shareholders and Optionholders who are confident of the future prospects of the Company and/or do wish to continue to retain an exposure in the Company or who are not attracted by the capital value of the consideration as compared with the historical trading performance or their respective investment costs of the Shares may wish not to accept the Offers.

We note that current trading prices of the Shares are above the Share Offer Price. There is no assurance that the trading price of the Share would continue to be above the Share Offer Price during the Offer Period. In considering whether or not to accept the Offers, Shareholders should take into account all factors that we have set out in our letter as a whole. In the event that the market price of the Shares exceeds the Share Offer Price during the period while the Share Offer is open and the sales proceeds (net of transaction costs) exceed the amount receivable under the Share Offer, Shareholders should consider not accepting the Share Offer and consider seeking to sell their Shares in the market if they so wish.

Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers.

Yours very truly,
For and on behalf of
Rothschild (Hong Kong) Limited

Kelvin Chau	**Catherine Yien**
Managing Director	*Managing Director*

Mr. Kelvin Chau is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Rothschild (Hong Kong) Limited under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) registered activities and has almost 30 years of experience in investment banking and corporate finance.

Ms. Catherine Yien is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Rothschild (Hong Kong) Limited under the SFO to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) registered activities and has over 20 years of experience in investment banking and corporate finance.

A. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the financial information of the Group for the six months ended 30 June 2016 and three years ended 31 December 2013, 31 December 2014 and 31 December 2015, which is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for each of the year ended 31 December 2014 and 31 December 2015 and the unaudited consolidated financial statements of the Group as set forth in the interim report of the Group for the six months ended 30 June 2016.

The consolidated financial statements of the Group for each of the year ended 31 December 2013, 2014 and 2015 were audited by KPMG, Certified Public Accountants, Hong Kong and did not contain any qualified opinion. The Group had no items which are exceptional because of size, nature or incidence for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

	Six months ended 30 June	**Year ended 31 December**		
	2016	**2015**	**2014**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	4,139,636	7,918,861	7,716,161	6,865,508
Cost of sales	(2,869,317)	(5,368,593)	(5,237,253)	(4,734,662)
Gross profit	1,270,319	2,550,268	2,478,908	2,130,846
Other income	60,615	32,875	26,997	39,062
Selling expenses	(73,039)	(207,204)	(243,810)	(225,464)
Administrative expenses	(163,284)	(500,770)	(466,039)	(417,560)
Profit from operations	1,094,611	1,875,169	1,796,056	1,526,884
Finance costs	(443,431)	(968,324)	(520,018)	(381,536)
Share of results of associates and joint ventures	(17,173)	12,794	(11,182)	(19,878)
Profit before taxation	634,007	950,490	1,292,841	1,203,613
Income tax	(249,766)	(417,785)	(380,679)	(294,001)
Profit and total other comprehensive income for the period	384,241	532,705	912,162	909,612
Attributable to:				
Equity shareholders of the Company	386,955	535,941	903,905	907,896
Non-controlling interests	(2,714)	(3,236)	8,257	1,716
Profit and total other comprehensive income for the period	384,241	532,705	912,162	909,612
Earnings per share (RMB cents)				
Basic	21.6	0.30	0.50	0.502
Diluted	21.6	0.30	0.49	0.501

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Set out below is reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained in the annual report of the Group for the year ended 31 December 2015 (the "**Annual Report**"). Capitalised terms used in this section have the same meanings as those defined in the Annual Report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	2015 *RMB'000*	2014 *RMB'000*
Revenue	4	7,918,861	7,716,161
Cost of sales		(5,368,593)	(5,237,253)
Gross profit		2,550,268	2,478,908
Other income	5	32,875	26,997
Selling expenses		(207,204)	(243,810)
Administrative expenses		(500,770)	(466,039)
Profit from operations		1,875,169	1,796,056
Finance income	6(a)	30,851	27,985
Finance costs	6(a)	(968,324)	(520,018)
Share of results of associates		13,881	(10,120)
Share of results of joint ventures		(1,087)	(1,062)
Profit before taxation	6	950,490	1,292,841
Income tax	7	(417,785)	(380,679)
Profit and total other comprehensive income for the year		532,705	912,162
Attributable to:			
Equity shareholders of the Company		535,941	903,905
Non-controlling interests		(3,236)	8,257
Profit and total other comprehensive income for the year		532,705	912,162
Earnings per share (RMB)	10		
Basic		0.30	0.50
Diluted		0.30	0.49

Consolidated Statement of Financial Position

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment, net	11	10,274,282	10,014,588
Construction in progress	12	3,013,037	3,055,457
Lease prepayments	13	416,483	348,859
Intangible assets	14	47,863	51,836
Receivables under finance lease	15	10,638	11,536
Interest in associates	17	518,671	483,731
Interest in joint ventures	18	263,694	268,561
Other non-current assets	19	1,081,786	1,188,996
Deferred tax assets	7(d)	165,006	141,802
Total non-current assets		15,791,460	15,565,366
Current assets			
Inventories	20	102,422	97,758
Trade and other receivables	21	2,682,864	2,844,605
Receivables under finance lease	15	2,117	2,117
Income tax recoverable	7(c)	7,604	3,843
Pledged bank deposits	22	309,526	131,026
Cash and cash equivalents	23	678,450	606,359
Total current assets		3,782,983	3,685,708
Current liabilities			
Borrowings	24	1,603,338	1,721,138
Trade and other payables	25	2,285,508	2,422,281
Obligations under finance lease	26	190,241	324,110
Income tax payable	7(c)	184,940	186,453
Total current liabilities		4,264,027	4,653,982
Net current liabilities		(481,044)	(968,274)
Total assets less current liabilities		15,310,416	14,597,092

	Note	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Borrowings	24	8,060,162	7,379,592
Obligations under finance lease	26	224,855	351,294
Other non-current liabilities	27	53,376	51,199
Deferred tax liabilities	7(d)	93,431	71,484
Total non-current liabilities		8,431,824	7,853,569
Net assets		6,878,592	6,743,523
Equity			
Share capital	29	12	12
Reserves		6,707,652	6,635,620
Total equity attributable to equity shareholders of the Company		6,707,664	6,635,632
Non-controlling interests		170,928	107,891
Total equity		6,878,592	6,743,523

Consolidated Statement of Changes in Equity

		Attributable to equity shareholders of the Company							
		Share capital	**Share premium**	**Statutory reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 29)	*(Note 30(c))*	*(Note 30(d))*	*(Note 30(e))*				
At 1 January 2014		12	2,983,818	621,877	(352,400)	2,871,372	6,124,679	105,089	6,229,768
Total comprehensive income for the year		—	—	—	—	903,905	903,905	8,257	912,162
Effect on Share Allotment Scheme	28	—	—	—	7,490	—	7,490	—	7,490
Appropriations		—	—	136,163	—	(136,163)	—	—	—
Dividends approved in respect of the previous year	30(b)	—	—	—	—	(329,297)	(329,297)	—	(329,297)
Acquisition of a non-controlling shareholder		—	—	—	(7,135)	—	(7,135)	(5,455)	(12,590)
Purchase of own shares		—	(64,010)	—	—	—	(64,010)	—	(64,010)
At 31 December 2014		12	2,919,808	758,040	(352,045)	3,309,817	6,635,632	107,891	6,743,523

		Attributable to equity shareholders of the Company							
		Share capital	Share premium	Statutory reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 29)	*(Note 30(c))*	*(Note 30(d))*	*(Note 30(e))*				
At 1 January 2015		12	2,919,808	758,040	(352,045)	3,309,817	6,635,632	107,891	6,743,523
Total comprehensive income for the year		—	—	—	—	535,941	535,941	(3,236)	532,705
Effect on share schemes	28	—	—	—	17,325	—	17,325	—	17,325
Appropriations		—	—	127,382	—	(127,382)	—	—	—
Dividends approved in respect of the previous year	30(b)	—	—	—	—	(369,867)	(369,867)	—	(369,867)
Interim dividends approved in respect of the current interim period	30(b)	—	—	—	—	(111,094)	(111,094)	—	(111,094)
Capital contribution from a non-controlling shareholder		—	—	—	—	—	—	68,000	68,000
Purchase of non-controlling interests		—	—	—	(273)	—	(273)	(1,727)	(2,000)
At 31 December 2015		12	2,919,808	885,422	(334,993)	3,237,415	6,707,664	170,928	6,878,592

Consolidated Cash Flow Statement

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before taxation		950,490	1,292,841
Adjustments for:			
Depreciation		753,669	682,585
Amortisation		12,947	12,483
Finance income		(30,851)	(27,985)
Finance costs		968,324	520,018
Net loss on disposal of property, plant and equipment, construction in progress		10,615	336
Share of results of associates		(13,881)	10,120
Share of results of joint ventures		1,087	1,062
Impairment loss on other non-current assets		10,000	—
Reversal of impairment loss on property, plant and equipment, construction in progress		—	(70,338)
Increase in inventories		(4,664)	(29,196)
Increase in trade and other receivables		(378,756)	(640,874)
Increase in trade and other payables		176,138	87,166
		2,455,118	1,838,218
Interest received		27,414	10,933
Interest paid		(683,787)	(558,249)
Income tax paid		(424,316)	(369,054)
Income tax refund		—	3,206
Net cash generated from operating activities		1,374,429	925,054

	Note	2015 RMB'000	2014 RMB'000
Investing activities			
Capital expenditure		(1,123,471)	(2,013,150)
Increase in pledged bank deposits		(178,500)	(66,003)
Proceeds from disposal of property, plant and equipment, construction in progress		427,938	1,724
Proceeds from disposal of an associate		25,000	140,043
Collection of receivables under finance lease		2,245	2,245
Payment for investment in associates		(24,041)	—
Payment for investment in joint ventures		—	(50,000)
Payment for other investment in equity securities		—	(150,000)
Payment for purchase of non-controlling interests		(2,000)	—
Acquisition of subsidiaries, net of cash paid		—	(5,500)
Dividend received from an associate		2,700	—
Dividend received from other investment		—	1,704
Repayment from an associate		—	46,193
Net cash used in investing activities		(870,129)	(2,092,744)

	Note	2015 RMB'000	2014 RMB'000
Financing activities			
Proceeds from loans		2,562,054	1,869,918
Repayment of loans		(3,103,921)	(1,282,960)
Proceeds from finance lease transaction		130,500	—
Payment of obligations under finance lease		(426,052)	(266,282)
Proceeds from senior notes		—	1,516,234
Proceeds from corporate bonds		953,340	—
Proceeds from allotted shares	28	—	1,193
Payment for repurchase of senior notes		(142,774)	—
Payment for repurchase of shares		—	(64,010)
Capital injection from a non-controlling shareholder		68,000	—
Dividend paid to equity shareholders of the Company		(480,961)	(329,297)
Net cash (used)/generated from financing activities		(439,814)	1,444,796
Net increase in cash and cash equivalents		64,486	277,106
Cash and cash equivalents at 1 January		606,359	342,546
Effect of foreign exchange rate changes		7,605	(13,293)
Cash and cash equivalents at 31 December	23	678,450	606,359

Notes to the Financial Statements

1 CORPORATE INFORMATION

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"). The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 October 2009.

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") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with 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 is 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. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

In determining the appropriate basis of preparation of financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditures.

The Group successfully issued corporate bonds of aggregate amount of RMB980,000,000 in October 2015. At 31 December 2015, the Group had cash and cash equivalents of RMB678,450,000 (2014: RMB606,359,000); the Group also had net current liabilities of RMB481,044,000 (2014: RMB968,274,000) and total borrowings of RMB9,663,500,000 (2014: RMB9,100,730,000). The

Group regularly monitors 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 requirement in the short and longer term.

The directors have reviewed current performance and cashflow projections as part of their assessment, and after making enquiries and carefully considering the matters described above, the directors have a reasonable expectation that the Group and the Company will be able to meet their liabilities as they fall due and will have adequate resources to continue in operational existence for the foreseeable future.

As a result, the directors have concluded that the combination of these circumstances no longer represents a material uncertainty which may cast significant doubt upon the Company's and the Group's ability to continue as a going concern. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as available-for-sale or as trading securities (see Note 2(f)); and

— derivative financial instruments (see Note 2(g)).

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 the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) **Changes in accounting policies**

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group.

— Amendments to IAS 19, *Employee benefits: Defined benefit plans: Employee contributions*

— *Annual Improvements to IFRSs 2010-2012 Cycle*

— *Annual Improvements to IFRSs 2011-2013 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) **Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)), unless the investment is classified as held for sale.

(e) **Associates and joint ventures**

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

(f) **Other investments in equity securities**

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price, unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends earned on these investments as these are recognised in accordance with the policies set out in Note 2(u)(iii).

Held-to-maturity securities are stated at amortised cost less impairment losses (see Note 2(k)).

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see Note 2(k)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in Note 2(u)(iii).

When the investments are derecognised or impaired (see Note 2(k)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) **Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised at cost. Cost comprises cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(w)). 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 - 35 years
Plant and machinery	5 - 20 years
Motor vehicles and other equipment	5 - 10 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.

(i) **Intangible assets**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(k)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis from the date they are available for use and over the assets' estimated useful lives of 5 to 20 years. Both the period and method of amortisation are reviewed annually.

(j) **Leased assets**

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 held 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 leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) ***Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(iv) ***Receivables under finance lease***

Where the Group leased out assets under finance lease, 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(k)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

(k) **Impairment of assets**

(i) ***Impairment of investments in equity securities and receivables***

Investments in equity securities and current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(k)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) ***Impairment of other assets***

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— lease prepayments;

— intangible assets;

— other non-current assets (excluding receivables); and

— investments in subsidiaries, associates and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 inflows 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 of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the 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 Notes 2(k) (i) and (ii)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) **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.

(m) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(k)), 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.

(n) **Convertible notes**

(i) ***Convertible notes that contain an equity component***

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(ii) ***Other convertible notes***

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see Note 2(g)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with Note 2(g). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(o) **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.

(p) **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(t) (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.

(q) **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.

(r) **Employee benefits**

(i) ***Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year 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 values.

Obligations for contributions to PRC local government defined contribution retirement plans pursuant to the relevant labour rules and regulations in the PRC and Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, which is a defined contribution retirement plan administered by independent trustees, are recognised as an expense in profit or loss when incurred.

(ii) ***Share-based payments***

The fair value of shares granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the shares were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, the total estimated fair value of the shares is spread over the vesting period, taking into account the probability that the shares will vest.

During the vesting period, the number of shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the share is exercised (when it is transferred to the share premium account) or the share expires (when it is released directly to retained profits).

Where the share-based payments are arranged through trust and the Company transfers cash to the trust to enable the trustee to buy shares of the Company on the market, the shares purchased are treated as treasury shares of the Company and the purchase of shares in the market by the trust has no effect on the financial statements of the Company.

(iii) ***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(s) **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 end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

(t) **Financial guarantees issued, provisions and contingent liabilities**

(i) ***Financial guarantees issued***

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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(t)(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 other 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.

