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## **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)**

### **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009**

#### **FINANCIAL HIGHLIGHTS**

Turnover of our Group in 2009 was RMB2,066 million, representing an increase of 46.3% from 2008.

Profit attributable to equity shareholders of our Company in 2009 was RMB530 million, representing an increase of 23.2% from 2008.

Earnings per share was up 16.0% to RMB0.34 compared to 2008.

#### **RESULTS**

The board (the “Board”) of directors of Yingde Gases Group Company Limited (our “Company” together with its subsidiaries, referred as our “Group”) is pleased to announce the annual results of our Group and to report on our Group’s performance for the year ended 31 December 2009 as follows:

## FINANCIAL INFORMATION

Financial information extracted from the audited consolidated financial statements of our Group for the year ended 31 December 2009, together with comparative figures for the year ended 31 December 2008, prepared in accordance with International Financial Reporting Standards (“IFRSs”):

### Consolidated statement of comprehensive income

		Year ended 31 December	
	Note	2009	2008
		RMB'000	RMB'000
<b>Turnover</b>	2	2,065,685	1,411,713
Cost of sales		<u>(1,290,505)</u>	<u>(828,156)</u>
<b>Gross profit</b>		775,180	583,557
Other revenue		1,326	1,352
Selling expenses		(18,627)	(15,088)
Administrative expenses		<u>(137,491)</u>	<u>(79,946)</u>
<b>Profit from operations</b>		620,388	489,875
Finance income		6,370	36,469
Finance costs		<u>(61,237)</u>	<u>(58,492)</u>
<b>Profit before taxation</b>	3	565,521	467,852
Income tax	4	<u>(33,946)</u>	<u>(39,192)</u>
<b>Profit and total comprehensive income for the year</b>		<u>531,575</u>	<u>428,660</u>
<b>Attributable to:</b>			
Equity shareholders of our Company		530,037	430,133
Minority interests		<u>1,538</u>	<u>(1,473)</u>
<b>Profit and total comprehensive income for the year</b>		<u>531,575</u>	<u>428,660</u>
<b>Earnings per share (RMB)</b>	5		
- Basic		0.340	0.293
- Diluted		<u>0.340</u>	<u>0.279</u>

## Consolidated balance sheet

		As at 31 December	
	Note	2009	2008
		RMB'000	RMB'000
<b>Non-current assets</b>			
Property, plant and equipment, net		2,191,897	1,751,968
Construction in progress		681,105	488,655
Lease prepayments		16,882	17,245
Intangible assets		9,597	10,199
Receivables under finance lease		14,752	13,053
Other non-current assets		156,275	131,809
Deferred tax assets		<u>2,680</u>	<u>2,680</u>
<b>Total non-current assets</b>		<u>3,073,188</u>	<u>2,415,609</u>
<b>Current assets</b>			
Inventories		6,857	9,646
Trade and other receivables	6	371,584	126,676
Receivables under finance lease		2,117	1,872
Income tax recoverable		3,133	130
Pledged bank deposits		114,860	227,422
Cash and cash equivalents		<u>2,102,462</u>	<u>28,463</u>
<b>Total current assets</b>		<u>2,601,013</u>	<u>394,209</u>
<b>Current liabilities</b>			
Bank and other loans		782,983	500,262
Trade and other payables	7	479,070	572,710
Obligations under finance leases		2,963	2,963
Convertible redeemable preferred shares		—	141,224
Income tax payable		<u>9,756</u>	<u>7,057</u>
<b>Total current liabilities</b>		<u>1,274,772</u>	<u>1,224,216</u>
<b>Net current assets/(liabilities)</b>		<u>1,326,241</u>	<u>(830,007)</u>
<b>Total assets less current liabilities</b>		<u>4,399,429</u>	<u>1,585,602</u>

**Consolidated balance sheet (continued)**

	<b>As at 31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current liabilities</b>		
Bank and other loans	521,200	400,350
Obligations under finance leases	28,773	29,385
Deferred tax liabilities	<u>24,621</u>	<u>10,991</u>
<b>Total non-current liabilities</b>	<u>574,594</u>	<u>440,726</u>
<b>Net assets</b>	<u>3,824,835</u>	<u>1,144,876</u>
<b>Equity</b>		
Share capital	12	—
Reserves	<u>3,775,538</u>	<u>1,133,129</u>
<b>Total equity attributable to equity shareholders of our Company</b>	3,775,550	1,133,129
<b>Minority interests</b>	<u>49,285</u>	<u>11,747</u>
<b>Total equity</b>	<u>3,824,835</u>	<u>1,144,876</u>

## **Notes to the financial information**

### **1 Group reorganization**

Pursuant to a group reorganization completed on 10 July 2009 (the “Reorganization”) to rationalize our group structure for the public listing of our Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), our Company became the holding company of the subsidiaries comprising our Group. Details of the Reorganization are set out in the prospectus of our Company dated 24 September 2009. Our Company’s shares were listed on the Stock Exchange on 8 October 2009.

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

### **2 Turnover**

Our Group is principally engaged in the production and sales of industrial gases in the PRC. Turnover represents the aggregate of the invoiced value of goods sold, net of value added tax.

