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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)

EGM REQUISITION BY RONGTON GROUNDS FOR THE PROPOSED REMOVAL OF MR. ZHONGGUO SUN AND MR. STRUTT AND REQUEST FOR MR. ZHONGGUO SUN AND MR. STRUTT TO RESPOND

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) (the “**SFO**”).

I. EGM REQUISITION BY RONGTON

On 19 January 2017, the Company received a notice (the “**Requisition Notice**”) from Rongton Investments Limited (“**Rongton**”) controlled by Mr. ZHAO Xiangti (“**Mr. Zhao**”), the chairman and executive director of the Company.

In the Requisition Notice, Rongton required an extraordinary general meeting (“**EGM**”) to be convened for shareholders to consider, if thought fit, to pass the following ordinary resolutions:

1. THAT ZHONGGUO SUN (“**Mr. Sun**”) be and is hereby removed as a director of the Company.
2. THAT TREVOR RAYMOND STRUTT (“**Mr. Strutt**”) be and is hereby removed as a director of the Company.

The Company is now in the course of obtaining Cayman Islands legal advice in respect of the procedural regularity of the Requisition Notice. Upon obtaining Cayman Islands legal advice, the Company would comply with the relevant requirements under the articles of association of the Company and will make further announcement in due course.

II. GROUNDS FOR THE PROPOSED REMOVAL OF MR. SUN AND MR. STRUTT

The Requisition Notice has set out the following grounds from Rongton for removal of Mr. Sun and Mr. Strutt:

1. Unsatisfactory financial performance and share price performance and deteriorating debt structure

Rongton has stated in the Requisition Notice that it is disappointed with the performance of the Company during the past years:

	Year ended 31 December 2013	Year ended 31 December 2014	Year ended 31 December 2015	Six months ended 30 June 2016 (Six months ended 30 June 2015)
Value Weighted Average Share Price (“VWAP”) (Note 1)	HK\$7.885	HK\$6.723	HK\$4.748	HK\$2.96 (HK\$6.118)
Basic earnings per share (Note 2)	RMB0.5	RMB0.5	RMB0.3	RMB0.216 (RMB0.232)
Net Profit Margin (Note 3)	13.2%	11.7%	6.8%	9.3% (11.0%)
Return on Assets (Note 4)	5.8%	5.2%	2.7%	2.3% (5.0%)
Finance costs (Note 5)	RMB382 million	RMB520 million	RMB968 million	RMB443 million (RMB306 million)
Debt Ratio (Note 6)	62.4% (as at 31 December 2013)	65% (as at 31 December 2014)	64.9% (as at 31 December 2015)	65.4% (as at 30 June 2016) (64.6% (as at 30 June 2015))

Notes:

- $$VWAP = \frac{\sum \text{Number of Shares Traded} \times \text{Share Price}}{\text{Total Shares Traded}}$$
- The dramatic fall in earnings per share is mainly attributable to foreign exchange loss as a result of depreciation of RMB against USD. With the Company’s persistent reliance on USD-denominated debt financing without due recourse to equity financing, the foreign exchange loss might sustain or even deteriorate due to the weakening of RMB.

3. Net profits after tax attributable to equity shareholders of the Company divided by revenue.
4. The trailing 12-month net profit after tax attributable to equity shareholders of the Company divided by the average balance of total assets at the beginning and the end of each relevant period.
5. With the general downgrading of the credit rating and the interest rate hike of USD-denominated debt financing, the Company's finance costs might continue to increase.
6. Total liabilities divided by total assets.

Although the Company's net operating cash flow was improving: RMB955 million (2013), RMB925 million (2014) and RMB1,374 million (2015). The improvements have been almost offset by the notable increases in finance costs of RMB382 million (2013), RMB520 million (2014) and RMB968 million (2015).

The net current liabilities (current liabilities minus current assets) as of 30 June 2016 amounted to RMB1,338 million.

