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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)

CLARIFICATION ANNOUNCEMENT:

(I) UPDATE ON PROPOSED PLACING TO ORIGINATER

(II) DISGRUNTLED DIRECTORS' REQUISITION OF EGM

(III) RESUMPTION OF TRADING IN SHARES AND DEBT SECURITIES

This announcement is made by Yingde Gases Group Company Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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).

SUMMARY

We refer to the Company’s announcements dated November 6 and 8, 2016 and December 2, 2016 in relation to the proposed placing of 378,000,000 new shares to Originwater Hong Kong Environmental Protection Co., Limited (“**Originwater**”) (the “**Proposed Placing**”) and the Company’s announcement dated November 6, 2016 in relation to, among others, the re-designation of Mr. Zhongguo Sun (“**Mr. Sun**”) and Mr. Trevor Raymond Strutt (“**Mr. Strutt**”) (collectively, the “**Disgruntled Directors**”) from executive directors to non-executive directors of the Company and removal of Mr. Sun and Mr. Strutt as the chief executive officer and the chief operating officer of the Company, respectively (the “**Management Restructuring**”).

The Proposed Placing and the Management Restructuring were the collective decisions of the majority of the board of directors of the Company (the “**Board**”) including the independent non-executive directors at the Board meetings held on November 5, 2016, which were duly convened and properly held in accordance with the articles of association of the Company (the “**Articles**”).

The Proposed Placing and the Management Restructuring are in the interest of the Company and its shareholders as a whole. The Proposed Placing would be able to improve the financial structure of the Company, lower its financial costs, and introduce Originwater as a strategic investor, which should be helpful in improving the management, long-term business development and corporate governance of the Company. As for the Management Restructuring, it will enable the senior

management to cope with the challenges the Company is facing in the current market and economic environment and to encourage the senior management to work more efficiently at a higher performance level to create more value for the shareholders of the Company.

To the best knowledge of the Company, the public shareholders, investors and creditors generally responded positively to the Proposed Placing and the Management Restructuring. The employees of the Company welcome it with good morale.

Unfortunately, following the announcement of the Proposed Placing and the Management Restructuring, the Disgruntled Directors have been trying to frustrate the Proposed Placing (to be further described below). In addition, on December 12, 2016, the Board received the Disgruntled Directors' requisition to convene an extraordinary general meeting ("**EGM**") to, among others, remove all the executive directors of the Company (the "**Requisition**").

While the Company is in the process of obtaining legal advice on the Requisition, the Disgruntled Directors shocked the Company and possibly the public by publishing an open letter to the shareholders of the Company on the Hong Kong Economic Journal on December 14, 2016 (the "**Open Letter**") without authorization of the Board. The Company is uncertain about the purpose or motive of the Disgruntled Directors behind the publishing of the Open Letter, or whether there is any ulterior motive.

Disgruntled Directors' frustration of the Proposed Placing

In order to frustrate the Proposed Placing, following the Placing Announcement, the Disgruntled Directors took a surprising and reckless move and engaged Anglo Chinese Corporate Finance, Limited to submit a number of complaint letters to Securities and Futures Commission (the "**SFC**") alleging that, among others, Originwater is acting in concert with Mr. Zhao Xiangti ("**Mr. Zhao**", the chairman, an executive director and a substantial shareholder of the Company) (the "**Allegation**").

Although the Board (excluding the Disgruntled Directors), Originwater and Mr. Zhao strenuously deny the Allegation and consider it to be groundless and does not have substance, due to the SFC's on-going enquires on the Allegation which may be time-consuming, in view of the urgent need to use the proceeds from the Proposed Placing to repay an imminently repayable bank loan of the Company, the Company is considering to restructure the Proposed Placing (the "**Restructured Placing**") in order to resolve, among others, the Takeovers Code issues brought by the Allegation and is in the process of communicating with the Stock Exchange and the Executive of the SFC in this regard.

Disgruntled Directors' intention to change the Board

Apparently, the Disgruntled Directors would like to conduct the proposed removal of directors and the proposed appointment of director to obtain a *de facto* control over the management of the Company. The Disgruntled Directors were removed from their executive positions by the Board due to their unsatisfactory performance. The Board (excluding the Disgruntled Directors) takes a strong view that the Disgruntled Directors' proposal is not in the best interest of the Company and its shareholders of the Company as a whole and would be devastating to the corporate governance of the Company.