(u) **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 customer 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 taxes and is after deduction of any trade discounts.

(ii) ***Service income***

Service income from the rendering of services is recognised when the related services are rendered.

(iii) ***Dividends***

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) ***Interest income***

Interest income is recognised as it accrues using the effective interest method.

(v) ***Government grants***

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(vi) ***Rental income from operating leases***

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) **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 end of the reporting period. 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 measured.

(w) **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 complete.

(x) **Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) **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 principally engaged in the production and sales of industrial gases in the PRC. Although the industrial gases are sold to on-site and merchant customers, the Group's most senior executive management regularly review their combined financial information to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

Substantially all of the Group's external customers and non-current assets are located in the PRC.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial position and financial performance 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 out 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) Critical accounting judgements in applying the Group's accounting policies

(i) *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.

(ii) *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. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment change or reversal of impairment in future years.

(iii) ***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 30 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.

(b) **Sources of estimation uncertainty**

Notes 28, 33(e), and 32(d) contain information about the assumptions and their risk factors relating to fair value of share options in share schemes, fair value of financial instruments and the contingent liabilities relate to possible losses that may occur in the future.

4 REVENUE

The Group is principally engaged in the production and sales of industrial gases in the PRC. Revenue represents the aggregate of the invoiced value of goods sold or services provided, net of value added tax.

The amount of each significant category of revenue is as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Sales of industrial gases to on-site customers	6,886,264	6,703,504
Sales of industrial gases to merchant customers	824,593	914,237
Revenue from other related services	208,004	98,420
	7,918,861	7,716,161

The Group's customer base is diversified and all customers are from the PRC. During the year ended 31 December 2015, the Group had one customer that individually exceeded 10% of the Group's revenue, being RMB888,957,000 (2014: RMB810,196,000).

Details of concentration of credit risk arising from the customers are set out in Note 33(b).

5 OTHER INCOME

	2015	2014
	RMB'000	*RMB'000*
Profit on repurchase of senior notes (Note 24(f))	19,568	—
Government grant	18,559	12,785
Patent licensing income	—	27,384
Disposal of equity investment	—	(20,914)
Others	(5,252)	7,742
	32,875	26,997

6 PROFIT BEFORE TAXATION

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

	2015	2014
	RMB'000	*RMB'000*
(a) Finance (income)/costs:		
Interest income	(27,415)	(26,540)
Finance income on receivables under finance lease	(1,346)	(1,445)
Total interest income	(28,761)	(27,985)
Gain on remeasurement of derivative financial instruments	(2,090)	—
Finance income	(30,851)	(27,985)
Interest on borrowings	712,133	595,085
Finance charges on obligations under finance lease	35,244	50,817
Total interest expenses	747,377	645,902
Less: borrowing costs capitalised	(103,046)	(133,607)
Foreign currency exchange loss	323,993	7,427
Loss on remeasurement of derivative financial instruments	—	296
Finance costs	968,324	520,018
	937,473	492,033

		2015	2014
		RMB'000	*RMB'000*
	Borrowing costs have been capitalised at the following rates:		
	Capitalised interest rate (per annum)	2.8%-8.1%	2.9%-8.1%
(b)	**Staff costs:**		
	Salaries, wages, bonuses and benefits	286,929	314,402
	Contributions to defined contribution retirement schemes	29,744	30,541
	Expenses of share schemes (Note 8 and 28)	8,199	6,297
		324,872	351,240

Staff costs included directors' remuneration (see Note 8).

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 also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000 (HKD25,000 prior to June 2014). Contributions to the plan vest immediately.

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

	Note	2015 RMB'000	2014 RMB'000
(c) Other items:			
Utilities			
— Electricity		3,580,277	3,540,856
— Steam		649,099	622,344
Depreciation	11	753,669	682,585
Amortisation			
— Land lease premium		8,064	7,669
— Intangible assets	14	4,883	4,814
Auditors' remuneration			
— Audit services		6,987	6,356
— Non-audit services		184	222
Operating lease charges: minimum lease payment (land and buildings)		17,720	21,090
Net loss on disposal of property, plant and equipment, construction in progress		10,615	336
Loss on disposal of an associate		—	20,914
Impairment losses recognised/(reversed) on			
— Trade and other receivables		143,577	175,484
— Non-current assets (Note 11(f))			
Property, plant and equipment	11	—	(37,627)
Construction in progress	12	—	(32,711)
— Other non-current assets		10,000	—

7 INCOME TAX

(a) Taxation in profit or loss

	2015 RMB'000	2014 RMB'000
Provision of PRC income tax for the year	419,042	438,477
Deferred tax	(1,257)	(57,798)
	417,785	380,679

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

	2015	**2014**
	RMB'000	*RMB'000*
Profit before taxation	950,490	1,292,841
Expected PRC income tax expense at the statutory tax rate of 25%	237,623	323,210
Tax effect of non-deductible expenses	1,593	2,306
Effect of tax losses	21,944	7,987
Differential tax rate on subsidiaries' results (Note (i))	134,226	38,351
Tax on distributable profits of subsidiaries in the PRC (Note (ii))	8,509	(2,256)
Tax effect in respect of share of results of associates and joint ventures	(3,199)	2,795
Others	17,089	8,286
Actual income tax expense	417,785	380,679

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.

No provision has been made for Hong Kong profits tax as the Group sustained losses for the purposes of Hong Kong profits tax during the current and prior years.

The provision for current PRC income tax is based on a statutory rate of 25% (2014: 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 operate in the western developing region of the PRC are granted the preferential tax rate of 15%, pursuant to the relevant documents issued by the state and local tax bureau of the PRC during 2015.

(ii) 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.

(c) **Income tax (recoverable)/payable in the consolidated statement of financial position**

	2015	**2014**
	RMB'000	*RMB'000*
At 1 January	182,610	109,981
Provision for PRC income tax for the year	419,042	438,477
PRC income tax paid	(424,316)	(369,054)
PRC income tax refund	—	3,206
At 31 December	177,336	182,610
Representing:		
Income tax recoverable	(7,604)	(3,843)
Income tax payable	184,940	186,453
	177,336	182,610

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

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

	Property, plant and equipment	**Allowance for doubtful debts**	**Tax loss carry forwards**	**Profits expected to distribute (Note)**	**Accrued expenses not yet paid**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:						
At 1 January 2014	(1,478)	(12,592)	(61,843)	63,393	—	(12,520)
(Credited)/charged to profit or loss	(19,341)	226	16,512	(2,256)	(52,939)	(57,798)
At 31 December 2014	(20,819)	(12,366)	(45,331)	61,137	(52,939)	(70,318)
At 1 January 2015	(20,819)	(12,366)	(45,331)	61,137	(52,939)	(70,318)
(Credited)/charged to profit or loss	(19,003)	(4,401)	2,261	8,508	11,378	(1,257)
At 31 December 2015	(39,822)	(16,767)	(43,070)	69,645	(41,561)	(71,575)

Note: 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.

(ii) Reconciliation to the consolidated statement of financial position:

	2015	2014
	RMB'000	*RMB'000*
Net deferred tax asset recognised in the statement of financial position	165,006	141,802
Net deferred tax liability recognised in the statement of financial position	(93,431)	(71,484)
	71,575	70,318

(e) **Deferred tax liabilities not recognised**

At 31 December 2015, 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 RMB6,146,491,000 (2014: RMB4,942,461,000). Deferred tax liabilities 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.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2015						
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Sub-total**	**Share option scheme (Note)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
Zhongguo Sun	—	1,661	4,691	—	6,352	1,193	7,545
Zhao Xiangti	—	793	—	64	857	298	1,155
Trevor Raymond Strutt	—	1,212	2,031	14	3,257	596	3,853
Independent non-executive directors							
Zheng Fuya	241	—	—	—	241	—	241
Wang Ching	241	—	—	—	241	—	241
He Yuanping	193	—	—	—	193	—	193
Total	675	3,666	6,722	78	11,141	2,087	13,228

	2014						
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Sub-total**	**Share option scheme (Note)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
Zhongguo Sun	—	1,636	3,240	—	4,876	697	5,573
Zhao Xiangti	—	808	—	76	884	348	1,232
Trevor Raymond Strutt	—	2,039	1,007	12	3,058	174	3,232
Independent non-executive directors							
Zheng Fuya	317	—	—	—	317	—	317
Wang Ching	285	—	—	—	285	—	285
He Yuanping	222	—	—	—	222	—	222
Total	824	4,483	4,247	88	9,642	1,219	10,861

Note: These represent the estimated value of share options granted to the directors under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(r) (ii).

The details of these benefits, including the principal terms and number of option granted, are disclosed under the paragraph "Share Option Scheme" in the directors' report and Note 28(a).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, two (2014: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2014: three) individuals are as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Salaries and other emoluments	3,356	3,547
Discretionary bonuses	—	3,422
Share Allotment Scheme	1,798	1,672
Retirement scheme contributions	172	185
	5,326	8,826

The emoluments of the three (2014: three) individuals with the highest emoluments are within the following bands:

	Number of individuals 2015	2014
HKD1,500,001 to HKD2,000,000 (RMB1,206,001 to RMB1,607,000)	2	1
HKD2,500,001 to HKD3,000,000 (RMB2,009,001 to RMB2,411,000)	1	1
HKD6,000,001 to HKD6,500,000 (RMB4,822,001 to RMB5,224,000)	—	1
	3	3

10 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 RMB535,941,000 (2014: RMB903,905,000) and the weighted average number of shares of 1,793,173,500 issued and fully paid ordinary shares (2014: 1,805,037,816 ordinary shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2015	2014
Issued ordinary shares at 1 January	1,793,173,500	1,806,830,000
Effect of Share Allotment Scheme (Note 28 (b))	—	80,819
Effect of shares repurchased	—	(1,873,003)
Weighted average number of ordinary shares as at 31 December	1,793,173,500	1,805,037,816

(b) **Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB535,941,000 (2014: RMB911,103,000) and the weighted average number of ordinary shares of 1,793,180,733 shares (2014: 1,846,510,850 ordinary shares), calculated as follows:

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

	2015	**2014**
	RMB'000	*RMB'000*
Profit attributable to ordinary equity shareholders	535,941	903,905
After tax effect of fair value loss on the warrants	—	901
After tax effect of expenses recognized on the Share Allotment Scheme	—	6,297
Profit attributable to ordinary equity shareholders (diluted)	535,941	911,103

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

	2015	**2014**
Weighted average number of ordinary shares at 31 December	1,793,173,500	1,805,037,816
Effect of exercise of warrants	—	18,953,853
Effect of Share Allotment Scheme (Note 28)	—	22,519,181
Effect of share option scheme (Note 28)	7,233	—
Weighted average number of ordinary shares (diluted) at 31 December	1,793,180,733	1,846,510,850

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles and other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2014	741,418	10,117,657	202,054	11,061,129
Additions	5,748	25,576	9,228	40,552
Transferred from construction in progress	60,681	1,159,747	298	1,220,726
Disposals	(109)	(1,634)	(1,932)	(3,675)
At 31 December 2014	807,738	11,301,346	209,648	12,318,732
At 1 January 2015	807,738	11,301,346	209,648	12,318,732
Additions	1,490	47,810	14,172	63,472
Transferred from construction in progress	64,894	887,196	1,204	953,294
Disposals	—	(1,259)	(7,051)	(8,310)
At 31 December 2015	874,122	12,235,093	217,973	13,327,188
Accumulated depreciation and impairment losses:				
At 1 January 2014	(102,632)	(1,470,811)	(87,358)	(1,660,801)
Charge for the year	(35,133)	(616,171)	(31,281)	(682,585)
Reversal of impairment losses	—	37,627	—	37,627
Written back on disposals	26	500	1,089	1,615
At 31 December 2014	(137,739)	(2,048,855)	(117,550)	(2,304,144)
At 1 January 2015	(137,739)	(2,048,855)	(117,550)	(2,304,144)
Charge for the year	(38,613)	(685,926)	(29,130)	(753,669)
Written back on disposals	—	214	4,693	4,907
At 31 December 2015	(176,352)	(2,734,567)	(141,987)	(3,052,906)
Net book value:				
At 31 December 2015	697,770	9,500,526	75,986	10,274,282
At 31 December 2014	669,999	9,252,491	92,098	10,014,588

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

(b) At 31 December 2015, certain of the Group's borrowings and bills payable were secured by the Group's plant and machinery with net book value of RMB2,351,237,000 (2014: RMB1,722,532,000).

(c) Certain of the Group's leased plant and machinery are considered as being held under finance lease. Net book value of such plant and machinery was as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Net book value of plant and machinery held under finance lease	1,155,372	1,077,300

(d) The Group has entered into long-term gas supply agreements with certain customers for periods up to 30 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 RMB315,668,000 at 31 December 2015 (2014: RMB302,365,000).

(e) At 31 December 2015, the Group was in the process of applying for the ownership certificate for certain buildings with an aggregate net book value of RMB68,149,000 (2014: RMB154,013,000). 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.

(f) During 2014, the previously recognised impairment losses of RMB179,006,000 against the non-current assets by Zhangjiagang Yingde Gases Co., Ltd. ("Zhangjiagang Yingde") has been partially reversed by RMB70,338,000 (including property, plant and equipment of RMB37,627,000 and construction in progress of RMB32,711,000). A subsidiary of the Group with identical production process has been set up in 2014 and the Group reassessed the recoverable amount of those impaired non-current assets of Zhangjiagang Yingde and decided to reuse certain assets to the new project. The recoverable amount of the assets was estimated based on their value in use.

At 31 December 2015, impairment losses were recognised in respect of the non-current assets of Zhangjiagang Yingde as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Property, plant and equipment	40,458	40,458
Construction in progress	59,459	59,459
Intangible assets	8,751	8,751
	108,668	108,668

(g) Certain production facilities of the Group were occupied and controlled by its on-site customer without the Group's consent in December 2015. As at 31 December 2015, the carrying amount of the property, plant and equipment being occupied is amounting to RMB548,947,000. The Group is under the process of communicating with the on-site customer and the related government authorities to resolve the dispute and believe that there will not be any adverse material impact to the Group's financial statements.

12 CONSTRUCTION IN PROGRESS

	2015	**2014**
	RMB'000	*RMB'000*
At 1 January	3,055,457	2,551,113
Additions	910,874	1,692,359
Transferred to property, plant and equipment	(953,294)	(1,220,726)
Reversal of impairment losses (Note 11(f))	—	32,711
At 31 December	3,013,037	3,055,457

At 31 December 2014, certain equipment included in construction in progress were held under finance lease, with net book value of RMB333,916,000. In 2015, the Group has paid all lease payments and purchased the leased equipment at nil consideration. Net book value of construction in progress held under finance lease as at 31 December 2015 was nil.

At 31 December 2015, certain of the Group's borrowings were secured by the Group's construction in progress with net book value of RMB93,833,000 (2014: RMB381,206,000).

