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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)**

### **ANNOUNCEMENT**

#### **Proposed Revised Annual Caps of Continuing Connected Transactions**

Reference is made to the approval from the Stock Exchange granting a waiver to our Company from strict compliance with the reporting, announcement and independent shareholders' approval requirements in connection with the Supply-related Transactions between our Company and Hengyang Valin pursuant to the Gas Supply Contract which is set out on page 125 of the prospectus of our Company dated 24 September 2009.

The annual values of the Supply-related Transactions is subject to the Annual Cap. Our Company expect to exceed the Annual Cap from the year ending 31 December 2010 and thereafter. The Annual Cap was set under the above waiver from the Stock Exchange.

Our directors have been closely monitoring the Supply-related Transactions. Based on internal estimates, our directors consider that the Annual Cap for the Supply-related Transactions will not be sufficient for our Group's current requirements, and therefore propose that the Annual Cap be amended accordingly as set out in this announcement.

#### **Listing Rules implications**

The Proposed Revised Annual Caps for the Supply-related Transactions exceeds 2.5% of the revenue ratio under Chapter 14A of the Listing Rules. Accordingly, the Proposed Revised Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules. Independent Shareholders' approval for the Proposed Revised Annual Caps for the Supply-related Transactions during the duration of the Gas Supply Contract of 20 years to end on 30 October 2029 will be sought at the AGM.

An Independent Board Committee comprising all of the independent non-executive directors of our Company has been formed to advise the Independent Shareholders on the terms of the Supply-related Transactions and the Proposed Revised Annual Caps. An independent financial adviser will be appointed to advise the Independent Board Committee and Independent Shareholders on the same.

A circular containing, among other things, (i) a letter from the Board setting out details of the Supply-related Transactions, (ii) a letter from the Independent Board Committee, (iii) a letter of advice from the independent financial adviser and (iv) a notice of the AGM will be despatched to the Shareholders as soon as practicable.

## **1. BACKGROUND**

Reference is made to the approval from the Stock Exchange granting a waiver to our Company from strict compliance with the reporting, announcement and independent shareholders' approval requirements in connection with the Supply-related Transactions between our Company and Hengyang Valin pursuant to the Gas Supply Contract which is set out on page 125 of the prospectus of our Company dated 24 September 2009.

Details of the Gas Supply Contract are as follows:

On 28 November 2008, Yingde BVI (on behalf of Hengyang Yingde) entered into a gas supply contract with Hengyang Valin, pursuant to which Yingde BVI agreed to transfer the benefits and obligations under the Gas Supply Contract to Hengyang Yingde upon Hengyang Yingde's establishment, and Hengyang Yingde would supply and Hengyang Valin would purchase a specified minimum volume of industrial gases. The industrial gases supplied to Hengyang Valin by Hengyang Yingde include oxygen, nitrogen and argon which are the major industrial gas products offered by our Company. The duration of the Gas Supply Contract is 20 years. The end date of the Gas Supply Contract is 30 October 2029. In connection with the Gas Supply Contract, our Group has entered into or will enter into certain related transactions with Hengyang Valin, which involve payment of expenses (including but not limited to electricity expense, steam expense and rental expense) from Hengyang Yingde to Hengyang Valin. These transactions are referred to as the Supply-related Transactions. The basis of pricing of the Supply-related Transactions was reached between our Company and Hengyang Valin through arm's length negotiations taking into account factors including the price charged by the local utility companies and the rentals charged by landlords of adjacent properties.

## **2. ANNUAL CAPS AND PROPOSED REVISED ANNUAL CAPS**

The Annual Caps for the Supply-related Transactions are RMB45 million per annum for the year ending 31 December 2010 and thereafter, until 30 October 2029.

Our directors have been closely monitoring the Supply-related Transactions. Based on internal estimates, our directors consider that the Annual Caps for the Supply-related Transactions will not be sufficient for our Group's current requirements, and therefore propose that the Annual Caps be amended accordingly as set out in this announcement.