As for the performance of the Disgruntled Directors during their term of office, the Company is

conducting an internal financial and business investigation. The Company will disclose the key findings in due course. The Company reserves the right to hold the Disgruntled Directors accountable for any inappropriate actions during their term of office with the Company.

No intention to solicit general offer

The Disgruntled Directors have never brought the proposed solicitation of general offer to the attention of the Board. Excluding the Disgruntled Directors, the Board does not have the intention to solicit general offer for the issued share capital of the Company.

The Board excluding the Disgruntled Directors is committed to acting in the best interest of the Company and its shareholders and keeps doing the right things to create values for the shareholders while coping with the negative impact caused by the Disgruntled Directors' irresponsible and reckless behavior. Since the Management Restructuring, the Board (excluding the Disgruntled Directors) and the senior management of the Company have been working hard with other employees of the Company to improve the operations and management of the Company, including without limitation, exploring new business model featuring light-asset, strengthening client relationship and controlling the potential financial and operation risks attributable primarily to the unsatisfactory management led by the Disgruntled Directors. The Disgruntled Directors' behavior after their removal from executive roles has not had any material adverse impact on the operations of the Company as a whole.

The Restructured Placing is being considered by the Company and its completion would be subject to the satisfaction of certain conditions. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

The Company is now in the course of obtaining the Cayman Islands legal advice in respect of the legality and procedural regularity of the Requisition Notice. Upon obtaining the Cayman Islands legal advice, the Board would comply with the relevant requirements under Cayman Islands law and the Articles and the Company will, if necessary, made further announcement in respect of the above matter.

This announcement is made by the Company pursuant to Rule 13.09 of the 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).

At the request of the Company, trading in the Company's shares (stock code: 2168) and the debt securities (the "**Debt Securities**") issued by the wholly-owned subsidiary of the Company and guaranteed by the Company (stock codes: 5926 and 5793) on the Stock Exchange was halted from 9:00 a.m. on December 14, 2016 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Company's shares and the Debt Securities with effect from 9:00 a.m. on December 15, 2016.

We refer to:

- (i) the Company's announcements dated November 6, 2016 (the "**Placing Announcement**"), November 8, 2016 and December 2, 2016, in relation to the proposed issue of 378,000,000 new shares by the Company to Originwater under general mandate;

- (ii) the announcement of the Company dated November 6, 2016 in relation to, among others, the re-designation of Mr. Sun and Mr. Strutt from executive directors to non-executive directors of the Company and removal of Mr. Sun and Mr. Strutt as the chief executive officer and the chief operating officer of the Company, respectively; and
- (iii) an open letter from the Disgruntled Directors to the shareholders of the Company that they published on the Hong Kong Economic Journal on December 14, 2016.

The Proposed Placing and the Management Restructuring were the collective decisions of the majority of the Board including the independent non-executive directors at the Board meetings held on November 5, 2016, which were duly convened and properly held in accordance with the Articles.

The Proposed Placing and the Management Restructuring are in the interest of the Company and its shareholders as a whole. The Proposed Placing would be able to improve the financial structure of the Company, lower its financial costs and introduce Originwater as a strategic investor, which should be helpful in improving the management, long-term business development and corporate governance of the Company. As for the Management Restructuring, it will enable the senior management to cope with the challenges the Company is facing in the current market and economic environment and to encourage the senior management to work more efficiently at a higher performance level to create more value for the shareholders of the Company.

To the best knowledge of the Company, the public shareholders, investors and creditors generally responded positively to the Proposed Placing and the Management Restructuring. The employees of the Company welcome it with good morale.

Unfortunately, following the announcement of the Proposed Placing and the Management Restructuring, the Disgruntled Directors have been trying to frustrate the Proposed Placing (to be further described below). In addition, on December 12, 2016, the Board received the Disgruntled Directors' requisition to convene an EGM to, among others, remove all the executive directors of the Company.

While the Company is in the process of obtaining legal advice on the Requisition, the Disgruntled Directors shocked the Company and possibly the public by publishing the Open Letter without authorization of the Board. The Company is uncertain about the purpose or motive of the Disgruntled Directors behind the publishing of the Open Letter, or whether there is any ulterior motive.