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

During the year ended 31 December 2008, our Group had three customers that individually exceeded 10% of our Group’s turnover, being RMB303,640,000, RMB209,773,000 and RMB144,529,000 respectively.

### 3 Profit before taxation

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

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

### 3 Profit before taxation (continued)

	<b>Year ended 31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>(b) Staff costs:</b>		
Salaries, wages, bonuses and benefits	74,278	48,162
Contributions to defined contribution retirement schemes	<u>3,432</u>	<u>2,794</u>
	<u><u>77,710</u></u>	<u><u>50,956</u></u>
	<b>Year ended 31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>(c) Other items:</b>		
Electricity	1,131,717	718,419
Depreciation	113,713	75,903
Amortization		
- Land lease premium	363	352
- Intangible assets	658	642
Auditors' remuneration: audit service	2,229	108
Consulting fees	802	1,540
Listing expenses allocated to profit or loss	41,679	—
Operating lease charges: minimum lease payment (land and buildings)	4,816	4,452
Net (gain)/loss on disposal of property, plant and equipment	(67)	104
Impairment losses		
- Trade and other receivables	—	10,721
- Prepayment for equipment	—	2,395
Write-back of claims	<u>—</u>	<u>(2,020)</u>

#### 4 Income tax

	Year ended 31 December	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for PRC income tax	20,316	30,881
Deferred tax	<u>13,630</u>	<u>8,311</u>
	<u>33,946</u>	<u>39,192</u>

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

Our Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the current and prior years.

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

Before 31 December 2007, certain subsidiaries of our Group in the PRC obtained the approval of income tax credit for purchasing qualified domestic equipment from the local tax authorities in accordance with the relevant tax regulations issued by the State Administration of Taxation. Pursuant to Guoshuifa [2008] No.52 issued by the State Administration of Taxation in May 2008, such tax credit policy ceased to be effective since 1 January 2008. During the year ended 31 December 2009, certain subsidiaries utilized the unused tax credit of RMB18,494,000 granted by the relevant local tax authorities prior to 31 December 2007 (2008: Nil).

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

## 5 Earnings per share

### (a) Basic earnings per share

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

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

	Year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Profit attributable to equity shareholders of our Company	530,037	430,133
Profit attributable to the holders of convertible redeemable preferred shares	<u>(55,320)</u>	<u>(58,521)</u>
Profit attributable to ordinary equity shareholders of our Company	<u>474,717</u>	<u>371,612</u>

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

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

## 5 Earnings per share (continued)

### (b) Diluted earnings per share

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

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

	<b>Year ended 31 December 2008</b> <i>RMB'000</i>
Profit attributable to ordinary equity shareholders of our Company	371,612
Profit attributable to the holders of convertible redeemable preferred shares	58,521
After tax effect of income recognized in respect of convertible redeemable preferred shares	<u>(20,444)</u>
Profit attributable to ordinary equity shareholders of our Company (diluted)	<u><u>409,689</u></u>

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

	<b>Year ended 31 December 2008</b> <i>'000</i>
Weighted average number of ordinary shares	1,270,000
Effect of convertible redeemable preferred shares	<u>200,000</u>
Weighted average number of ordinary shares (diluted) as at 31 December	<u><u>1,470,000</u></u>

**6 Trade and other receivables**

	<b>As at 31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	234,921	108,665
Bills receivable	73,191	9,216
Less: allowance for doubtful debts	<u>(10,721)</u>	<u>(10,721)</u>
	297,391	107,160
Deposits and other receivables	<u>74,193</u>	<u>19,516</u>
	<u><u>371,584</u></u>	<u><u>126,676</u></u>

An ageing analysis of trade and bills receivable (net of allowance for doubtful debts) is as follows:

	<b>As at 31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current	239,903	107,160
	-----	-----
Less than 1 month past due	16,460	—
1 to 3 months past due	<u>41,028</u>	<u>—</u>
	57,488	—
Amounts past due	<u>57,488</u>	<u>—</u>
	<u><u>297,391</u></u>	<u><u>107,160</u></u>

The credit terms for trade receivables are generally 30 to 45 days. The bills receivable are normally due within 180 days from the date of issuing.

## 7 Trade and other payables

	As at 31 December	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	3,912	5,719
Bills payable	146,617	150,123
Payable for property, plant and equipment	254,849	369,792
Accrued expenses and other payables	<u>73,692</u>	<u>47,076</u>
	<u>479,070</u>	<u>572,710</u>

An ageing analysis of trade payables is as follows:

	As at 31 December	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	3,459	4,851
Due after 1 month but within 3 months	448	728
Due after 3 months but within 6 months	<u>5</u>	<u>140</u>
	<u>3,912</u>	<u>5,719</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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

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

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

### **Review of On-site Gas Supply Operation**

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

We provide on-site services such as design, construction, operation and maintenance of gas production facilities on or in close proximity to our on-site customers’ premises, in order to ensure the reliability and stability of gas supplies to such customers. We generally enter into long-term take-or-pay gas supply contracts with on-site customers for a term of between 15 to 25 years, so as to ensure the stability of our Group’s operations and income.