2. The discretionary bonus paid to Mr. Sun and Mr. Strutt was not in line with the share price performance or basic earnings per share in the recent year of 2015

	Year ended 31 December 2014	Year ended 31 December 2015
Value Wiegthed Average Share Price	HK\$6.723	HK\$4.748
Basic earnings per share	RMB0.5	RMB0.3
Discretionary bonus to Mr. Sun	RMB3,240,000	RMB4,691,000
Discretionary bonus to Mr. Strutt	RMB1,007,000	RMB2,031,000
Discretionary bonus to Mr. Zhao	Nil	Nil

While Mr. Sun and Mr. Strutt enjoyed a considerable rise in discretionary bonus in 2015, Mr. Sun and Mr. Strutt initiated a general 25% pay cut effective from February 2015 for most of the employees of the Group whose monthly income is higher than RMB15,000, and also to stop paying any bonus for most of the employees of the Group during 2014 and 2015.

3. **Mr. Sun’s interest in Astrotec which is engaged in competing business as revealed in a judgment of Hong Kong High Court**

- (a) It currently transpired that Mr. Sun has interest in competing business through Astrotec Company Limited (“**Astrotec**”), a company which was engaged in business competing with the Company’s principal business. According to a judgment of HCCW 282/2010 delivered by the Court of First Instance of Hong Kong (the “**Court**”) on 31 January 2013 (“**Judgment**”), the Court has concluded as a finding of fact that a lady named Ms. Yu Qi (虞琪) (“**Madam Yu**”) held the interest in Astrotec as trustee for Mr. Sun to certain extent, and that Mr. Sun was the real boss of Astrotec at least up to September 2008. Mr. Sun’s said relationships with Madam Yu and the beneficial interest in and management control over Astrotec were never disclosed in the Company’s prospectus or subsequent annual reports. Further, Mr. Sun has confirmed to the Stock Exchange in previous occasions that he ceased to have any interest in Astrotec from 22 March 2006 which was contrary to the finding of facts in the Judgment.

In November 2013 and after the Judgment was delivered in January 2013, Mr. Sun, in breach of his fiduciary duty towards the Company, failed to disclose his apparent interest in Astrotec when he initiated and was actively involved in the proposed acquisition (“**Proposed Acquisition**”) of Astrotec, even though the Proposed Acquisition failed to materialize since the other members of the board of the directors of the Company were not satisfied with the due diligence results.

According to the Judgment, Mr. Sun provided a confirmation letter as supporting evidence for Madam Yu. There is no question Mr. Sun must have knowledge of the Judgment, which rules:

“14. It is common ground that the Company [i.e. Astrotec] is involved in the industrial gas supply business on the Mainland

22. *Significantly, as will be seen later, it also refers to the fact that the people behind Baslow were led by a person called「孫忠國」(Sun Zhongguo) (“Mr. Sun”)*

41. *In addition, the petitioner was allowed to become an investor in the Company. He paid for his 15 shares in the Company in the total sum of RMB3,645,000 to Mr. Sun by instalments between July 2005 and February 2006. Such payments are supported by bank transfer slips in favour of Mr. Sun produced by the petitioner.*

58 Yu (i.e. Ms. Yu Qi (虞琪)) has produced two pieces of documentary evidence:

(ii) A copy of a Confirmation Letter by Mr. Sun dated 21 October 2010 exhibited....

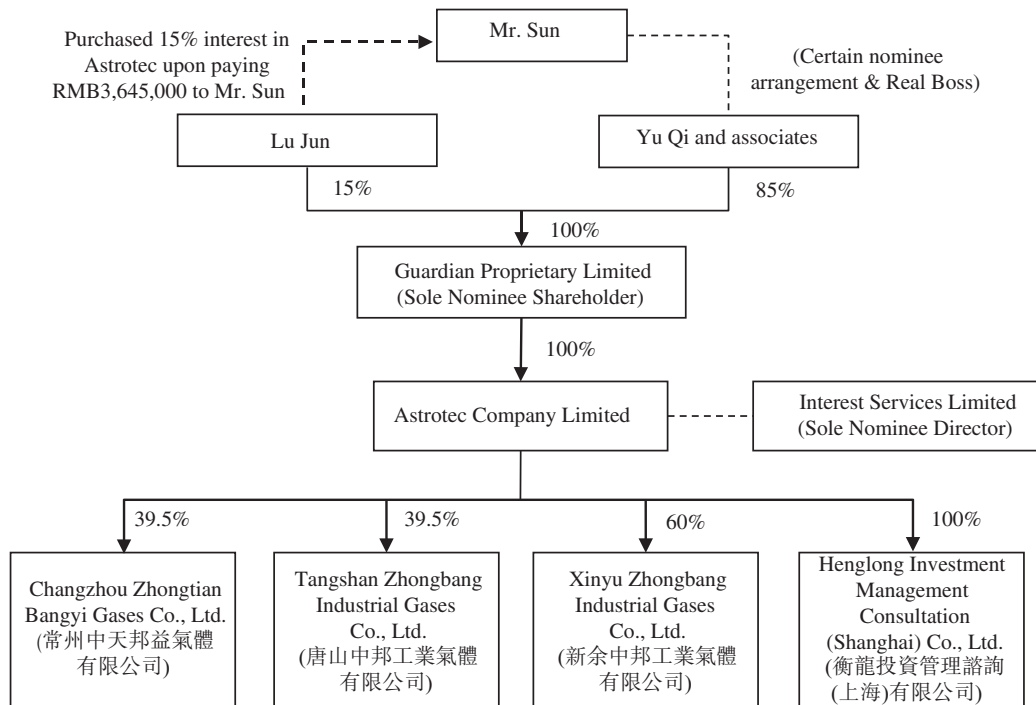
62. *On the whole, I accept the petitioner's evidence and reject that of Yu regarding how it came about that the petitioner became a 15% shareholder in the Company. I find the following facts:*