The Board excluding the Disgruntled Directors would like to further update the shareholders of the Company on the Proposed Placing and clarify and respond to the proposals and allegations contained in the Disgruntled Directors' Requisition and the Open Letter.

I. Further update on completion of the Proposed Placing of Originwater

A. Disgruntled Directors' frustration of the Proposed Placing

Following the Placing Announcement, the Disgruntled Directors took a surprising and reckless move and engaged Anglo Chinese Corporate Finance, Limited to submit a number of complaint letters to the SFC alleging that, among others, Originwater is acting in concert

with Mr. Zhao (the chairman, an executive director and a substantial shareholder of the Company).

Although the Board (excluding the Disgruntled Directors), Originwater and Mr. Zhao strenuously deny the Allegation and consider it to be groundless and does not have substance, due to the SFC's on-going enquires on the Allegation which may be time-consuming, in view of the urgent need to use the proceeds from the Proposed Placing to repay a imminently repayable bank loan of the Company, the Company is considering to restructure the Proposed Placing in order to resolve, among others, the Takeovers Code issues brought by the Allegation and is in the process of communicating with the Stock Exchange and the Executive of the SFC in this regard.

The Company will keep the shareholders and potential investors of the Company informed of any material development of the Proposed Placing.

B. Update on repayment of bank loans

The Company plans to use the proceeds of the Proposed Placing primarily to repay bank loans so as to improve the Company's financial structure and lower its financial costs. As disclosed in the Company's interim report of 2016, as at June 30, 2016, the borrowings of the Company amounted to approximately RMB10.13 billion and the Company is under considerable liquidity risk under the current market condition.

The Disgruntled Directors' frustration of the Proposed Placing has caused severe delay in the completion of the Proposed Placing and, as a result, has added to the difficulty of the Company in repaying the bank loans. Given the urgency of loan repayment, the Company is proactively making financial arrangements by all reasonable means to minimize the adverse impact brought by the delay in the completion of the Proposed Placing.

Although the delay in the completion of the Proposed Placing is not expected to have a material adverse effect on the business operation and financial position of the Company for the moment, the Company may need to incur additional financial costs in arranging repayment of the bank loans on an urgent basis. The Company will keep the shareholders and potential investors of the Company posted of any material development of the Company's financial position.

In addition, currently, based on communication with creditors, the Company is not under mandatory prepayment obligations under any loan agreement as a result of the Management Restructuring.

II. Open letter of the Disgruntled Directors to shareholders of the Company and their requisition of EGM

On December 12, 2016, the Company received a notice (the "**Requisition Notice**") from the Disgruntled Directors who are interested in approximately 29.48% of the total issued share capital of the Company. On December 14, 2016, the Disgruntled Directors published the Open Letter on the Hong Kong Economic Journal.

We set out below the Disgruntled Directors' proposals and allegations contained in the Requisition Notice and the Open Letter together with the responses from the Board excluding the Disgruntled Directors:

- (A) *Pursuant to the Requisition Notice and the Open Letter, the Disgruntled Directors requisitioned the EGM to be convened pursuant to the Articles to consider:*
- a. *removing Mr. Zhao, Mr. He Yuanping, Mr. Zhang Yunfeng, Mr. Suo Yaotang and Dr. Feng Ke as directors of the Company (the "**Proposed Removal of Directors**")*;
 - b. *appointing Mr. Johnny Mah Zhihe as an independent non-executive director of the Company (the "**Proposed Appointment of Director**")*; and
 - c. *the maximum number of directors of the Company be the number after the proposed removal and appointment, i.e. not exceeding 5 directors (including Mr. Sun and Mr. Strutt as the only two executive directors and three independent non-executive directors including Mr. Johnny Mah Zhihe they would nominate).*

Apparently, the Disgruntled Directors would like to conduct the Proposed Removal of Directors and the Proposed Appointment of Director to obtain a *de facto* control over the management of the Company. The Board excluding the Disgruntled Directors takes a strong view that the Disgruntled Director's proposal is not in the best interest of the Company and its shareholders as a whole and would be devastating to the corporate governance of the Company.

The Company is now in the course of obtaining the Cayman Islands legal advice in respect of the legality and procedural regularity of the Requisition Notice. Upon obtaining the Cayman Islands legal advice, the Board would comply with the relevant requirements under Cayman Islands law and the Articles and the Company will, if necessary, make further announcement in respect of the above matter.