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

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

### **Expansion by New Projects**

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

<b>Date announced</b>	<b>Location</b>	<b>Off-taker</b>	<b>Target supply start time</b>	<b>Expected installed oxygen capacity (Nm<sup>3</sup>/hr)</b>
10 November 2009	Jiangsu province	An industrial company	Before the first quarter of 2011	18,000
11 March 2010	Jiangsu province	An industrial company	Before the third quarter of 2011	60,000
29 March 2010	Hunan province	Existing customer of Zhuzhou Yingde	Before the fourth quarter of 2011	12,000

## **Review of Merchant Gas Operation**

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

## **FINANCIAL REVIEW**

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

### **Turnover**

Our turnover consists of proceeds from the sale of industrial gas products. Our turnover is recognized when our gas products are delivered to a customer’s premises and such customer has accepted the goods in which we have transferred the related risks and rewards of ownership. The turnover figures represent the aggregate of the invoiced value of goods sold, net of value-added tax.

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

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

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

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

	<b>Year ended 31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>Unit price (RMB/Nm<sup>3</sup>)</i>	
Oxygen	0.74	0.79
Nitrogen	0.68	0.76
Argon	<u>1.62</u>	<u>3.21</u>
Weighted average unit price:	<u>0.91</u>	<u>1.44</u>

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

## **Cost of sales**

Our cost of sales comprises utility expenses, depreciation expenses for property, plant and equipment related to production, staff costs for our production team and other expenses. Utility expenses, mainly consisting of electricity expenses, comprised 88.3% and 87.3% of our total cost of sales for the two years ended 31 December 2009 and 2008, respectively. Depreciation and amortization expenses relate primarily to property, plant and equipment we own and are calculated on a straight-line basis over the estimated useful lives of these assets. Staff costs mainly relate to salaries, bonuses, benefits and contributions that we pay to our employees or make for the benefit of our employees of our production team. Other expenses primarily consist of other consumables and repair and maintenance.

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

## **Gross profit and gross profit margin**

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

## **Other revenue**

Other revenue mainly includes subsidy and grant from local government authorities.

## **Selling expenses**

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

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

### **Administrative expenses**

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

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

### **Operating profit and operating profit margin**

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

### **Finance income**

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

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

## **Finance costs**

Our finance costs primarily consist of interest payments for our loans with banks and other financial institutions, finance charges on obligations under finance lease, interest on the liability component of convertible redeemable preferred shares, fair value adjustment on convertible redeemable preferred shares and foreign currency exchange loss.

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

## **Income tax expenses**

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

## **Profit attributable to the equity shareholders of our Company**

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

## **Profit attributable to the minority interests**

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

## Trade and other receivables

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

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

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

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

*Note:*

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

## Bank and other loans

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

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

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

### **Liquidity and capital resources**

We have historically met our working capital and other capital requirements principally from equity provided by our shareholders, cash provided by operations, cash at bank and in hand and through short-term and long-term borrowings from banks.

As at 31 December 2009, the total assets of our Group was approximately RMB5,674 million, representing a year-on-year increase of RMB2,864 million. The cash at bank and in hand was RMB2,102 million, representing an increase of RMB2,074 million over the previous year. The current ratio of our Group was 204.0%. The gearing ratio of our Group which is calculated as total liabilities divided by total assets was 32.7%.

### **Capital expenditure**

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

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

### **Conversion of convertible redeemable preferred shares**

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

### **Dividends**

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

## **Outlook**

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

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of our Company will be closed from Thursday, 13 May 2010 to Wednesday, 19 May 2010, both days inclusive, during which period no share transfers can be registered. In order to be eligible for attending and voting at the forthcoming annual general meeting of our Company, all transfers accompanied by the relevant share certificates must be lodged with our Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 12 May 2010.

## **CORPORATE GOVERNANCE**

Our Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") since the listing of the shares of our Company on the Stock Exchange on 8 October 2009, except for the following deviation:

(i) Chairman and Chief Executive Officer

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

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

(ii) Non-executive Director and Independent Non-executive Director

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding the securities transactions by the directors.

The Board is pleased to confirm, after specific enquiries with all directors, that all directors have fully complied with standards required according to the Model Code during the period since our listing on 8 October 2009 to 31 December 2009.

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

For the year ended 31 December 2009, neither our Company nor any of its subsidiaries purchased, sold or redeemed any of our Company's listed securities.

## **AUDIT COMMITTEE**

Pursuant to the requirements of the Code and the Listing Rules, our Company has established an audit committee (the "Audit Committee") comprising all three existing independent non-executive directors, namely Mr. Xu Zhao (chairman of the Audit Committee), Mr. Zheng Fuya and Dr. Wang Ching.

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

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

Hong Kong, 29 March 2010

*As at the date of this announcement, the executive directors of our Company are Mr. Zhongguo Sun, Mr. Zhao Xiangti and Mr. Chen Yan; the non-executive director of our Company is Mr. Chen Dar Cin; and the independent non-executive directors of our Company are Mr. Xu Zhao, Mr. Zheng Fuya and Dr. Wang Ching.*