13 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the mainland China and Hong Kong as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Land use rights held under mid-term and long-term leases	416,483	348,859

The land use rights are amortised on a straight-line basis over the operating lease periods of 34-50 years.

At 31 December 2015, certain of the Group's borrowings were secured by the Group's land use rights with the net book value of RMB67,711,000 (2014: RMB104,430,000).

14 INTANGIBLE ASSETS

	Know-how	Software	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2014	76,007	3,852	79,859
Additions	—	136	136
At 31 December 2014	76,007	3,988	79,995
At 1 January 2015	76,007	3,988	79,995
Additions	—	910	910
At 31 December 2015	76,007	4,898	80,905
Accumulated amortization and impairment losses:			
At 1 January 2014	(22,500)	(845)	(23,345)
Charge for the year	(4,401)	(413)	(4,814)
At 31 December 2014	(26,901)	(1,258)	(28,159)
At 1 January 2015	(26,901)	(1,258)	(28,159)
Charge for the year	(4,401)	(482)	(4,883)
At 31 December 2015	(31,302)	(1,740)	(33,042)
Net book value:			
At 31 December 2015	44,705	3,158	47,863
At 31 December 2014	49,106	2,730	51,836

The amortisation charge for the year is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

15 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:

	2015		2014	
	Present value of the minimum lease payments	**Gross investment**	**Present value of the minimum lease payments**	**Gross Investment**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	2,117	2,245	2,117	2,245
After 1 year but within 2 years	1,899	2,245	1,898	2,245
After 2 years but within 5 years	4,056	5,730	4,603	6,734
After 5 years	4,683	10,674	5,035	11,915
	10,638	18,649	11,536	20,894
Total	12,755	20,894	13,653	23,139
Less: total future interest income		(8,139)		(9,486)
Present value of lease receivables		12,755		13,653

16 INTEREST IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. All the subsidiaries are unlisted companies and the class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and business	Issued and paid up capital	Ownership interest held by		Principal activity
			Company	Subsidiary	
Yingde Gases Investment Limited ("Yingde BVI")	BVI	USD14,700	100%	—	Investment holding
Yingde Gases (Hong Kong) Company Limited	Hong Kong	HKD154,234,275	—	100%	Investment holding
Yingde Investment (Shanghai) Co., Ltd.*	PRC	USD148,000,000	—	100%	Investment holding
Anyang Yingde Gases Co., Ltd.*	PRC	USD62,500,000	—	100%	Production and sales of industrial gases
Baotou Yingde Gases Co., Ltd.*	PRC	RMB520,000,000	—	100%	Production and sales of industrial gases
Hancheng Yingda Gases Co., Ltd.*	PRC	USD26,400,000	—	100%	Production and sales of industrial gases
Hanzhong Yingde Gases Co., Ltd.*	PRC	USD33,000,000	—	100%	Production and sales of industrial gases
Hebei Yingde Gases Co., Ltd.**	PRC	RMB282,000,000	—	100%	Production and sales of industrial gases
Huai'an Yingda Gases Co., Ltd.**	PRC	RMB64,000,000	—	100%	Production and sales of industrial gases
Hunan Yingde Gases Co., Ltd. ("Hunan Yingde")*	PRC	RMB306,338,878	—	100%	Production and sales of industrial gases

Name of company	Place of incorporation/ establishment and business	Issued and paid up capital	Ownership interest held by Company	Ownership interest held by Subsidiary	Principal activity
Laiwu Yingde Gases Co., Ltd.*	PRC	USD10,049,964	—	100%	Production and sales of industrial gases
Rizhao Yingde Gases Co., Ltd.**	PRC	RMB419,400,000	—	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
Zhangjiagang Yingding Gases Co., Ltd.*	PRC	USD60,000,000	—	100%	Production and sales of industrial gases
Zhuhai Yingde Gases Co., Ltd.**	PRC	RMB260,000,000	—	100%	Production and sales of industrial gases
Karamay Yingde Gases Co., Ltd.*	PRC	USD33,200,000	—	100%	Under construction
Shijiazhuang Yingding Gases Co., Ltd.**	PRC	USD42,369,741	—	100%	Under construction

* These companies were registered as wholly-foreign-invested enterprises under the law of the People's Republic of China.

** These companies were registered as sino-foreign equity joint venture enterprises under the law of the People's Republic of China.

The following table lists out the information relating to the subsidiaries of the Group which have non-controlling interests (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2015	2014
	RMB'000	*RMB'000*
Current assets	349,797	128,481
Non-current assets	386,096	433,141
Current liabilities	(188,029)	(142,776)
Non-current liabilities	(94,375)	(32,250)
Net assets	453,489	386,596
Carrying amount of NCI	170,928	107,891
Revenue	100,585	133,341
(Loss)/profit for the year	(15,114)	30,800
Total comprehensive income for the year	(15,114)	30,800
(Loss)/profit allocated to NCI	(3,236)	8,257
Dividend paid to NCI	—	—
Cash inflows from operating activities	17,024	11,640
Cash outflows from investing activities	(271,900)	(531)
Cash inflows/(outflows) from financing activities	243,680	(68,442)

17 INTEREST IN ASSOCIATES

	2015	2014
	RMB'000	*RMB'000*
Share of net assets	518,671	483,731

The following list contains the particulars of associates of the Group as at 31 December 2015, all of which are unlisted incorporated enterprises and established in the PRC:

Name of associate	**Place of incorporation and operation**	**Particulars of issued and paid up capital** *RMB'000*	**The Group's effective interest**	**Principal activity**
Anyang Zhongying Fertilizer Co., Ltd. ("Anyang Zhongying")	PRC	490,000	39%	Production and sales of chemical products
Gansu Hongsheng New Energy Co., Ltd. ("Gansu Hongsheng")	PRC	666,670	45%	Under construction of chemical plant
China National Air Separation Plant Co., Ltd.	PRC	50,000	30%	Manufacturing and sales of air separation equipment

All of the above associates are accounted for using the equity method in the consolidated financial statements.

The summarised financial information of Gansu Hongsheng, the Group's material associate, which is accounted for using the equity method, is as follows:

	Gansu Hongsheng	
	2015	**2014**
	RMB'000	*RMB'000*
Gross amounts of the associate's		
Current assets	663,370	661,813
Non-current assets	7,529	11,268
Current liabilities	(9)	(724)
Equity	670,890	672,357
Revenue	—	—
(Loss)/profit for the year	(1,467)	2,985
Total comprehensive income for the year	(1,467)	2,985
Dividend received from the associate	—	—
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	670,890	672,357
Group's effective interest	45%	45%
Group's share of net assets of the associate	301,901	302,561
Carrying amount in the consolidated financial statements	301,901	302,561

The summarised financial information, in aggregate of individually immaterial associates is as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	216,770	181,170
Aggregate amounts of the Group's share of those associates'		
Profit/(loss) for the year	14,541	(11,463)
Total comprehensive income for the year	14,541	(11,463)

18 INTEREST IN JOINT VENTURES

	2015	2014
	RMB'000	*RMB'000*
Share of net assets	263,694	268,561

Details of the Group's interest in the joint ventures, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint ventures	Place of incorporation and operation	Particulars of issued and paid up capital	The Group's effective interest	Principal activity
Shandong Bositeng Chunye Co., Ltd.	PRC	USD47,025,000	40%	Under construction of chemical plant
Cangzhou Xuyang Chemical Co., Ltd. ("Cangzhou Xuyang")	PRC	USD107,985,000	36%	Under construction of chemical plant
Jiujiang Sinopec Yingde Gases Co., Ltd. ("Jiujiang Yingde")	PRC	RMB142,857,000	35%	Under construction of industrial gases production plant

The summarised financial information, in aggregate of individually immaterial joint ventures is as follows:

	2015	2014
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	263,694	268,561
Aggregate amounts of the Group's share of those joint ventures'		
Loss for the year	(1,087)	(1,062)
Total comprehensive income for the year	(1,087)	(1,062)

19 OTHER NON-CURRENT ASSETS

	2015	2014
	RMB'000	*RMB'000*
Prepayment for property, plant and equipment and land use right		
— an associate	52,007	52,007
— third parties	690,810	760,170
Value-added tax recoverable	153,701	191,184
Other investment in equity securities	174,727	174,727
Long-term deferred expenses	10,541	10,908
	1,081,786	1,188,996

20 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2015	2014
	RMB'000	*RMB'000*
Raw materials and consumables	69,683	61,850
Finished goods	32,739	35,908
	102,422	97,758

During the year ended 31 December 2015, the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss and other comprehensive income is RMB5,392,816,000 (2014: RMB5,298,879,000).

21 TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables		
— a joint venture	55,952	132,799
— an associate	261,821	277,098
— third parties	1,601,892	1,282,601
Bills receivable	685,139	415,932
Less: allowance for doubtful debts	(376,809)	(233,232)
	2,227,995	1,875,198
Deposits and other receivables		
— an associate	25,000	—
— third parties	429,869	969,407
	454,869	969,407
	2,682,864	2,844,605

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.

At 31 December 2015, certain of the Group's trade receivables with total carrying amount of RMB67,132,000 (2014: RMB35,567,000) were pledged to secure the Group's borrowing amounted to RMB469,087,000 (2014: RMB275,229,000).

(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 year end date:

	2015	**2014**
	RMB'000	*RMB'000*
Neither past due nor impaired	1,313,194	1,038,468
Less than 1 month past due	134,947	152,162
1 to 3 months past due	215,131	213,558
3 to 6 months past due	259,033	194,747
6 to 12 months past due	226,809	256,263
12 to 24 months past due	78,881	20,000
Amounts past due	914,801	836,730
	2,227,995	1,875,198

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 33(b).

(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(k)(i)).

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

	2015	**2014**
	RMB'000	*RMB'000*
At 1 January	233,232	60,839
Impairment loss recognised	151,687	186,069
Write-back of impairment loss	(8,110)	(10,585)
Uncollectible amounts written off	—	(3,091)
At 31 December	376,809	233,232

At 31 December 2015, the Group's trade debtors of RMB1,102,877,000 (2014: RMB594,461,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB143,577,000 (2014: RMB175,484,000) were recognised during the year.

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.

22 PLEDGED BANK DEPOSITS

At 31 December 2015, certain bank deposits were pledged to secure credit and loan facilities granted to the Group.

23 CASH AND CASH EQUIVALENTS

	2015	**2014**
	RMB'000	*RMB'000*
Cash at bank and in hand	678,450	606,359

The Group's cash and bank balances in the PRC included RMB485,185,000 at 31 December 2015 (2014: RMB314,307,000). 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.

24 BORROWINGS

(a) **The borrowings comprise:**

	2015	**2014**
	RMB'000	*RMB'000*
Short-term borrowings	709,676	205,000
Current portion of long-term borrowings	893,662	1,516,138
	1,603,338	1,721,138
Non-current portion of long-term borrowings	8,060,162	7,379,592
	9,663,500	9,100,730

The interest rates per annum of borrowings were:

	2015	2014
Short-term loans	1.93%-6.9%	5.9%-6.9%
Long-term loans	LIBOR+2.75%-5%, HIBOR+3.2% or 4.75%-6.88%	LIBOR+2.75%-6.0%, HIBOR+3.2% or 6.15%-7.68%
Medium-term notes	5.5%	5.5%
Senior notes	7.25%/8.125%	7.25%/8.125%
Convertible notes and warrants	N/A	15.29%
Corporate bonds	5.48%	N/A

Interest rates comprise fixed rates, floating rates based on the London Interbank Offered Rate ("LIBOR") and the Hong Kong Interbank Offered Rate ("HIBOR").

(b) **The borrowings were repayable as follows:**

	2015	2014
	RMB'000	*RMB'000*
On demand (Note)	85,066	188,802
Within 1 year	1,518,272	1,532,336
After 1 year but within 2 years	1,312,731	1,015,545
After 2 years but within 5 years	6,747,431	6,274,047
After 5 years	—	90,000
	9,663,500	9,100,730

Note: Certain borrowings of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down borrowing balances would become payable on demand. As at 31 December 2015, none of the covenants relating to borrowings had been breached.

The amount of repayable on demand as at 31 December is the amount entitled to be repaid on demand as requested by bank in accordance with terms of the loan contracts.

(c) **The borrowings were secured as follows:**

	2015	**2014**
	RMB'000	*RMB'000*
Bank loans		
— secured	897,962	1,588,139
— unsecured	2,560,516	2,258,253
Other loans (Note (e))		
— secured	100,000	—
— unsecured	91,500	148,500
Medium-term notes		
— unsecured	877,519	877,470
Senior notes (Note (f))		
— unsecured	4,181,112	4,086,372
Convertible notes and warrants (Note (g))		
— unsecured	178	141,996
Corporate bonds (Note (h))		
— unsecured	954,713	—
	9,663,500	9,100,730

(d) **The carrying value of assets secured for borrowings were as follows:**

	2015	**2014**
	RMB'000	*RMB'000*
Property, plant and equipment	2,351,237	1,722,532
Construction in progress	93,833	381,206
Lease prepayments	67,711	104,430
Trade and other receivables	67,132	35,567
	2,579,913	2,243,735

(e) **Other loans:**

In 2015, Anqing Yingde Gases Co., Ltd. ("Anqing Yingde"), a subsidiary of the Group, borrowed entrust loan of RMB100,000,000 from its non-controlling shareholder at interest of 6.04% per annum, and will be due in 2016. As at 31 December 2015, the borrowing was secured by a charge over the Group's shares of Anqing Yingde.

In 2013, Zhangjiagang Yingding Gases Co., Ltd. ("Zhangjiagang Yingding"), a subsidiary of the Group, borrowed loan of RMB200,000,000 from a third party trust company at interest of 5.75% per annum, and will be due in 2018.

(f) **Senior notes:**

Yingde BVI issued senior notes with amount of USD425,000,000 in 2013 (the "Senior Notes I") and USD250,000,000 in 2014 (the "Senior Notes II", together the "Senior Notes"), respectively.

The Senior Notes I bear interest at 8.125% per annum, payable semi-annually in arrears, and will be due in 2018. USD150,000,000 would be used for capital expenditure and general corporate purposes and the remaining balance to refinance certain existing indebtedness.

The Senior Notes II bear interest at 7.25% per annum, payable semi-annually in arrears, and will be due in 2020. USD100,000,000 would be used for capital expenditure, USD100,000,000 to refinance certain existing indebtedness and the remaining balance for working capital and general corporate purposes.

In 2015, the Group repurchased the Senior Notes I of USD4,000,000 (approximately RMB25,310,000) and the Senior Notes II of USD22,000,000 (approximately RMB137,032,000) at an aggregate consideration of USD22,889,000 (approximately RMB142,774,000), and the gain of RMB19,568,000 on repurchase was recognised in other income.

As at 31 December 2015, the Senior Notes I and Senior Notes II were respectively guaranteed by the Company and 5 subsidiaries, and the Company and 9 subsidiaries of the Company registered in Hong Kong and the BVI. The guarantee will be released upon the full and final payments of the Senior Notes respectively.