- (B) *the Disgruntled Directors alleged that they believe that the Board meeting of the Company dated November 5, 2016, on which the Management Restructuring was approved, was invalid and the Management Restructuring was ineffective*;

The Board confirms that the Board meetings held on November 5, 2016 were duly convened and properly held in accordance with the Articles. As advised by the Company's Cayman legal advisor, the resolutions passed at the Board meetings are legal and valid resolutions passed in accordance with the Articles and Cayman Islands law.

- (C) *the Disgruntled Directors proposed in the Open Letter that following the Proposed Removal of Directors and the Proposed Appointment of Director, Mr. Sun will be reinstated as an executive director of the Board and chief executive officer of the Company, and Mr. Strutt will be reinstated as an executive director of the Company (the "**Proposed Reinstatement**")*;

As disclosed in the Company's announcement dated November 6, 2016, the Board removed Mr. Sun and Mr. Strutt as the chief executive officer and the chief operating

officer of the Company, respectively, as part of the restructuring of the Board and the senior management of the Company to cope with the challenges the Company is facing in the current market and economic environment and to encourage the senior management to work more efficiently at a higher performance level to create more value for the shareholders of the Company.

Due to the Disgruntled Directors' unsatisfactory performance, the Board excluding the Disgruntled Directors strongly believes that to reinstate them as executive directors of the Company is not in the best interest of the Company and its shareholders as a whole.

As for the performance of the Disgruntled Directors during their term of office, the Company is conducting an internal financial and business investigation. The Company will disclose the key findings in due course. The Company reserves the right to hold the Disgruntled Directors accountable for any inappropriate actions during their term of office with the Company.

- (D) *the Disgruntled Directors proposed that, immediately after the Proposed Reinstatement, they would solicit offers for the whole of the issued share capital of the Company (the “Proposed Solicitation”).*

The Disgruntled Directors have never brought the Proposed Solicitation to the attention of the Board. Excluding the Disgruntled Directors, the Board does not have the intention to solicit general offer for the issued share capital of the Company.

The Company will make further announcement in due course in accordance with the relevant legal requirements and the Articles in respect of the Proposed Placing and the Disgruntled Directors' requisition of EGM.

III. Resumption of trading in shares and debt securities

At the request of the Company, trading in the Company's shares (stock code: 2168) and the Debt Securities (stock codes: 5926 and 5793) on the Stock Exchange was halted from 9:00 a.m. on December 14, 2016 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Company's shares and the Debt Securities with effect from 9:00 a.m. on December 15, 2016.

The Board excluding the Disgruntled Directors is committed to acting in the best interest of the Company and its shareholders and keeps doing the right things to create values for the shareholders while coping with the negative impact caused by the Disgruntled Directors' irresponsible and reckless behavior. Since the Management Restructuring, the Board (excluding the Disgruntled Directors) and the senior management of the Company have been working hard with other employees of the Company to improve the operations and management of the Company, including without limitation, exploring new business model featuring light-asset, strengthening client relationship and controlling the potential financial and operation risks attributable primarily to the unsatisfactory management led by the Disgruntled Directors. The Disgruntled Directors' behavior after their removal from executive roles has not had any material adverse impact on the operations of the Company as a whole.

The Restructured Placing is being considered by the Company and its completion would be subject to the satisfaction of certain conditions. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

The Company is now in the course of obtaining the Cayman Islands legal advice in respect of the legality and procedural regularity of the Requisition Notice. Upon obtaining the Cayman Islands legal advice, the Board would comply with the relevant requirements under Cayman Islands law and the Articles and the Company will, if necessary, made further announcement in respect of the above matter.

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

Hong Kong, December 14, 2016

As at the date of this announcement, the executive directors of the Company are Mr. Zhao Xiangti, Mr. He Yuanping and Mr. Zhang Yunfeng; the non-executive directors of the Company are Mr. Zhongguo Sun, Mr. Trevor Raymond Strutt and Mr. Suo Yaotang; and the independent non-executive directors of the Company are Mr. Zheng Fuya, Dr. Wang Ching and Dr. Feng Ke.

All directors of the Company (excluding the Disgruntled Directors) jointly and severally accept full responsibility for the accuracy of the information contained in this announcement in any material respect, 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 in any material respect.