The historical amount for the Supply-related Transactions since the commencement of gas supply by Hengyang Yingde to Hengyang Valin in April 2009 to 31 December 2009 was approximately RMB24 million. The historical amount for the Supply-related Transactions for each of January and February in 2010 was RMB3.9 million

and RMB4.7 million, respectively. Based on the nature of the Supply-related Transactions and the historical level of utilities required by Hengyang Yingde, we estimate the transaction amount to be no more than RMB65 million per annum for the Supply-related Transactions for the year ending 31 December 2010 and thereafter. The increased Annual Caps for the Supply-related Transactions is primarily as a result of the increased consumption of electricity for Hengyang Yingde's gas production.

We expect that the Annual Caps for the Supply-related Transactions for the year ending 31 December 2010 will not be exceeded before approval has been obtained from the Independent Shareholders for the Proposed Revised Annual Caps at the forthcoming AGM.

### **3. REASONS AND BENEFITS FOR SUPPLY-RELATED TRANSACTIONS**

Hengyang Valin is a subsidiary of Hunan Valin Steel Company Limited, a company whose shares are listed on the Shenzhen Stock Exchange and is one of the largest steel companies in the PRC. On 28 November 2008, our Company entered into a joint venture agreement with Hengyang Valin to establish a joint venture industrial gas supply company, Hengyang Yingde, in Hengyang city, Hunan province in the PRC. The Supply-related Transactions are an integral aspect of the Gas Supply Contract between Hengyang Yingde and Hengyang Valin. The Supply-related Transactions enables our Group to secure stable supplies of utilities required for Hengyang Yingde's operations pursuant to the Gas Supply Transactions.

### **4. INFORMATION ABOUT OUR COMPANY**

Our Company produces, supplies and distributes a variety of industrial gas products to our on-site and merchant customers from a number of locations in the PRC, with oxygen, nitrogen and argon being our main gas products. According to the industry report dated 22 March 2010 entitled China Industrial Gas Market Analysis published by Strategic Analysis Inc., our Company was the largest independent domestic industrial gas company in the PRC in terms of revenue for the year ended 31 December 2009.

### **5. LISTING RULE IMPLICATIONS**

Hengyang Yingde is the Company's non-wholly-owned subsidiary in which we own 70% interest and Hengyang Valin owns the remaining 30% interest. As Hengyang Valin is a substantial shareholder of our Company's subsidiary, Hengyang Valin is a connected person of our Company pursuant to Rule 14A.11(1) of the Listing Rules. Therefore, any transaction between our Company and Hengyang Valin (including its Associates) are connected transactions of our Company pursuant to Rule 14A.13(1)(a) of the Listing Rules which will be subject to the requirements under Chapter 14A of the Listing Rules.

As the Proposed Revised Annual Caps for the Supply-related Transactions exceeds 2.5% of the revenue ratio as set forth in the Chapter 14A of the Listing Rules on an annual basis, it is subject to the reporting, announcement and independent

shareholders requirement under Chapter 14A of the Listing Rules. Accordingly, Independent Shareholders' approval for the Proposed Revised Annual Caps for the Supply-related Transactions during the duration of the Gas Supply Contract of 20 years to end on 30 October 2029 will be sought at the forthcoming AGM.

The table below sets out the Annual Caps and the Proposed Revised Annual Caps for the Supply-related Transactions for the year ended 31 December 2010 and thereafter, until 30 October 2029.

<b>Period</b>	<b>Annual Caps</b>	<b>Proposed Revised Annual Caps</b>
	RMB in million	
Year ending 31 December 2010	45	65
Each year after 2010 until 30 October 2029	45	65

The Board is of the view that the Proposed Revised Annual Caps above are set so as not to hinder the ability of our Group to conduct its business in the ordinary and usual course and allow the Group to benefit from future growth.