The Senior Notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Group, as are commonly found in issue of corporate bonds. The Group regularly monitors its compliance with these covenants. As at 31 December 2015, none of the covenants relating to the Senior Notes had been breached.

(g) **Convertible notes and warrants:**

On 24 November 2013, the Company and China Development Bank International Investment Ltd. ("CDB International") entered into an investment agreement whereby the Company agreed to issue and CDB International agreed to subscribe for (i) the principal amount of USD25,000,000 (approximately equivalent to RMB153,312,500) 8% coupon convertible notes, which could convert to approximately 22,024,148 shares, due 2015; and (ii) at nil consideration, 18,953,853 warrants exercisable to purchase ordinary shares of USD0.000001 each in the capital of the Company, due 2016. The above convertible notes and warrants were issued on 2 December 2013.

As at 31 December 2015, the convertible notes were mature and no share was converted.

(h) **Corporate bonds:**

On 13 October 2015, Hunan Yingde issued corporate bonds with amount of RMB980,000,000 in the PRC being traded on the Shanghai Stock Exchange.

The corporate bonds bear interest at 5.48% per annum, payable annually in arrears and will be due in 2020 with issuer's option to adjust the nominal interest rate and the bondholders' right to request the issuer to redeem the corporate bonds at the end of the third interest accruing year. The proceeds would be used to supplement working capital, repay existing bank borrowings and invest in the construction of projects.

25 TRADE AND OTHER PAYABLES

	2015	**2014**
	RMB'000	*RMB'000*
Within 1 month	142,806	350,176
Over 1 month but within 3 months	277,022	174,666
Over 3 months but within 6 months	189,758	52,991
Over 6 months but within 12 months	1,111	32,636
Total trade and bills payable	610,697	610,469
Payable for property, plant and equipment		
— third parties	965,377	1,038,637
— a non-controlling shareholder	10,359	10,565
Amount due to an associate (Note (ii))	270,000	270,000
Amount due to a joint venture (Note (ii))	93,528	93,528
Advance from a non-controlling shareholder (Note (iii))	4,394	3,762
Accrued expenses and other payables	331,153	394,245
Derivative financial instruments	—	1,075
	2,285,508	2,422,281

Notes:

(i) All the trade and other payables are expected to be settled within one year or repayable on demand.

(ii) The amounts due to an associate and a joint venture are unsecured, interest free and have no fixed term of repayable.

(iii) The amount due to a non-controlling shareholder is unsecured, bearing interest at 8.32% per annum and repayable from 2016 to 2019.

26 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2015, the Group had obligations under finance lease repayable as follows:

	2015		2014	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	190,241	196,059	324,110	333,657
After 1 year but within 2 years	179,513	195,959	206,422	225,690
After 2 years but within 5 years	33,282	40,377	131,982	158,013
After 5 years	12,060	25,983	12,890	28,718
	224,855	262,319	351,294	412,421
Total	415,096	458,378	675,404	746,078
Less: total future interest income		(43,282)		(70,674)
Present value of lease obligations		415,096		675,404

27 OTHER NON-CURRENT LIABILITIES

	2015	2014
	RMB'000	*RMB'000*
Advance from a non-controlling shareholder	11,288	11,288
Deferred revenue	42,088	38,911
Others	—	1,000
	53,376	51,199

28 SHARE SCHEMES

(a) Share option scheme

On 16 October 2014, the Company granted in aggregate 1,225,000 share options to certain directors, subject to their acceptance, for the subscription of 1,225,000 ordinary shares under the Company's share option scheme adopted on 12 September 2009. The validity period of the share options is from 16 October 2014 to 15 October 2019 and the exercise price is HKD6.62.

On 20 November 2015, the Company additionally granted in aggregate 2,607,500 share options to certain directors, subject to their acceptance, for the subscription of 2,607,500 ordinary shares under the Company's share option scheme adopted on 12 September 2009. The validity period of the share options is from 20 November 2015 to 19 November 2020 and the exercise price is HKD3.35.

No minimum period for which the option must be held before it can be exercised. No share options were exercised during the year ended 31 December 2015.

The fair value of the share option granted to the directors is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the shares were granted.

(b) Share allotment scheme

Pursuant to the Company's board resolution dated 8 July 2013 ("Adoption Date"), the Company adopted a share allotment scheme ("Share Allotment Scheme") to recognise the contributions by certain employees and to give incentives for them to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders, and to attract high caliber personnel for further development of the Group. On the same date, the Company entered into a trust deed with KCS Trust Limited ("Trustee") for the Share Allotment Scheme.

In October 2013, in accordance with the terms and conditions of the Share Allotment Scheme, the Company lent loans of HKD158,878,000 (approximately equivalent to RMB125,974,000) and allotted 22,600,000 shares to the Trustee at an issue price of HKD7.03 per share (represents a discount of approximately 5% to the average closing price of the share for the last 30 trading days prior to the determination of issue price). The Trustee subscribed the shares allotted on behalf of the trust and settled the subscription amount out of the loans from the Company accordingly. The shares allotted represent approximately 1.24% of the total issued share capital of the Company immediately upon the completion of the allotment. The Trustee will hold the shares allotted in trust for those selected employees of mid-and-senior-level management of the Company ("Participating Employees") until such shares allotted are vested.

During 2014, two Participating Employees resigned from the Group, and their entitled allotted shares (200,000 shares in aggregate) were sold to the open market at market price.

At 1 January 2015, a total of 22,400,000 allotted shares were held by the Trustee for the purpose of satisfying the shares allotted to the existing Participating Employees pursuant to the Share Allotment Scheme.

In order to allot shares at a lower price to the exiting Participating Employees to appreciate their long services to the Company as well as to offer an opportunity for some of the Company's new employees to participate in the Share Allotment Scheme, pursuant to the Company's board resolution dated 13 April 2015, the board approved to issue and allot up to 36,000,000 new shares to replace the above allotment made in 2013. The Company lent loans of HKD201,240,000 (approximately RMB159,402,000) and allotted 36,000,000 new shares to the Trustee at an issue price of HKD5.59 per share (represents a discount of approximately 1.9% to the average closing price of the share for the last 30 trading days prior to the determination of the number of shares to be allotted) on 28 April 2015. The Trustee subscribed the shares allotted on behalf of the trust and settled the subscription amount out of the loans from the Company accordingly.

Subsequently, pursuant to the Company's board resolution dated 7 December 2015, the board approved to issue and allot up to 39,000,000 new shares to replace the allotment made in April 2015. The Company lent loans of HKD129,480,000 (approximately RMB106,857,000) and allotted 39,000,000 new shares to the Trustee at an issue price of HKD3.32 per share (represents a discount of approximately 0.8% to the average closing price of the share for the last 30 trading days prior to the determination of the number of shares to be allotted) on 28 December 2015. The Trustee subscribed the shares allotted on behalf of the trust and settled the subscription amount out of the loans from the Company accordingly.

At 31 December 2015, a total of 39,000,000 allotted shares were held by the Trustee for the purpose of satisfying the shares allotted to the existing Participating Employees pursuant to the Share Allotment Scheme.

The shares allotted held by the Trustee shall be fully vested by the Participating Employees on 16 September 2023 provided that the Participating Employees remain at all times after the date of grant till vesting date an employee and subject to the full repayment of the outstanding loan amounts relating to the relevant shares allotted.

The Share Allotment Scheme shall terminate on the thirteenth anniversary date of the Adoption Date.

The Company accounts for the fair value of the shares allotted as an expense over the period from the allotment date to 16 September 2023 with a corresponding increase in equity. The shares allotted are treated as treasury shares and no loan receivable from the Trustee is recognised until vesting of the Share Allotment Scheme.

(i) The number of shares allotted are as follows:

	2015	2014
Outstanding at the beginning of the year	22,400,000	22,600,000
Issued during the year	75,000,000	—
Forfeited/cancelled during the year	(58,400,000)	(200,000)
Outstanding at the end of the year	39,000,000	22,400,000
Exercisable at the end of the year	—	—

(ii) ***Fair value of shares allotted***

The fair value of services received in return for shares allotted is measured by reference to the fair value of shares allotted. The estimate of the fair value of the shares allotted is measured based on a binomial option pricing model. The contractual life of the Share Allotment Scheme is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

Fair value of shares allotted and assumptions		**2015**	**2014**
Fair value at measurement date	RMB	1.95	1.51
Share price at measurement date	RMB	3.42	4.30
Exercise price	RMB	2.74	6.52
Volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)		39.13%	35.75%
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	Year	8	9
Risk-free interest rate (based on Exchange Fund Notes)		1.64%	1.79%

The volatility is based on the historic volatility (calculated based on the weighted average remaining life of the Share Allotment Scheme), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Shares allotted were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the Share Allotment Scheme.

29 SHARE CAPITAL

	2015		2014	
	Number of shares	Amount	Number of shares	Amount
	RMB'000	RMB'000		
Authorised:				
Ordinary shares of USD0.000001 each	50,000,000,000		50,000,000,000	
Issued and fully paid	1,793,173,500	12	1,793,173,500	12
Shares repurchased but not yet cancelled	—	—	4,161,500	—
Shares issued and replaced under Share Allotment Scheme (Note 28(b))	58,400,000	—	—	—
Shares issued under Share Allotment Scheme (Note 28(b))	39,000,000	—	22,400,000	—
	1,890,573,500	12	1,819,735,000	12

30 RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity 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	Share premium	Other reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	12	2,983,818	1,829	(949,351)	2,036,308
Total loss for the year	—	—	—	(21,027)	(21,027)
Dividends approved in respect of the previous year	—	—	—	(329,297)	(329,297)
Effect on Share Allotment Scheme	—	—	7,490	—	7,490
Purchase of own shares	—	(64,010)	—	—	(64,010)
At 31 December 2014	12	2,919,808	9,319	(1,299,675)	1,629,464

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2015	12	2,919,808	9,319	(1,299,675)	1,629,464
Total loss for the year	—	—	—	(105,255)	(105,255)
Dividends approved in respect of the previous year	—	—	—	(369,867)	(369,867)
Interim dividends approved in respect of the current interim period	—	—	—	(111,094)	(111,094)
Effect on share schemes	—	—	17,325	—	17,325
At 31 December 2015	12	2,919,808	26,644	(1,885,891)	1,060,573

Details of movements of the Company's share capital are set out in Note 29.

(b) **Dividends**

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2015 *RMB'000*	**2014** *RMB'000*
Interim dividend declared and paid of RMB0.06 per ordinary share (2014: nil)	111,094	—
Final dividend proposed after the end of the reporting period of RMB0.14 (2014: RMB0.20) per ordinary share	264,680	363,947
	375,774	363,947

The final dividend proposed after the end of the reporting period date has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2015	2014
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.20 (2014: RMB0.18) per ordinary share	369,867	329,297

(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) **Other reserve**

Other reserve mainly included the difference between the carrying value of non-controlling interest previously acquired and the consideration paid, the amount recognised within equity in respect of conversion of loan in prior years, and the fair value effect recognised for share schemes.

(f) **Distributability of reserves**

At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,060,561,000 (2014: RMB1,629,452,000).

(g) **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.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and obligations under finance leases) plus accrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2015, the Group's strategy, which was unchanged from 2014, was to maintain the adjusted net debt-to-capital at reasonable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raised new debt financing or sell assets to reduce debt.

The adjusted net debt-to-capital ratio of the Group at 31 December 2015 and 2014 was as follows:

	Note	**2015** *RMB'000*	**2014** *RMB'000*
Current liabilities:			
Borrowings	24	1,603,338	1,721,138
Amount due to an associate	25	270,000	270,000
Amount due to a joint venture	25	93,528	93,528
Advance from a non-controlling shareholder	25	4,394	3,762
Obligations under finance leases	26	190,241	324,110
		2,161,501	2,412,538
Non-current liabilities:			
Borrowings	24	8,060,162	7,379,592
Advance from a non-controlling shareholder	27	11,288	11,288
Obligations under finance leases	26	224,855	351,294
Total debt		10,457,806	10,154,712
Add: proposed dividends	30(b)	264,680	363,947
Less: cash and cash equivalents	23	(678,450)	(606,359)
Adjusted net debt		10,044,036	9,912,300
Total equity		6,878,592	6,743,523
Less: proposed dividends		(264,680)	(363,947)
Adjusted capital		6,613,912	6,379,576
Adjusted net debt-to-capital ratio		152%	155%

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

31 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 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2015	2014
	RMB'000	*RMB'000*
Short-term employee benefits	11,946	12,555
Post-employment benefits	93	26
Expenses of share schemes	1,331	557
	13,370	13,138

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Transactions with associates, joint ventures and non-controlling shareholders of the Group

During the year ended 31 December 2015, the Group had the following transactions with associates, joint ventures and non-controlling shareholders:

	2015	2014
	RMB'000	*RMB'000*
Advance to associates (net)	25,000	5,814
Sales to an associate	(316,321)	(264,695)
Sales to joint ventures	(74,798)	(92,543)
Purchases from a non-controlling shareholder	2,011	19,104
Interest expenses related to advance from a non-controlling shareholder	(1,252)	(1,252)
Loan received from a non-controlling shareholder	(100,000)	—

As at 31 December 2015, amounts due from/(to) associates, joint ventures and non-controlling shareholders:

	Note	2015 RMB'000	2014 RMB'000
Trade and other receivables			
Trade receivables from a joint venture	21	55,952	132,799
Trade receivables from an associate	21	261,821	277,098
Amount due from an associate	21	25,000	—
Other non-current assets			
Prepayment for property, plant and equipment to an associate	19	52,007	52,007
Borrowings			
Loan from a non-controlling shareholder	24	(100,000)	—
Trade and other payables			
Amount due to an associate	25	(270,000)	(270,000)
Amount due to a joint venture	25	(93,528)	(93,528)
Advance from a non-controlling shareholder	25	(4,394)	(3,762)
Payable for property, plant and equipment to a non-controlling shareholder	25	(10,359)	(10,565)
Other non-current liabilities			
Advance from a non-controlling shareholder	27	(11,288)	(11,288)

32 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At 31 December 2015, the Group had capital commitments for acquisition and construction of property, plant and equipment as follows:

	2015 RMB'000	2014 RMB'000
Authorised and contracted for	1,272,965	2,532,777
Authorised but not contracted for	6,846,008	7,671,128
	8,118,973	10,203,905

(b) **Operating lease commitments**

At 31 December 2015, the Group's total future minimum lease payments under non-cancellable operating leases in respect of land and properties, are payable as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Within 1 year	16,358	17,574
After 1 year but within 5 years	23,217	27,677
After 5 years	37,551	39,835
	77,126	85,086

None of the leases includes contingent rentals.

(c) **Contingent liabilities**

The Group had no material contingent liabilities at 31 December 2015 and 2014.