(i) The petitioner did pay the sum of RMB3,645,000 to Mr. Sun as consideration for the 15 shares in the Company which were initially transferred to the 2nd respondent who held the same as nominee for the petitioner.

74. *The evidence of the petitioner contained in his numerous affirmations contains important allegations about the involvement of Mr. Sun. Yu quite clearly had had access to Mr. Sun and should have asked him to make an affirmation and called him as a witness to counter the petitioner's allegations. She did not do so. There is therefore ample room for me to draw the inference that Mr. Sun is not in a position to deny the allegations of the petitioner regarding him. I so draw such an inference.*

77. *Finally, I have reviewed the evidence consisting of the recording and transcript of a meeting which took place between Mr. Sun, the petitioner and Yu at the Grand Hyatt Hotel, ...In my judgment, the recording and transcript show quite clearly the status and involvement of Mr. Sun. ... I find that Mr. Sun was the real boss in relation to the Company even up to September 2008.*

In short, the then beneficial shareholding structure over Astrotec, as a finding of fact by the Court, could be simplified as follows based on Page 41 of the Judgment:



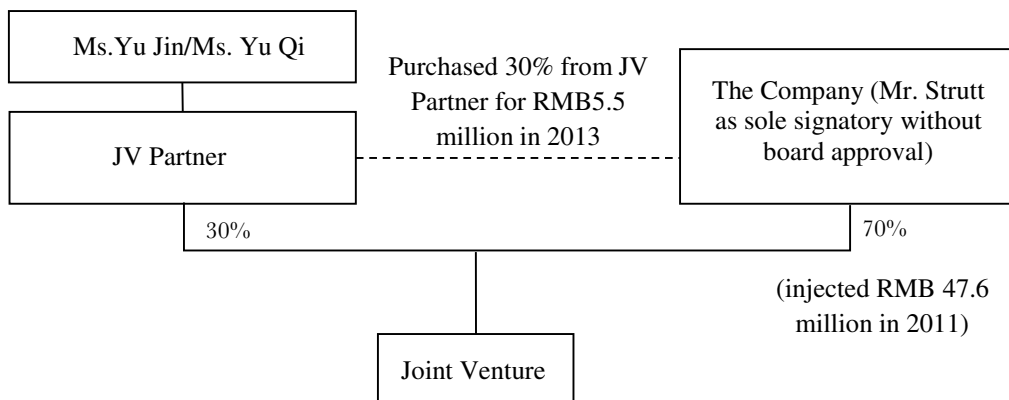
4. **Suspected connected transaction with entity controlled by Ms. Yu Jin (虞謹) (“Madam Yu Junior”), the sister of Madam Yu who is a suspected associate of Mr. Sun. Mr. Strutt was the sole signatory of the Company without board approval.**

In 2011, the Company entered into a joint venture agreement (“**JV Agreement**”) with Nice On Limited, a joint venture partner (“**JV Partner**”) who was beneficially owned by and/or controlled by Ms. Yu Jin (虞謹) (“**Madam Yu Junior**”), the sister of Madam Yu.