Our Company's directors (other than the independent non-executive directors, whose views will be formed taking into account the advice from the independent financial adviser and to be set out in the circular to be dispatched to the Shareholders as soon as practicable after publication of this announcement) are of the opinion that the Supply-related Transactions and the Proposed Revised Annual Caps have been entered into, and will be carried out, in the ordinary and usual course of business of our Group and on normal commercial terms which are fair and reasonable to the interests of the Shareholders taken as a whole.

As at the date of this announcement, our Company does not expect any Shareholder of our Company to abstain from voting in connection with approving the Proposed Revised Annual Caps given the Supply-related Transactions are connected transactions at subsidiary level.

Our Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in the Listing Rules. Our Company specifically undertakes upon any further material variation or renewal of the above relevant agreements, our Company will comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules.

## **6. FURTHER INFORMATION**

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Supply-related Transactions and the Proposed Revised Annual Caps. An independent financial adviser will be appointed

to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Supply-related Transactions and the Proposed Revised Annual Caps.

A circular containing, amongst other things, details of the Supply-related Transactions and the Proposed Revised Annual Caps, letters from the Independent Board Committee and from the independent financial adviser, and a notice to Shareholders convening the AGM to approve, amongst other things, Proposed Revised Annual Caps for the Supply-related Transactions, will be dispatched to the Shareholders as soon as practicable after the publication of this announcement.

## **7. DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Annual Caps”	the existing annual caps applicable to the Supply-related Transactions under Gas Supply Contract for the year ending 31 December 2010, and thereafter, until 30 October 2029, which is RMB45 million per annum as disclosed in the Prospectus
“Annual General Meeting” or “AGM”	the annual general meeting of our Company expected to be held in May 2010, the details of which will be announced by our Company
“Board”	the board of directors of our Company
“China” or “PRC”	the People’s Republic of China (excluding, for the purposes of this announcement, Hong Kong, Macau and Taiwan)
“Company” or “we” or “us”	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 September 25, 2007
“Gas Supply Contract”	the gas supply contract entered into between Yingde BVI (on behalf of Hengyang Yingde) and Hengyang Valin on 28 November 2008, pursuant to which Yingde BVI agreed to transfer the benefits and obligations under the gas supply contract to Hengyang Yingde upon its establishment, and valid until 30 October 2029

“Group” or “we”	our Company together with its subsidiaries
“Hengyang Yingde”	Hengyang Yingde Gases Company Limited ( 衡陽盈德氣體有限公司 ) incorporated in the PRC on 23 December 2008 pursuant to a joint venture agreement between Yingde BVI, Hunan Yingde and Hengyang Valin, which is a joint venture company owned as to 70% by us and 30% by Hengyang Valin
“Hengyang Valin”	Hengyang Hualing Lianzhaguan Company Limited ( 衡陽華菱連軋管有限公司 ), a subsidiary of Hunan Valin Steel Company Limited ( 湖南華菱鋼鐵股份有限公司 ), a company whose shares are listed on the Shenzhen Stock Exchange
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of directors consisting of Mr. Xu Zhao, Mr. Zheng Fuya and Mr. Wang Ching who are independent non-executive directors, formed to advise the independent Shareholders in respect of the terms of the Proposed Revised Annual Caps for the Supply-related Transactions
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Proposed Revised Annual Caps”	the proposed revised annual caps in respect of Supply-related Transactions for the year ending 31 December 2010 and thereafter, until 30 October 2029 which is RMB65 million per annum
“Prospectus”	the prospectus of our Company dated 24 September 2009
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholders”	shareholders of our Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yingde BVI”	Yingde Gases Investment Limited (盈德氣體投資有限公司) *, a company incorporated in the British Virgin Islands on 18 April 2006 and a wholly-owned subsidiary of our Company and investment holding company in our Group

By order of the Board of Directors

**Yingde Gases Group Company Limited**

**Zhongguo Sun**

*Chairman*

Hong Kong, 29 March 2010

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

\* For identification purposes only.