(d) **Legal contingencies**

The Group is the defendant in certain lawsuit as well as the plaintiff in other proceedings arising in the ordinary course of business. In particular, the Group received arbitration complaint by customers for gas supply arrangements in the amount of RMB378,675,000 in aggregate. The claims were still in progress and no final rulings were made as at 31 December 2015. Based on the legal opinions of the Group's PRC lawyer, the directors consider the claims are groundless or without merit and no provision is necessary. While the outcomes of such contingencies, lawsuit or other proceedings cannot be estimated at present, the directors believe that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to liquidity, credit, 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) **Liquidity risk**

As at 31 December 2015, the Group's current liabilities exceeded its current assets by RMB481,044,000.

In 2016 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditures.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2016. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loan finance which may impact the operations of the Group during the next twelve-month period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

				2015			
	Carrying amount	**Total contractual undiscounted cash flow**	**On demand**	**Within 1 year**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	9,663,322	11,214,066	85,066	2,065,474	1,814,037	7,249,489	—
Trade and other payables	2,285,508	2,285,508	—	2,285,508	—	—	—
Obligations under finance lease	415,096	458,378	—	196,059	195,959	40,377	25,983
	12,363,926	13,957,952	85,066	4,547,041	2,009,996	7,289,866	25,983

	2014						
	Carrying amount	Total contractual undiscounted cash flow	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	9,098,462	10,686,612	188,802	1,990,157	1,511,608	6,900,529	95,516
Trade and other payables	2,422,281	2,422,281	—	2,422,281	—	—	—
Obligations under finance lease	675,404	746,078	—	333,657	225,690	158,013	28,718
	12,196,147	13,854,971	188,802	4,746,095	1,737,298	7,058,542	124,234

(b) **Credit risk and concentration risk**

The Group's credit risk is primarily attributable to trade and other receivables. The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 30 to 45 days from the date of billing. Moreover, extended credit terms are granted to certain on-site customers depending on the credit assessment carried out by the management on an individual basis.

Significant amounts of revenue are derived from a limited number of on-site customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2015, 26% (2014: 18%) of the total trade and bills receivables were due from the Group's five largest customers. The Group maintains stable business relationships with these large customers and generally has no significant credit risk with these customers. Trade receivables are 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 statement of financial position.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 21.

The Group does not provide any guarantees which would expose the Group to credit risk.

(c) **Interest rate risk**

The Group's interest rate risks arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

As at 31 December 2015, RMB2,740,302,000 (31 December 2014: RMB3,610,192,000) of borrowings from banks by the Group were issued with variable interest rate, which were as 27.2% (31 December 2014: 36.9%) of the Group's total borrowings (including finance lease liabilities and borrowings). Details of the interest rate profile of the borrowings are disclosed in Note 24.

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB23,276,000 (2014: RMB24,592,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. The analysis is performed on the same basis for 2014.

(d) **Currency 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 and financial liabilities 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.

(i) ***Exposure to currency risk***

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the end of the reporting date.

	Exposure to foreign currencies (expressed in RMB)					
	2015			2014		
	United States Dollars	Euros	Hong Kong Dollars	United States Dollars	Euros	Hong Kong Dollars
	'000	*'000*	*'000*	*'000*	*'000*	*'000*
Cash and cash equivalents	159,803	31	24,989	118,681	—	109,812
Borrowings	(5,325,596)	—	(749,398)	(4,761,057)	(110,610)	(923,235)
Trade and other payables	(16,349)	(13,772)	(10,275)	(118,208)	(20,167)	(40,260)
Gross exposure arising from recognised assets and liabilities	(5,182,142)	(13,741)	(734,684)	(4,760,584)	(130,777)	(853,683)

(ii) ***Sensitivity analysis***

A 5% strengthening of Renminbi against the respective foreign currencies at the respective reporting period end dates would increase profit after tax and retained earnings by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2015	2014
	RMB'000	*RMB'000*
Effect on profit after tax and retained earnings	294,112	282,189

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(e) **Fair values**

(i) ***Financial assets and liabilities measured at fair value***

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has appointed a third party performing valuations for warrants which are categorised into Level 3. Valuation reports with analysis of changes in fair value measurement are prepared by the Group or a third party at each interim and annual reporting date, and are reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

During the years ended 31 December 2014 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Information about Level 3 fair value measurements

The fair value of warrants are determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is volatility. The fair value measurement is positively correlated to the volatility. As at 31 December 2015, the volatilities used in the valuations is 39.13%, and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the volatility would have decreased/increased the Group's profit by RMB422,000/RMB155,000.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2015	2014
	RMB'000	*RMB'000*
Conversion option embedded in convertible notes and warrants:		
At 1 January	2,268	1,972
Changes in fair value recognised in profit or loss during the year	(2,090)	296
At 31 December	178	2,268
Total (gain)/loss for the year included in profit or loss for liabilities carried at the end of the year	(2,090)	296

(ii) ***Fair value of financial assets and liabilities carried at other than fair value***

In respect of cash and cash equivalents, pledged bank deposits, trade and other receivables, current portion of receivables/obligations under finance lease, current portion of long-term borrowings, short-term borrowings, 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 borrowings, receivables/obligations under finance lease and long-term receivables, the carrying amounts are not materially different from their fair values at 31 December 2015 and 2014. The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

Unlisted investments for which their fair values cannot be reliably measured are stated at cost less impairment losses.

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015 *RMB'000*	2014 *RMB'000*
Non-current assets			
Property, plant and equipment, net		72	368
Interest in subsidiaries		4,338,345	4,326,269
Total non-current assets		4,338,417	4,326,637
Current assets			
Other receivables		825	1,148
Cash and cash equivalents		14,293	9,893
Total current assets		15,118	11,041
Current liabilities			
Borrowings		185,354	141,996
Other payables		2,474,971	2,566,218
Total current liabilities		2,660,325	2,708,214
Net current liabilities		(2,645,207)	(2,697,173)
Total assets less current liabilities		1,693,210	1,629,464
Non-current liabilities			
Borrowings		632,637	—
Total non-current liabilities		632,637	—
Net assets		1,060,573	1,629,464
Equity	30(a)		
Share capital		12	12
Reserves		1,060,561	1,629,452
Total equity		1,060,573	1,629,464

Approved and authorised for issue by the board of directors on 22 March 2016.

Zhongguo Sun — *Director*

Trevor Raymond Strutt — *Director*

35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 30(b).

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
IFRS 14, *Regulatory deferral accounts*	1 January 2016
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to IAS 16 and IAS 41, *Agriculture: Bearer plants*	1 January 2016
Amendments to IAS 27, *Equity method in separate financial statements*	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: Applying the consolidation exception*	1 January 2016
Amendments to IAS 1, *Disclosure initiative*	1 January 2016
Amendments to IAS 7, *Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes — Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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.

C. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

Set out below is reproduction of the text of the unaudited condensed consolidated financial statements of the Group together with the accompanying notes contained in the interim report of the Group for the six months ended 30 June 2016 (the "**Interim Report**"). Capitalised terms used in this section have the same meanings as those defined in the Interim Report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Six months ended 30 June	
		2016	**2015**
	Note	*RMB'000*	*RMB'000*
Revenue		4,139,636	3,799,346
Cost of sales		(2,869,317)	(2,582,281)
Gross profit		1,270,319	1,217,065
Other income		60,615	13,652
Selling expenses		(73,039)	(105,116)
Administrative expenses		(163,284)	(221,944)
Profit from operations		1,094,611	903,657
Finance costs	5(a)	(443,431)	(306,199)
Share of results of associates and joint ventures		(17,173)	11,136
Profit before taxation	5	634,007	608,594
Income tax	6	(249,766)	(193,663)
Profit and total other comprehensive income for the period		384,241	414,931
Attributable to:			
Equity shareholders of the Company		386,955	416,225
Non-controlling interests		(2,714)	(1,294)
Profit and total other comprehensive income for the period		384,241	414,931
Earnings per share (RMB cents)	7		
Basic		21.6	23.2
Diluted		21.6	23.2

Consolidated Statement of Financial Position

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment, net	8	10,301,704	10,274,282
Construction in progress		3,010,552	3,013,037
Lease prepayments	9	411,885	416,483
Intangible assets		44,459	47,863
Receivables under finance lease		10,148	10,638
Interest in associates and joint ventures	10	769,302	782,365
Other non-current assets	11	1,270,039	1,081,786
Deferred tax assets		145,043	165,006
Total non-current assets		15,963,132	15,791,460
Current assets			
Inventories		128,878	102,422
Trade and other receivables	12	2,466,578	2,682,864
Receivables under finance lease		2,117	2,117
Income tax recoverable		7,097	7,604
Other financial asset		13,220	—
Pledged bank deposits		629,379	309,526
Cash at bank and in hand	13	1,049,583	678,450
Total current assets		4,296,852	3,782,983
Current liabilities			
Borrowings	14	2,786,564	1,603,338
Trade and other payables	15	2,462,776	2,285,508
Obligations under finance lease		187,585	190,241
Income tax payable		197,877	184,940
Total current liabilities		5,634,802	4,264,027
Net current liabilities		(1,337,950)	(481,044)
Total assets less current liabilities		14,625,182	15,310,416

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current liabilities			
Borrowings	14	7,339,947	8,060,162
Obligations under finance lease		140,787	224,855
Other non-current liabilities	16	53,436	53,376
Deferred tax liabilities		87,990	93,431
Total non-current liabilities		7,622,160	8,431,824
Net assets		7,003,022	6,878,592
Capital and reserves			
Share capital	17(b)	12	12
Reserves		6,834,796	6,707,652
Total equity attributable to equity shareholders of the Company		6,834,808	6,707,664
Non-controlling interests		168,214	170,928
Total equity		7,003,022	6,878,592

Consolidated Statement of Changes in Equity

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		12	2,919,808	758,040	(352,045)	3,309,817	6,635,632	107,891	6,743,523
Changes in equity for the six months ended 30 June 2015:									
Profit and total comprehensive income for the period		—	—	—	—	416,225	416,225	(1,294)	414,931
Effect on share schemes		—	—	—	15,085	—	15,085	—	15,085
Dividends approved in respect of the previous year	17(a)	—	—	—	—	(369,867)	(369,867)	—	(369,867)
Balance at 30 June 2015		12	2,919,808	758,040	(336,960)	3,356,175	6,697,075	106,597	6,803,672
Changes in equity for the six months ended 31 December 2015:									
Profit and total comprehensive income for the period		—	—	—	—	119,716	119,716	(1,942)	117,774
Effect on share schemes		—	—	—	2,240	—	2,240	—	2,240
Appropriations		—	—	127,382	—	(127,382)	—	—	—
Interim dividends approved in respect of the current interim period	17(a)	—	—	—	—	(111,094)	(111,094)	—	(111,094)
Capital contribution from a non-controlling shareholder		—	—	—	—	—	—	68,000	68,000
Purchase of non-controlling interests		—	—	—	(273)	—	(273)	(1,727)	(2,000)
Balance at 31 December 2015		12	2,919,808	885,422	(334,993)	3,237,415	6,707,664	170,928	6,878,592

		Attributable to equity shareholders of the Company							
		Share capital	Share premium	Statutory reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016		12	2,919,808	885,422	(334,993)	3,237,415	6,707,664	170,928	6,878,592
Changes in equity for the six months ended 30 June 2016:									
Profit and total comprehensive income for the period		—	—	—	—	386,955	386,955	(2,714)	384,241
Effect on share schemes		—	—	—	4,869	—	4,869	—	4,869
Dividends approved in respect of the previous year	17(a)	—	—	—	—	(264,680)	(264,680)	—	(264,680)
Balance at 30 June 2016		12	2,919,808	885,422	(330,124)	3,359,690	6,834,808	168,214	7,003,022

Condensed Consolidated Statement of Cash Flows

		Six months ended 30 June	
		2016	**2015**
	Note	*RMB'000*	*RMB'000*
Operating activities			
Cash generated from operations		1,202,627	777,612
Income tax paid		(221,799)	(232,164)
Net cash generated from operating activities		980,828	545,448
Investing activities			
Capital expenditure		(243,952)	(509,875)
Other cash flows (used in)/arising from investing activities		(24,183)	413,885
Net cash used in investing activities		(268,135)	(95,990)
Financing activities			
Dividend paid to equity shareholders of the Company	17(a)	(264,680)	(369,867)
Payment for repurchase of senior notes		(207,481)	(39,163)
Other cash flows arising from financing activities		127,450	239,756
Net cash used in financing activities		(344,711)	(169,274)
Net increase in cash and cash equivalents		367,982	280,184
Cash and cash equivalents as at 1 January		678,450	606,359
Effect of foreign exchange rate changes		3,151	(9,031)
Cash and cash equivalents as at 30 June		1,049,583	877,512

Notes to the Unaudited Interim Financial Report

1 CORPORATE INFORMATION

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 design and construction of equipment and the production and sales of industrial gases in the People's Republic of China (the "PRC"). The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 October 2009.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34, *Interim financial reporting*, ("IAS 34") adopted by the International Accounting Standards Board ("IASB"). It was authorised for issue on 9 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

In determining the appropriate basis of preparation of financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditures.

At 30 June 2016, the Group had cash at bank and in hand of RMB1,049,583,000 (31 December 2015: RMB678,450,000); the Group also had net current liabilities of RMB1,337,950,000 (31 December 2015: RMB481,044,000) and total borrowings of RMB10,126,511,000 (31 December 2015: RMB9,663,500,000). The Group regularly monitors 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 requirement in the short and longer term.

The directors have reviewed current performance and cashflow projections as part of their assessment, and after making enquiries and carefully considering the matters described above, the directors have a reasonable expectation that the Group and the Company will be able to meet their liabilities as they fall due and will have adequate resources to continue in operational existence for the foreseeable future.

As a result, the directors have concluded that the combination of these circumstances no longer represents a material uncertainty which may cast significant doubt upon the Company's and the Group's ability to continue as a going concern. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included on pages 13 and 14.

3 NEW AND REVISED IFRSS

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

— *Annual Improvements to IFRSs 2012-2014 Cycle*

— Amendments to IAS1, *Presentation of financial statements: Disclosure initiative*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 SEGMENT REPORTING

The Group is principally engaged in the design and construction of equipment and 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 information to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on borrowings	321,169	339,241
Finance charges on obligations under finance lease	10,694	17,095
Total interest expenses	331,863	356,336
Less: Borrowing costs capitalised	(42,168)	(55,924)
	289,695	300,412
Foreign exchange loss	153,736	5,787
Finance costs	443,431	306,199
Borrowing costs have been capitalised at the following rates:		
Capitalised interest rate (per annum)	2.1%-8.1%	3.1%-8.1%
(b) Other items:		
Utilities		
— Electricity	1,938,952	1,706,865
— Steam	300,831	321,412
Depreciation	418,208	365,885
Amortisation		
— Land lease premium	4,598	3,844
— Intangible assets	3,532	2,433
Staff costs	134,054	173,146
Operating lease charges: minimum lease payment (land and buildings)	11,373	8,133
Net profit on disposal of property, plant and equipment	(2,443)	(879)
Impairment losses recognised on		
— Trade and other receivables	11,192	41,721
— Other non-current assets	—	10,000
Gains on repurchase of senior notes	(36,470)	(3,867)
Gain on forward exchange contract	(13,220)	—

6 INCOME TAX

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
Provision for PRC income tax during the period	235,244	168,649
Deferred tax	14,522	25,014
	249,766	193,663

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 current PRC income tax is based on a statutory rate of 25% (six months ended 30 June 2015: 25%) of the assessable profit as determined in accordance with the relevant income tax rules and regulations of the PRC. In addition, pursuant to the relevant documents issued by the state and local tax bureau of the PRC, certain of the Group's subsidiaries operating in the western developing region of the PRC are granted the preferential tax rate of 15%.