Later in December 2013, the Company entered into an acquisition agreement (“**Acquisition Agreement**”) to acquire the interests in the joint venture from the JV Partner which was then represented by Madam Yu in signing the JV Agreement. In light of the Judgment, at the very least, Mr. Sun has failed to disclose his relationships with Madam Yu and the Judgment which was delivered in January 2013.

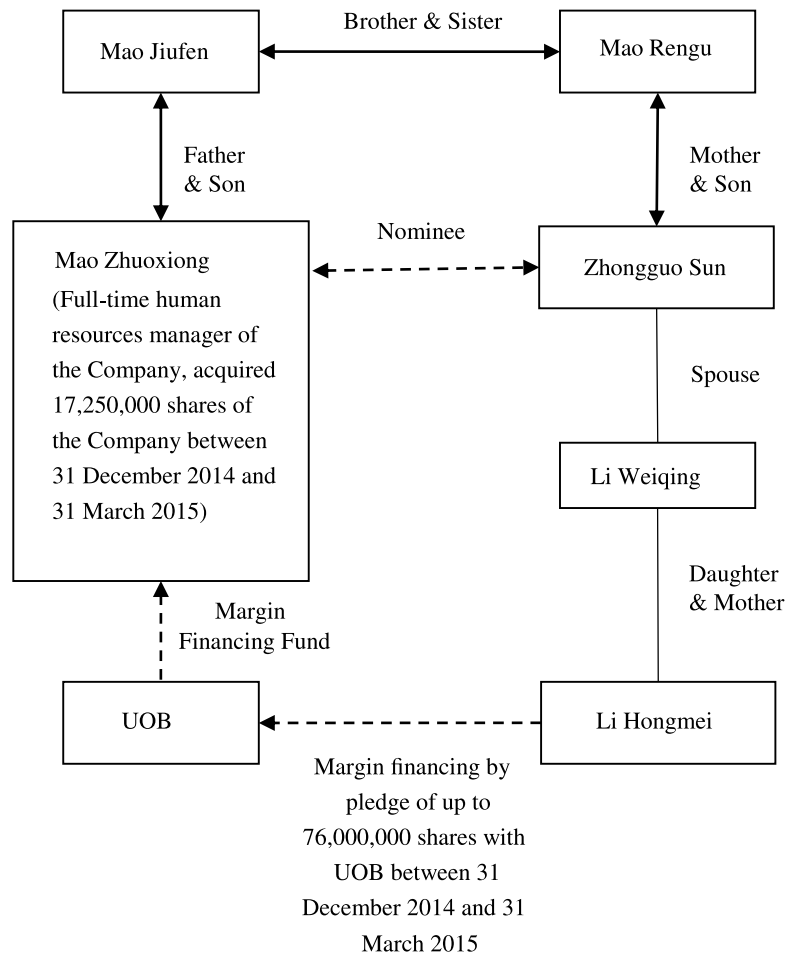
The Company is conducting internal audits as to the loss suffered. Mr. Zhao, a director of the Company, has made a formal application to the Stock Exchange for a formal ruling that both Madam Yu and Madam Yu Junior are connected persons of the Company. The Company will make appropriate update announcement upon receipt of ruling from the Stock Exchange.

Mr. Strutt was the sole signatory of the JV Agreement and Acquisition Agreement without any board approval. Mr. Strutt might be a conspiracy party in this highly suspected connected transaction.



5. **Mr. Sun’s suspected interest in shares of the Company through Mr. Mao Zhuoxiong (毛卓雄) (“Mr. Mao”) as nominee**

For ease of reference, please refer to the relationship chart below.



It recently transpired that Ms. Li Hongmei and Mr. Mao Zhuoxiong (“**Mr. Mao**”) became holder of the shares of the Company through a custodian named “**UOB KAY HIAN (HONG KONG) LTD**” (“**UOB**”) during the period between 31 December 2014 and 31 March 2015. It is highly likely that, Mr. Sun, through Ms. Li Hongmei (Mr. Sun’s mother-in-law) arranged for margin financing by pledging up to 76,000,000 shares of the Company and on-lent the margin financing funds to Mr. Mao who then used the said margin financing funds to purchase 17,250,000 shares of the Company as nominee (“**Nominee Arrangement**”) of Mr. Sun.