7 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 RMB386,955,000 (six months ended 30 June 2015: RMB416,225,000) and the weighted average of 1,793,173,500 ordinary shares (2015: 1,793,173,500 shares) in issue during the interim period.

(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 the six months ended 30 June 2016 and 30 June 2015.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the additions of property, plant and equipment (including transferred from construction in progress) of the Group amounted to RMB445,822,000 (six months ended 30 June 2015: RMB315,348,000). Items of property, plant and equipment with net book value of RMB5,400,000 were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB9,911,000).

The Group has entered into long-term gas supply agreements with certain customers for periods up to 30 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 carrying amount of such buildings amounted to RMB337,568,000 at 30 June 2016 (31 December 2015: RMB315,668,000).

As at 30 June 2016, the Group was in the process of applying for the ownership certificate for certain buildings with an aggregate net book value amounted to RMB117,002,000 (31 December 2015: RMB68,149,000). 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.

Certain of the Group's leased plant and machinery and construction in progress are considered as being held under finance lease. Net book value of plant and machinery held under finance lease as at 30 June 2016 were RMB1,147,404,000 (31 December 2015: RMB1,155,372,000).

Certain production facilities of the Group were occupied and controlled by its on-site customer without the Group's consent in December 2015. As at 30 June 2016, the net book value of the property, plant and equipment being occupied is amounting to RMB574,849,000 (31 December 2015: RMB548,947,000). In July 2016, the property, plant and equipment with net book value of RMB 537,510,000 was returned to the Group. The Group believes that there will not be any adverse material impact to the Group's financial statements.

9 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC with the carrying amount of RMB411,885,000 as at 30 June 2016 (31 December 2015: RMB416,483,000).

10 INTEREST IN ASSOCIATES AND JOINT VENTURES

	At 30 June 2016	**At 31 December 2015**
	RMB'000	*RMB'000*
Share of net assets	769,302	782,365

The following list contains the particulars of associates and joint ventures, all of which are unlisted incorporated enterprises and established in the PRC:

Name of associates and joint ventures	Place of incorporation and operation	Particulars of issued and paid up capital	The Group's effective interest	Principal activities
Anyang Zhongying Fertilizer Co., Ltd.	PRC	RMB490,000,000	39%	Production and sales of chemical products
Gansu Hongsheng New Energy Co., Ltd.	PRC	RMB666,670,000	45%	Under construction of chemical plant
China National Air Separation Plant Co., Ltd.	PRC	RMB50,000,000	30%	Manufacturing and sales of air separation equipment
Hangzhou Teying Energy Technology Development Co., Ltd.	PRC	RMB8,500,000	34%	Equipment trading and technology service
Shandong Bositeng Chunye Co., Ltd.	PRC	USD47,025,000	40%	Under construction of chemical plant
Cangzhou Xuyang Chemical Co., Ltd.	PRC	USD151,600,000	10%	Under construction of chemical plant
Jiujiang Sinopec Yingde Gases Co., Ltd.	PRC	RMB142,857,000	35%	Production of industrial gases

All of the above associates and joint ventures are accounted for using the equity method in the consolidated financial statements.

11 OTHER NON-CURRENT ASSETS

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Prepayment for property, plant and equipment and property use right		
— an associate	46,507	52,007
— third parties	616,044	690,810
Value-added tax recoverable	155,249	153,701
Other investment in equity securities	174,727	174,727
Long-term receivables	267,154	—
Long-term deferred expenses	10,358	10,541
	1,270,039	1,081,786

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Trade receivables		
— a joint venture	13,219	55,952
— an associate	262,756	261,821
— third parties	1,740,724	1,601,892
Bills receivable	447,269	685,139
Less: Allowance for doubtful debts	(388,001)	(376,809)
	2,075,967	2,227,995
Deposits and other receivables		
— associates	25,004	25,000
— third parties	365,607	429,869
	2,466,578	2,682,864

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Within 1 month	1,186,744	1,448,141
1 to 3 months	163,778	215,131
3 to 6 months	180,935	259,033
6 to 12 months	457,134	226,809
Over 1 year but within 2 years	87,376	78,881
Trade debtors and bills receivable, net of allowance for doubtful debts	2,075,967	2,227,995

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.

13 CASH AT BANK AND IN HAND

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Cash and cash equivalents in the cash flow statement	1,049,583	678,450

14 BORROWINGS

(a) **The borrowings comprise:**

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Short-term borrowings	1,215,423	709,676
Current portion of long-term borrowings	1,571,141	893,662
	2,786,564	1,603,338
Non-current portion of long-term borrowings	7,339,947	8,060,162
	10,126,511	9,663,500

(b) **The borrowings were repayable as follows:**

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
On demand	131,961	85,066
Within 1 year	2,654,603	1,518,272
After 1 year but within 2 years	3,949,188	1,312,731
After 2 years but within 5 years	3,390,759	6,747,431
	10,126,511	9,663,500

(c) **The borrowings were secured as follows:**

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Bank loans		
— secured	749,831	897,962
— unsecured	3,331,405	2,560,516
Other loans		
— secured	100,000	100,000
— unsecured	76,200	91,500
Medium-term notes		
— unsecured	877,543	877,519
Senior notes (Note (e))		
— unsecured	4,034,473	4,181,112
Warrants		
— unsecured	—	178
Corporate bonds		
— unsecured	957,059	954,713
	10,126,511	9,663,500

(d) **The carrying value of assets secured for borrowings were as follows:**

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Property, plant and equipment	2,235,054	2,351,237
Construction in progress	82,009	93,833
Lease prepayments	66,963	67,711
Trade and other receivables	35,939	67,132
	2,419,965	2,579,913

(e) **Senior notes:**

Yingde Gases Investment Limited, a subsidiary of the Company, issued senior notes with amount of USD425,000,000 in 2013 (the "Senior Notes I") and USD250,000,000 in 2014 (the "Senior Notes II", together the "Senior Notes"), respectively.

The Senior Notes I bear interest at 8.125% per annum, payable semi-annually in arrears, and will be due in 2018. USD150,000,000 (approximately RMB934,500,000) would be used for capital expenditure and general corporate purposes and the remaining balance to refinance certain existing indebtedness.

The Senior Notes II bear interest at 7.25% per annum, payable semi-annually in arrears, and will be due in 2020. USD100,000,000 (approximately RMB616,800,000) would be used for capital expenditure, USD100,000,000 (approximately RMB616,800,000) to refinance certain existing indebtedness and the remaining balance for working capital and general corporate purposes.

In 2015, the Group repurchased the Senior Notes I of USD4,000,000 (approximately RMB25,310,000) and the Senior Notes II of USD22,000,000 (approximately RMB137,032,000) at an aggregate consideration of USD22,889,000 (approximately RMB142,774,000), and the gain of RMB19,568,000 on repurchase was recognised in other income.

In 2016, the Group repurchased the Senior Notes I of USD29,830,000 (approximately RMB196,672,000) and the Senior Notes II of USD7,171,000 (approximately RMB47,279,000) at an aggregate consideration of USD31,919,000 (approximately RMB207,481,000), and the gain of RMB36,470,000 on repurchase was recognised in other income.

As at 30 June 2016, the Senior Notes I and Senior Notes II were respectively guaranteed by the Company and 5 subsidiaries, and the Company and 9 subsidiaries of the Company registered in Hong Kong and the BVI. The guarantee will be released upon the full and final payments of the Senior Notes respectively.

15 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Within 1 month	20,356	142,806
1 to 3 months	276,804	277,022
3 to 6 months	489,242	189,758
Over 6 months but within 12 months	5,556	1,111
Total creditors and bills payable	791,958	610,697
Payable for property, plant and equipment		
— third parties	867,748	965,377
— an associate	575	—
— a non-controlling shareholder	10,777	10,359
Amounts due to an associate	270,000	270,000
Amounts due to a joint venture	93,528	93,528
Advance from a non-controlling shareholder	3,920	4,394
Accrued expenses and other payables	424,270	331,153
	2,462,776	2,285,508

16 OTHER NON-CURRENT LIABILITIES

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Advance from a non-controlling shareholder	11,760	11,288
Deferred revenue	41,676	42,088
	53,436	53,376

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) *Dividends payable to equity shareholders attributable to the interim period*

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Interim dividend declared after the interim period of RMB0.139 (2015: RMB0.06) per ordinary share	262,790	111,094

The interim dividend has not been recognised as a liability at the end of the reporting period.

(ii) *Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period*

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year approved and paid during the following interim period, of RMB0.14 (six months ended 30 June 2015: RMB0.20) per ordinary share	264,680	369,867

A final dividend of RMB0.14 per share totalling RMB264,680,000 in respect of the year ended 31 December 2015 was approved at the annual general meeting held on 9 May 2016 and has also been paid in May 2016.

(b) **Share capital**

	At 30 June 2016		At 31 December 2015	
	Number of shares	Amount	Number of shares	Amount
		RMB'000		*RMB'000*
Authorised:				
Ordinary shares of USD0.000001 each	50,000,000,000		50,000,000,000	
Issued and fully paid	1,793,173,500	12	1,793,173,500	12
Shares issued and replaced under Share Allotment Scheme	58,400,000	—	58,400,000	—
Shares issued under Share Allotment Scheme	39,000,000	—	39,000,000	—
	1,890,573,500	12	1,890,573,500	12

18 SHARE SCHEMES

(a) **Share option scheme**

On 16 October 2014, the Company granted in aggregate 1,225,000 share options to certain directors, subject to their acceptance, for the subscription of 1,225,000 ordinary shares under the Company's share option scheme adopted on 12 September 2009. The validity period of the share options is from 16 October 2014 to 15 October 2019 and the exercise price is HKD6.62.

On 20 November 2015, the Company additionally granted in aggregate 2,607,500 share options to certain directors, subject to their acceptance, for the subscription of 2,607,500 ordinary shares under the Company's share option scheme adopted on 12 September 2009. The validity period of the share options is from 20 November 2015 to 19 November 2020 and the exercise price is HKD3.35.

No minimum period for which the option must be held before it can be exercised. No share options were exercised during the six months ended 30 June 2016.

The fair value of the share option granted to the directors is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the shares were granted.

(b) **Share allotment scheme**

Pursuant to the Company's board resolution dated 8 July 2013 ("Adoption Date"), the Company adopted a share allotment scheme ("Share Allotment Scheme") to recognise the contributions by certain employees and to give incentives for them to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders, and to attract high caliber personnel for further development of the Group. On the same date, the Company entered into a trust deed with KCS Trust Limited ("Trustee") for the Share Allotment Scheme.

In October 2013, in accordance with the terms and conditions of the Share Allotment Scheme, the Company lent loans of HKD158,878,000 (approximately equivalent to RMB125,974,000) and allotted 22,600,000 shares to the Trustee at an issue price of HKD7.03 per share (represents a discount of approximately 5% to the average closing price of the share for the last 30 trading days prior to the determination of issue price). The Trustee subscribed the shares allotted on behalf of the trust and settled the subscription amount out of the loans from the Company accordingly. The shares allotted represent approximately 1.24% of the total issued share capital of the Company immediately upon the completion of the allotment. The Trustee will hold the shares allotted in trust for those selected employees of mid-and-senior-level management of the Company ("Participating Employees") until such shares allotted are vested.

During 2014, two Participating Employees resigned from the Group, and their entitled allotted shares (200,000 shares in aggregate) were sold to the open market at market price.

On 1 January 2015, a total of 22,400,000 allotted shares were held by the Trustee for the purpose of satisfying the shares allotted to the existing Participating Employees pursuant to the Share Allotment Scheme.

In order to allot shares at a lower price to the exiting Participating Employees to appreciate their long services to the Company as well as to offer an opportunity for some of the Company's new employees to participate in the Share Allotment Scheme, pursuant to the Company's board resolution dated 13 April 2015, the board approved to issue and allot up to 36,000,000 new shares to replace the above allotment made in 2013. The Company lent loans of HKD201,240,000 (approximately RMB159,402,000) and allotted 36,000,000 new shares to the Trustee at an issue price of HKD5.59 per share (represents a discount of approximately 1.9% to the average closing price of the share for the last 30 trading days prior to the determination of the number of shares to be allotted) on 28 April 2015. The Trustee subscribed the shares allotted on behalf of the trust and settled the subscription amount out of the loans from the Company accordingly.

Subsequently, pursuant to the Company's board resolution dated 7 December 2015, the board approved to issue and allot up to 39,000,000 new shares to replace the allotment made in April 2015. The Company lent loans of HKD129,480,000 (approximately RMB106,857,000) and allotted 39,000,000 new shares to the Trustee at an issue price of HKD3.32 per share (represents a discount of approximately 0.8% to the average closing price of the share for the last 30 trading days prior to the determination of the number of shares to be allotted) on 28 December 2015. The Trustee subscribed the shares allotted on behalf of the trust and settled the subscription amount out of the loans from the Company accordingly.

On 30 June 2016, a total of 39,000,000 allotted shares were held by the Trustee for the purpose of satisfying the shares allotted to the existing Participating Employees pursuant to the Share Allotment Scheme.

The shares allotted held by the Trustee shall be fully vested by the Participating Employees on 16 September 2023 provided that the Participating Employees remain at all times after the date of grant till vesting date an employee and subject to the full repayment of the outstanding loan amounts relating to the relevant shares allotted.

The Share Allotment Scheme shall terminate on the thirteenth anniversary date of the Adoption Date.

The Company accounts for the fair value of the shares allotted as an expense over the period from the allotment date to 16 September 2023 with a corresponding increase in equity. The shares allotted are treated as treasury shares and no loan receivable from the Trustee is recognised until vesting of the Share Allotment Scheme.

(i) ***The number of shares allotted are as follows:***

	Six months ended 30 June 2016 *RMB'000*	**Year ended 31 December 2015** *RMB'000*
Outstanding at the beginning of the period/year	39,000,000	22,400,000
Granted during the period/year	—	75,000,000
Forfeited/cancelled during the period/year	—	(58,400,000)
Outstanding at the end of the period/year	39,000,000	39,000,000

(ii) ***Fair value of shares allotted***

The fair value of services received in return for shares allotted is measured by reference to the fair value of shares allotted. The estimate of the fair value of the shares allotted is measured based on a binomial option pricing model. The contractual life of the Share Allotment Scheme is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

The volatility is based on the historic volatility (calculated based on the weighted average remaining life of the Share Allotment Scheme), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Shares allotted were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the Share Allotment Scheme.

19 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs.

Valuation analysis of changes in fair value measurement are prepared by the Group or a third party at each interim and annual reporting date, and are reviewed and approved by the chief financial officer.

		Fair value measurements as at 30 June 2016 categorised into		
	Fair value at 30 June 2016	**Level 1**	**Level 2**	**Level 3**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Financial asset:				
Derivative financial instrument:				
— Forward exchange contract	13,220	—	13,220	—
Financial liability:				
Derivative financial instrument:				
— Warrants	—	—	—	—

	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Financial asset:				
Derivative financial instrument:				
— Forward exchange contract	—	—	—	—
Financial liability:				
Derivative financial instrument:				
— Warrants	178	—	—	178

During the six months ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) ***Valuation techniques and inputs used in Level 2 fair value measurements***

The fair value of forward exchange contract included in Level 2 is determined by discounting the difference between the contractual exercise price and the market forward price. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period.

(iii) ***Information about Level 3 fair value measurements***

The fair value of warrants is determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is volatility. The fair value measurement is positively correlated to the volatility. As at 30 June 2016, the volatility used in the valuations is 35.29% (31 December 2015: 39.13%) and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the volatility would have decreased/increased the Group's profit by nil.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	At 30 June 2016	**At 30 June 2015**
	RMB'000	*RMB'000*
Warrants:		
At 1 January	178	2,268
Changes in fair value recognised in profit or loss during the period	(178)	(884)
At 30 June	—	1,384
Total gains for the period included in profit or loss for liabilities held at the end of the reporting period	(178)	(884)

(b) **Fair value of financial assets and liabilities carried at other than fair value**

In respect of cash at bank and in hand, pledged bank deposits, trade and other receivables, current portion of receivables/obligations under finance lease, current portion of long-term borrowings, short-term borrowings, 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 borrowings, receivables/obligations under finance lease and long-term receivables, the carrying amounts are not materially different from their fair values at 30 June 2016 and 31 December 2015. The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

Unlisted investments for which their fair values cannot be reliably measured are stated at cost less impairment losses.

20 MATERIAL RELATED PARTY TRANSACTIONS

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
Short-term employee benefits	12,177	10,312
Post-employment benefits	88	94
Expenses of share schemes	936	2,393
	13,201	12,799

Total remuneration is included in "staff costs" (see Note 5(b)).

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 periods presented.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000. Contributions to the plan vest immediately.

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

Transactions with associates and joint ventures of the Group are as follows:

During the six months ended 30 June 2016, the Group had the following transactions with associates and joint ventures:

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
Sales to an associate	(77,500)	(162,574)
Sales to joint ventures	(5,914)	(45,052)
Purchase from an associate	5,500	—
Purchase from a joint venture	296	—

As at 30 June 2016, amounts due from/(to) associates and joint ventures:

		At 30 June 2016	**At 31 December 2015**
	Note	*RMB'000*	*RMB'000*
Trade and other receivables			
Trade receivables from a joint venture	12	13,219	55,952
Trade receivables from an associate	12	262,756	261,821
Amount due from associates	12	25,004	25,000
Other non-current assets			
Prepayment for property, plant and equipment to an associate	11	46,507	52,007
Trade and other payables			
Amount due to an associate	15	(270,000)	(270,000)
Amount due to a joint venture	15	(93,528)	(93,528)
Payable for property, plant and equipment			
Payable to an associate	15	(575)	—

21 COMMITMENTS

(a) Capital commitments

As at 30 June 2016, the Group had capital commitments for acquisition and construction of properties and equipment as follows:

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Authorised and contracted for	1,607,600	1,272,965
Authorised but not contracted for	5,974,552	6,846,008
	7,582,152	8,118,973

(b) Operating lease commitments

As at 30 June 2016, the Group's total future minimum lease payments under non-cancellable operating leases in respect of land and properties, are payable as follows:

	At 30 June 2016	At 31 December 2015
	RMB'000	*RMB'000*
Within 1 year	17,996	16,358
After 1 year but within 5 years	43,727	23,217
After 5 years	65,766	37,551
	127,489	77,126

None of the leases includes contingent rentals.

22 CONTINGENT LIABILITIES

The Group is the defendant in certain lawsuit as well as the plaintiff in other proceedings arising in the ordinary course of business. In particular, the Group received arbitration complaint by customers for gas supply arrangements in the amount of RMB142,163,000 in aggregate. The claims were still in progress and no final rulings were made as at 30 June 2016. Based on the legal opinion of the Group's PRC lawyer, the directors consider the claims are groundless or without merit and no provision is necessary. While the outcomes of such contingencies, lawsuit or other proceedings cannot be estimated at present, the directors believe that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

23 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the board of directors has resolved to declare an interim dividend of RMB0.139 per share for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB0.06). Further details are disclosed in note 17(a).

D. INDEBTEDNESS

As at the close of business on 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Group had unaudited outstanding liabilities of approximately RMB10,723,559,486, comprising borrowings of short-term loans of approximately RMB1,511,456,218, current portion of long-term loans of approximately RMB1,488,724,893, long-term loans of approximately RMB1,319,794,030, medium-term notes of approximately RMB878,588,267, senior notes of approximately RMB4,225,953,134, and corporate bonds of approximately RMB959,476,545, and obligations under finance lease of payables (within one year) of approximately RMB223,674,264 and payables (over one year) of approximately RMB115,892,135.

Save as aforesaid, and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, none of the companies in the Group had any bank overdrafts or loans or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities at the close of business on 31 December 2016.

E. MATERIAL CHANGE

Reference is made to the Profit Warning and Financial Update announcement of the Company dated 23 March 2017. Save as disclosed in that announcement, subject to the uncertainties arising from the changes discussed below, and based on information that is available to the Directors after reasonable enquiry as at the Latest Practicable Date, the Directors are not aware of any other material change to the financial or trading position or outlook of the Company since 31 December 2015, being the date on which the latest published audited consolidated financial statements of the Company were made up.

There have been multiple changes to the composition of the Board and employees of the Company that have impacted the ability of the Directors to provide the confirmation above, including:

- on 5 November 2016, Mr. Zhongguo Sun ("**Mr. Sun**") and Mr. Trevor Raymond Strutt ("**Mr. Strutt**") were purportedly removed from their respective positions as Chairman and Chief Executive Officer and Chief Operating Officer and purportedly re-designated from executive Directors to non-executive Directors, and did not participate in management of the Company, nor were they privy to the operational information about the Company during the period from 5 November 2016 to 8 March 2017.

  Also on 5 November 2016, the Company purportedly (1) appointed Mr. Zhao as Chairman in place of Mr. Sun; (2) appointed Mr. He as Chief Executive Officer and re-designated him from an independent non-executive Director to an executive Director; (3) appointed Mr. Zhang Yunfeng as an executive director and Chief Operating Officer, who, together with Mr. Zhao and Mr. He, were the only executive Directors from 5 November 2016 until 8 March 2017 (collectively the "**Prior Executive Directors**"); and (4) appointed two additional Directors, namely Mr. Suo Yaotang as a non-executive Director and Dr. Feng Ke as an independent non-executive Director (collectively the "**New NEDs**");

- on 8 March 2017, by shareholder resolutions at the two extraordinary general meetings of the Company, (1) all the Prior Executive Directors and the New NEDs were removed from their directorships and executive roles and have departed from the Company; and (2) Mr. Sun and Mr. Strutt were retained as Directors. The appointments of Mr. Sun as Chairman and Chief Executive Officer ("**CEO**") and Mr. Strutt as Chief Operating Officer ("**COO**") were made effective on 12 March 2017 and they were re-designated as executive Directors;

- two current Directors, Mr. Mah Zhihe and Mr. Rawen Zhi Hong Huang have only been appointed to the Board since 8 March 2017 and 12 March 2017, respectively, and have very short tenures on the Board;

- the only two Directors whose tenure and access to the Company have been uninterrupted since 31 December 2015, Mr. Zheng Fuya and Mr. Wang Ching, are independent non-executive Directors who are not involved in the daily operations and do not necessarily possess detailed information relating thereto; and

- finally, after 8 March 2017, the following members of management of the Company have departed from the Company for the corresponding reasons as provided by the executive Directors of the Company:

Name of former employee (and former position in the Group)	**Date of departure**	**Reasons for resignation / dismissal (as the case may be)**	**Date of joining the Group**	**Replacement (where necessary)**
Mr. Zhang Yunfeng (former COO from November 2016 to 9 March 2017)	9 March 2017	Voluntarily resignation (after his removal from directorship in the EGMs)	5 November 2016	Mr. Strutt reassumed the position of COO on 12 March 2017
Mr. Zhang Jianye, (former vice president of the Group, in charge of the financial management office from January 2017 to 13 March 2017)	13 March 2017	Dismissal by the executive Directors due to absence from work without cause	October 2001	Mr. Strutt, the COO, with the assistance of Ms Samantha Wong, as Chief Financial Officer, continued to oversee the Company's financial matters

Name of former employee (and former position in the Group)	Date of departure	Reasons for resignation / dismissal (as the case may be)	Date of joining the Group	Replacement (where necessary)
Mr. Suo Yaotang, (former vice president of the Group, in charge of the marketing and investment management office from January 2017 to 13 March 2017)	13 March 2017	Mr. Suo was removed from his directorship in the EGMs, then dismissed by the executive Directors	Mr. Suo retired in 1999 from another company, then joined the Group from 29 October 2001 as a consultant, before being appointed as Director in November 2016 and being appointed as vice president of the Group on 12 January 2017	Mr. Joseph Zhang (Head of Business Development of the Company) who had been overseeing the relevant areas of work prior to the appointment of Mr Suo in January 2017.
Mr. Li Hai (former vice president of the Group, in charge of the design, production and works management office from November 2016 to 13 March 2017)	13 March 2017	Dismissal by the executive Directors due to absence from work without cause	June 2007	Mr. Li Hai was only appointed as vice president in November 2016, and the relevant work had been performed by the existing team and was unaffected by the dismissal of Mr. Li Hai.
Mr. Chen Kai (former vice president of the Group, in charge of operations from January 2017 to 13 March 2017)	17 March 2017	Dismissal by the executive Directors due to absence from work without cause	2001	Mr. Chen Kai was only appointed as vice president in January 2017, and the relevant work had been performed by the existing team and was unaffected by the dismissal of Mr. Chen Kai.

Name of former employee (and former position in the Group)	Date of departure	Reasons for resignation / dismissal (as the case may be)	Date of joining the Group	Replacement (where necessary)
Mr. Shen Qian (former Treasurer from January 2017 to 14 March 2017)	14 March 2017	Dismissal by the executive Directors due to absence from work without cause	January 2017	The role of Treasurer was new. The treasury management had been performed by the existing team and was unaffected by the dismissal of Mr. Shen Qian.
Mr. Gan Lin (former Procurement Manager from November 2016 to 14 March 2017)	14 March 2017	Dismissal by the executive Directors due to absence from work without cause	November 2016	Mr. Gan Lin was only appointed in November 2016, and the relevant work had been performed by the existing team and was unaffected by the dismissal of Mr. Gan Lin.
Mr. Wang Man Lin (former Head of Compliance from August 2008 and resigned; then resumed from November 2016 to 15 March 2017)	15 March 2017	Dismissal by the executive Directors due to absence from work without cause	August 2008 and resigned; then resumed from November 2016	The Company has a legal and compliance department which had been performing its relevant functions and was unaffected by the dismissal of Mr. Wang Man Lin.

Name of former employee (and former position in the Group)	Date of departure	Reasons for resignation / dismissal (as the case may be)	Date of joining the Group	Replacement (where necessary)
Mr. Wang Jian (former director of operations South Jiangsu and Zhejiang area from November 2016 to 20 March 2017)	20 March 2017	Dismissal by the executive Directors due to absence from work without cause and his refusal to allow staff from the Company headquarters to access to the production facilities	June 2010	Mr. Wang Jian was only appointed in this role in November 2016, and the relevant work had been performed by the existing team and was unaffected by the dismissal of Mr. Wang Jian.
Mr. Zhang Chen (former director of operations Fujian, Guangdong and Guangxi area from January 2017 to 20 March 2017)	20 March 2017	Dismissal by the executive Directors due to absence from work without cause and his refusal to allow staff from the Company headquarters to access to the production facilities	March 2012	Mr. Zhang Chen was only appointed in this role in January 2017, and the relevant work had been performed by the existing team and was unaffected by the dismissal of Mr. Zhang Chen.
Mr Qiu Qingzhuang (former director of operations North Jiangsu area from December 2016 to 22 March 2017)	22 March 2017	Dismissal by the executive Directors due to absence from work without cause and his refusal to allow staff from the Company headquarters to access to the production facilities	November 2010	Mr. Qiu Qingzhuang was only appointed in this role in December 2016, and the relevant work had been performed by the existing team and was unaffected by the dismissal of Mr. Qiu Qingzhuang.

Their roles, to the extent required, are being carried out by other employees in the Group as disclosed above, but the Company remains in a transition phase and there may be material developments in the financial or trading position or outlook of the Company that are not known to such replacements and reported to the Directors.

The executive Directors do not believe the impact of the departures on the Company's operations and on the value of the Shares to has been material in the near term; however the longer term impact continues to be assessed.

The preliminary results of the Company for the year ended 31 December 2016 is expected to be published on 31 March 2017.

Shareholders and potential investors are advised to exercise caution in dealing in the securities of the Company.

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)

ANNOUNCEMENT
PROFIT WARNING AND FINANCIAL UPDATE

This announcement is made by Yingde Gases Group Company Limited ("**Company**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

Profit Warning

The Company would like to update the shareholders and potential investors that the Company is in the course of addressing certain issues and outstanding information in order to finalise the preliminary results of the Company and its subsidiaries (the "**Group**") in respect of the financial year ended 31 December 2016 (the "**2016 Annual Results**") which it is aiming to announce on 31 March 2017:

(i) changes in the composition of the board of directors after the Company's extraordinary general meetings on 8 March 2017 and changes in its senior management since 8 March 2017 such that the auditors need to obtain the views of the new management in settling its audit of the Group's accounts for the year ended 31 December 2016;

(ii) carrying amount of assets in the property, plant and equipment and construction in progress assets relating to one project, which requires further supporting information, including potential external valuation, as part of the Company's assessment process; and

(iii) the indebtedness position of the Company as further elaborated below.

According to the Company's preliminary assessment of impairments, potential impairments and other adjustments to the unaudited consolidated management accounts of the Company and its subsidiaries for the year ended 31 December 2016, the Company's financial position may be materially adversely impacted (the "**Statement**").

Furthermore, the Company understands from its auditors that, if the auditors of the Company cannot obtain the required information and resolve the outstanding audit by 31 March 2017 when the Company plans to announce its annual results for the year ended 31 December 2016, the auditors may have to issue a modified audit opinion for the Company's accounts for the year ended 31 December 2016. The Company will continue to work with the auditors with a view to avoiding any modification of the auditors' opinion.