It is not certain whether the purchase of 17,250,000 shares of the Company between 31 December 2014 and 31 March 2015 falls within the blackout period (“**Blackout Period**”) prior to the publication of the Company’s 2014 annual result which starts from 16 January 2015.

It is worth noting that Mr. Mao has been a full-time employee of the Company as a human resources manager. His income is not supportive of purchasing 17,250,000 shares of the Company during 31 December 2014 and 31 March 2015, which would cost at least HKD86,250,000 by reference to the lowest share trade price of HK\$5 during the period. After being questioned about the Nominee Arrangement on 21 December 2016, Mr. Mao has not reported duty since then.

6. **Repeated non-disclosed cash advances to Mr. Sun**

Reference is made to the published announcement dated 28 March 2013 with respect to the advances by the Company of **RMB38 million and RMB73 million** to Bubbly Brooke Holdings Limited (“**Bubbly Brooke**”, an entity controlled by Mr. Sun) on 19 September 2012 and 25 October 2012 which failed to be disclosed pursuant to Chapter 14A of the Listing Rules upon occurrence and only discovered during the preparation of the annual financial statements of the Company (“**Connected Transaction Announcement**”), which provides at page 2: “Prior to the Transactions, the Company has never made any lending or advances to Bubbly Brooke or Mr. Sun since the Company’s listing on the Exchange in 2009.”

However, it recently transpired that, back in January 2011, an advance of **RMB4,000,000** was paid to Mr. Sun whose discretionary bonus for the whole year of 2011 also happened to be RMB4,000,000, which seems to suggest:

- i It is not logical for the Company to award discretionary bonus for the whole year of 2011 by remitting RMB4,000,000 to Mr. Sun in January 2011.
- ii the only logical inference shall be that the advance of RMB4,000,000 was an unauthorized cash advance by the Company to Mr. Sun in January 2011, which was set off by so-called discretionary bonus in the year end of 2011.
- iii The Connected Transaction Announcement is misleading and shall be clarified to the effect that there was prior advance to Mr. Sun before the incidents of unauthorized cash advances as set out in the Connected Transaction Announcement.

7. **Mr. Strutt’s use of corporate credit card**

It recently transpired that Mr. Strutt has habitually used the corporate credit card of the Company for bills which was neither related to his employment nor covered by his employment agreement, such as his son’s university school fee in UK, first class and business class air tickets for himself, his wife and his other family members for overseas trips.

8. **Payment of salary to Mr. Strutt’s son for two years who has never reported duty**

It recently transpired that the one of the Company’s subsidiaries has paid salary to Mr. Strutt’s son (who has never reported duty) for two years.

III. REQUEST FOR MR. SUN AND MR. STRUTT TO RESPOND

The board of directors (“**Majority Board**”, being all the directors excluding Mr. Sun and Mr. Strutt (the “**Minority Directors**”)) notes that the allegations are serious and confirmed that the highly similar allegations were contained in a letter dated **27 December 2016** by Mr. Zhao to Mr. Sun and Mr. Strutt, and Mr. Zhao has also repeatedly requested for discussion of the matters at the board level, but Mr. Sun and Mr. Strutt have failed to reply to date and instead have initiated legal proceedings against the Majority Board (including independent non-executive directors) in Cayman court and also, through corporate shareholders controlled by them, proposed to remove most of the current board members (as set out in the announcement dated 12 January 2017).

The Majority Board’s preliminary view is that, the allegations set out in the Requisition Notice are true and correct in material respect, and the Majority Board will fully cooperate with further investigation by appropriate governing authorities, regardless of whether Mr. Sun and Mr. Strutt’s proposal to remove most of the current board members (including independent non-executive directors) in the next shareholder’s general meeting would be passed by Mr. Sun and Mr. Strutt’s utilizing their voting power together with the suspected nominee who holds the shares of the Company as nominee for Mr. Sun.

The Majority Board also called for Mr. Sun and Mr. Strutt to respond to the allegations set out in the Requisition Notice on or before 22 January 2017.

As 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 a.m. on 16 January 2017. Trading in the Company's shares and Debt Securities will remain suspended until the publication of an announcement pursuant to Rule 13.09 of the Listing Rules, the Takeovers Code and the Inside Information Provisions under Part XIVA of the SFO.

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, 19 January 2017

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 Mr. Sun and Mr. Strutt) 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.