Reference is made to the announcement of PAGAC II-2 Limited ("**PAG**") dated 7 March 2017 and the offer document of PAG dated 10 March 2017 in relation to the offers made by PAG (the "**PAG Offers**"). The Company is currently in an offer period for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Pursuant to the Takeovers Code, the Statement is considered to constitute a profit forecast under Rule 10 of the Takeovers Code. As such, the Company is required to comply with the requirements under Rule 10 of the Takeovers Code with respect to the Statement which has to be reported on by the Company's auditors and financial advisers and repeated in full, together with the above reports, in the next document in connection with the PAG Offers to be addressed to the Shareholders (the "**Shareholders' Document**"). Taking into account (i) the practical difficulties in terms of the additional time required for the preparation of the reports by the Company's auditors and financial advisers; and (ii) the requirements of timely disclosures of the inside information under Rule 13.09 of the Listing Rules and Part XIVA of the SFO, the Statement does not meet the standard required by Rule 10 of the Takeovers Code. The Company has arranged for the Statement to be reported on in accordance with Rule 10 of the Takeovers Code in the Shareholders' Document.

Financial Update on Indebtedness Position

Reference is made to the Company's announcement dated 12 October 2015 regarding its syndicated loan facility agreement dated 12 October 2015 for a loan of US$90,000,000 and HK$77,500,000 (the "**Facility Agreement**") and the Company's announcement dated 9 February 2017 setting out the letter (the "**Letter**") from Mr. Zhongguo Sun ("**Mr. Sun**") and Mr. Trevor Raymond Strutt.

Under the Facility Agreement, Mr. Sun ceasing to be the Chairman of the board of directors (the "**Board**") of the Company may enable the lenders to receive outstanding amounts under the Facility Agreement. On 5 November 2016 Mr. Sun was purportedly removed as the Chairman of the Board and re-designated as a non-executive director at a board meeting said to have been held on 5 November 2016. However, as stated in the Letter, on 19 December 2016 a writ of summons (as subsequently amended) was lodged by Bubbly Brooke Holdings Limited and Baslow Technology Limited (being shareholders in the Company) with the Grand Court of the Cayman Islands, seeking a declaration that the board meeting held on 5 November 2016 was invalid from the outset. In any event, Mr. Sun has been reinstated as Chairman of the Company on 12 March 2017. The Company is continuing active discussions with the facility agent for the Facility Agreement in relation to this matter.

The Board is also in discussion with other creditors and rating agencies of the Company in light of the recent developments at the Company.

Shareholders and potential investors should note that the Statement does not meet the standard required by Rule 10 of the Takeovers Code and has not been reported on in accordance with the Takeovers Code. Accordingly, Shareholders are advised to exercise caution in placing reliance on the Statement in assessing the merits and demerits of the PAG Offers, Shareholders and potential investors are advised to exercise caution in dealing in the securities of the Company.

By order of the Board
Yingde Gases Group Company Limited
盈德氣體集團有限公司
Zhongguo Sun
Chairman

Hong Kong, 23 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt; and the independent non-executive directors of the Company are Mr. Zheng Fuya, Dr. Wang Ching, Mr. Zhihe Mah and Mr. Rawen Zhi Hong Huang.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement, and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement contained in this announcement misleading.

Morgan Stanley

25 March 2017

The board of directors
Yingde Gases Group Company Limited
Room 3212-13, 32/F
Tower Two, Times Square, Causeway Bay
Hong Kong

Dear Sirs,

We refer to the announcement dated 23 March 2017 (the "**Profit Warning and Financial Update Announcement**") issued by Yingde Gases Group Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"). Capitalised terms used in this letter shall have the same meanings as defined in the Profit Warning and Financial Update Announcement unless otherwise specified.

We also refer to the statement (the "**Statement**") made by the directors of the Company (the "**Directors**") in the Profit Warning and Financial Update Announcement, that:

"According to the Company's preliminary assessment of impairments, potential impairments and other adjustments to the unaudited consolidated management accounts of the Company and its subsidiaries for the year ended 31 December 2016, the Company's financial position may be materially adversely impacted."

The Statement is regarded as a profit forecast under the Takeovers Code and therefore, is required to be reported on pursuant to Rule 10 of the Takeovers Code.

The Statement has been prepared by the Directors based on, among other things, (i) their review of the interim results announcement of the Company for the six months ended 30 June 2016, (ii) their review of the latest available management accounts of the Company for the financial year ended 31 December 2016, (iii) their discussions with the auditors of the Company on various occasions and reviewed materials provided by them, (iv) their discussions with the chief executive officer and chief financial officer and other members of senior management of the Company on the financial condition, liquidity and commitments of the Company and (v) the discussions among the Directors on related matters.

We have discussed with you the bases upon which the Statement was prepared. We have also considered the letter issued by KPMG on 25 March 2017, the auditors of the Company, to you.

Based on the above, we are satisfied that the Statement, for which the Directors are solely responsible, has been made with due care and consideration.

Yours faithfully,
For and on behalf of
MORGAN STANLEY ASIA LIMITED
Mark Schwille
Managing Director

KPMG

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

25 March 2017

The Directors
Yingde Gases Group Company Limited

Dear Sirs,
Yingde Gases Group Company Limited ("the Company")

Financial Impact Estimate for Year Ended 31 December 2016

We refer to the estimate of the consolidated profit attributable to equity holders of the Company for the year ended 31 December 2016 (the "Financial Impact Estimate"). The Financial Impact Estimate has been prepared to enable the directors of the Company to issue the following statement set out in the profit warning and financial update announcement dated 23 March 2017 (the "Announcement").

"According to the Company's preliminary assessment of impairments, potential impairments and other adjustments to the unaudited consolidated management accounts of the Company and its subsidiaries for the year ended 31 December 2016, the Company's financial position may be materially adversely impacted (the "Statement")."

Directors' Responsibilities

The Financial Impact Estimate has been prepared by the directors of the Company based on the unaudited consolidated management accounts of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2016.

The Company's directors are solely responsible for the Financial Impact Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Financial Impact Estimate based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Financial Impact Estimate in accordance with the bases adopted by the directors and as to whether the Financial Impact Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Financial Impact Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in the Announcement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2015.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than information relating to the Offeror and parties acting in concert with it, the terms of the Offers and the intention of the Offeror regarding the Group) contained in this Response Document and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Response Document have been arrived at after due and careful consideration and there are no other facts not contained in this Response Document the omission of which would make any statement in this Response Document misleading. As regards the information in this Response Document relating to the Offeror and parties acting in concert with it, the terms of the Offers and the intention of the Offeror regarding the Group that has been compiled or summarised from the Offer Document, the Directors' responsibility is limited to the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

2. SHARE CAPITAL

(a) Share capital

As at the Latest Practicable Date, the authorised share capital and the issued share capital of the Company were as follows:

Authorised Share Capital:		***US$***
50,000,000,000	Ordinary Shares of US$ 0.000001 each	50,000
Issued and fully paid-up Share Capital:		
1,890,573,500	Ordinary Shares of US$ 0.000001 each	1,890.574

All the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to rights in respect of capital and dividends and voting.

Up to the Latest Practicable Date, no Share has been issued by the Company since 31 December 2016.

As at the Latest Practicable Date, the Company had Share Options outstanding in respect of 3,832,500 Shares all of which belonged to the Optionholders and have the validity period as follows: (1) from 16 October 2014 to 15 October 2019 (for those Share Options with the exercise price of HK$6.62 per Share) and (2) from 20 November 2015 to 19 November 2020 (for those Share Options with the exercise price of HK$3.35 per Share). All Share Options, i.e. 3,832,500 Share Options, are exercisable as at the Latest Practicable Date.

Other than the Shares in issue and the Share Options, the Company had no other outstanding shares, options, warrants, derivative or other securities that are convertible or exchangeable into Shares or other types of equity interest in issue as at the Latest Practicable Date.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date:

	No. of Shares	Approximate %
The Offeror (*Note 1*)	290,810,230	15.38%
Mr. Sun (*Note 2*)	373,000,000	19.73%
Mr. Strutt (*Note 3*)	184,352,961	9.75%
Mr. Rawen Zhi Hong Huang (*Note 4*)	580,000	0.03%
Public (as defined in the Listing Rules)	1,041,830,309	55.11%
Total	1,890,573,500	100%

Notes:

(1) This was based on the publicly available information, as disclosed in public disclosure form filed by the Offeror pursuant to Rule 22 of the Takeovers Code dated 14 March 2017.

(2) As at the Latest Practicable Date, Mr. Sun held (i) together with his associate, 373,000,000 Shares; and (ii) 2,190,000 Options.

(3) As at the Latest Practicable Date, Mr. Strutt held (i) together with his associate, 184,352,961 Shares; and (ii) 1,095,000 Options.

(4) As at the Latest Practicable Date, Mr. Rawen Zhi Hong Huang was interested in 580,000 Shares through his indirect 100% interest in Petrel Fund.

(b) **Listing**

The Shares are listed and traded on the main board of the Stock Exchange. No part of the Shares are listed or dealt in, nor is any listing of or permission to deal in the Shares being or proposed to be sought on any other stock exchange.

3. DISCLOSURE OF INTERESTS IN SHARES

(a) As at the Latest Practicable Date, the Company did not have any interest in the shareholdings in the Offeror. SchII para.2(i)

(b) As at the Latest Practicable Date, none of the Directors had any interest in the shareholdings in the Offeror.

(c) As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the ''**Model Code**'') were as follows:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Zhongguo Sun	Beneficiary of a trust	373,000,000 (long position)	
	Beneficial owner	2,190,000 (long position)	
		375,190,000 (long position)	19.85%
Mr. Trevor Raymond Strutt	Founder of a discretionary trust	184,352,961 (long position)	
	Beneficial owner	1,095,000 (long position)	
		185,447,961 (long position)	9.81%
Mr. Rawen Zhi Hong Huang	Interest of corporation controlled by the director	580,000 (long position)	0.03%

Save as disclosed above and so far as the Company is aware, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the Shares or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, or are required to be disclosed in this Response Document pursuant to the requirement of the Takeovers Code.

(d) As at the Latest Practicable Date,

(i) none of the subsidiaries of the Company, pension funds of the Company or of a subsidiary of the Company or an adviser to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal trader, owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(ii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of ''associate'' under the Takeovers Code;

(iii) no fund managers (other than exempt fund managers) connected with the Company had managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis;

(iv) Mr. Sun and Mr. Strutt, both executive Directors, have undertaken to accept the Offers in respect of their shareholdings in the Company pursuant to the terms and conditions of the Memorandum of Undertaking;

(v) Mr. Rawen Zhi Hong Huang, an independent non-executive Director, intended to accept the Offers in respect of his shareholdings in the Company unless there is an offer with higher offer price; and

(vi) neither the Company nor any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any Shares, save for any borrowed shares which have been either on-lent or sold.

4. DEALINGS IN SHARES OF THE COMPANY

During the Relevant Period,

(i) neither the Company, any of its subsidiaries, nor any Directors had dealt for value in any shares of the Offeror or any other convertible securities, warrants, options or derivatives or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any shares of the Offeror;

(ii) save for the entering into of the Memorandum of Undertaking by Mr. Sun and Mr. Strutt, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options, or derivatives in respect of any Shares;

(iii) none of the subsidiaries of the Company, nor pension fund of the Company or any of the Company's subsidiaries, nor any advisers to the Company as specified in class (2) of the definition of ''associate'' under the Takeovers Code, had dealt for value in any Shares or convertible securities, warrants, options or derivatives in respect of any Shares;

(iv) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of ''associate'' under the Takeovers Code had dealt for value in any Shares or convertible securities, warrants, options or derivatives in respect of any Shares; and

(v) no fund managers connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares.

5. OTHER DISCLOSURES

As at the Latest Practicable Date,

(a) no benefit (other than statutory compensations) was or would be given to any Director as compensations for loss of office or otherwise in connection with the Offers;

(b) save for the Memorandum of Undertaking, no agreement or arrangement existed between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers; and

(c) save for the Memorandum of Undertaking, no material contracts had been entered into by the Offeror in which any Director has a material personal interest.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) have been entered into or amended within the Relevant Period; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with term more than 12 months to run irrespective of the notice period.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, save as disclosed below, none of the Company and its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was pending or threatened by or against the Company or any other member of the Group:

The Group is the defendant in certain lawsuit as well as the plaintiff in other proceedings arising in the ordinary course of business. In particular, the Group received arbitration complaint by customers for gas supply arrangements in the amount of RMB185,305,000 (2015: RMB378,675,000) in aggregate. The claims were still in progress and no final rulings were made as at 31 December 2016. While the outcomes of such contingencies, lawsuit or other proceedings cannot be estimated at present, the Directors believe that any resulting liabilities will have a material adverse effect on the financial position or operating results of the Group if rulings were made against the Group in the above proceedings.

8. MATERIAL CONTRACTS

The Company had not entered into any material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company) within the two years before the commencement of the Offer Period up to and including the Latest Practicable Date.

9. EXPERTS AND CONSENTS

The following are the qualifications of the expert who has been named in this Response Document and/or given opinion or advice which are contained in this Response Document:

Name	Qualification
Rothschild (Hong Kong) Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Morgan Stanley Asia Limited	Morgan Stanley Asia Limited, a company incorporated in Hong Kong, that is licensed for Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
KPMG	Certified public accountants

Each of the Independent Financial Adviser, Morgan Stanley and KPMG has given and has not withdrawn its written consent to the issue of this Response Document with the inclusion of the text of its letter and references to its name in the form and context in which they are included.

10. MISCELLANEOUS

The English text of this Response Document shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the SFC at http://www.sfc.hk; (ii) on the website of the Company at www.yingdegases.com; and (iii) (during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong)) (Hong Kong time) at the principal place of business of the Company in Hong Kong at Room 3212-13, 32/F., Tower Two, Times Square, Causeway Bay, Hong Kong, from the date of this Response Document onwards so long as the Offers remain open for acceptance:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the years ended 31 December 2014 and 31 December 2015;

(c) the interim report of the Company for the six months ended 30 June 2016;

(d) the letter from the Board dated 25 March 2017 to the Independent Shareholders, the text of which is set out on pages 5 to 12 of this Response Document;

(e) the letter from the Independent Board Committee dated 25 March 2017 to the Independent Shareholders, the text of which is set out on pages 13 to 16 of this Response Document;

(f) the letter from the Independent Financial Adviser dated 25 March 2017 to the Independent Board Committee, the text of which is set out on pages 17 to 44 of this Response Document;

(g) the letter from Morgan Stanley dated 25 March 2017 as required under Rule 10 of the Takeovers Code;

(h) the letter from KPMG dated 25 March 2017 as required under Rule 10 of the Takeovers Code;

(i) the written consents referred to in paragraph 9 of this Appendix; and

(j) this Response Document.