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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

Revenue of our Group in 2016 was RMB8,404 million, representing an increase of 6.1% from 2015.

Profit/Loss attributable to equity shareholders of our Company in 2016 was a loss of RMB143 million.

Net cash flow generated from operating activities of our Group in 2016 was RMB1,884 million, representing an increase of 37.1% from 2015.

Capital expenditure of our Group in 2016 was RMB928 million, representing a decrease of 17.4% from 2015.

Basic earnings per share was a loss of RMB0.08.

This announcement is made by Yingde Gases Group Company Limited (the "Company") pursuant to Rule 13.49(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

RESULTS

The board of directors (the "Board") of the Company (together with its subsidiaries are referred to as the "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 2016 as follows:

FINANCIAL INFORMATION

Financial information below is extracted from the audited consolidated financial statements of our Group for the year ended 31 December 2016, together with comparative figures for the year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards ("IFRSs"):

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	**2016** *RMB'000*	**2015** *RMB'000*
Revenue	4	8,403,932	7,918,861
Cost of sales		(5,850,474)	(5,368,593)
Gross profit		2,553,458	2,550,268
Other income		52,196	32,875
Selling expenses		(159,621)	(207,204)
Administrative expenses		(474,118)	(500,770)
Impairment loss on property, plant and equipment and construction in progress	5	(611,912)	–
Profit from operations		1,360,003	1,875,169
Finance income	6(a)	79,519	30,851
Finance costs	6(a)	(1,016,836)	(968,324)
Share of results of associates		(49,750)	13,881
Share of results of joint ventures		(18)	(1,087)
Profit before taxation	6	372,918	950,490
Income tax	7	(521,094)	(417,785)
(Loss)/profit and total comprehensive income for the year		(148,176)	532,705
Attributable to:			
Equity shareholders of the Company		(142,589)	535,941
Non-controlling interests		(5,587)	(3,236)
(Loss)/profit and total comprehensive income for the year		(148,176)	532,705
(Loss)/earnings per share (RMB cents)	8		
Basic		(8.0)	30.0
Diluted		(8.0)	30.0

Consolidated statement of financial position
at 31 December 2016
(Expressed in Renminbi)

	Note	2016 *RMB'000*	2015 *RMB'000*
Non-current assets			
Property, plant and equipment, net	5	10,632,823	10,274,282
Construction in progress	5	2,085,920	3,013,037
Lease prepayments		407,286	416,483
Intangible assets		40,964	47,863
Receivables under finance leases		9,628	10,638
Interest in associates		184,001	518,671
Interest in joint ventures		249,434	263,694
Other non-current assets		1,273,515	1,081,786
Deferred tax assets	7(d)	138,509	165,006
Total non-current assets		15,022,080	15,791,460
Current assets			
Inventories		108,443	102,422
Trade and other receivables	9	2,049,518	2,682,864
Receivables under finance leases		2,117	2,117
Income tax recoverable	7(c)	5,209	7,604
Other financial assets		68,587	–
Pledged bank deposits		1,229,769	309,526
Cash and cash equivalents		736,855	678,450
Total current assets		4,200,498	3,782,983
Current liabilities			
Borrowings		3,878,769	1,603,338
Trade and other payables	10	1,849,207	2,285,508
Obligations under finance leases		223,674	190,241
Income tax payable	7(c)	242,300	184,940
Total current liabilities		6,193,950	4,264,027
Net current liabilities		(1,993,452)	(481,044)
Total assets less current liabilities		13,028,628	15,310,416

Consolidated statement of financial position (continued)
at 31 December 2016
(Expressed in Renminbi)

	Note	2016 *RMB'000*	2015 *RMB'000*
Non-current liabilities			
Borrowings		6,505,224	8,060,162
Obligations under finance leases		115,892	224,855
Other non-current liabilities		56,777	53,376
Deferred tax liabilities	7(d)	101,962	93,431
Total non-current liabilities		6,779,855	8,431,824
Net assets		6,248,773	6,878,592
Equity			
Share capital		12	12
Reserves		6,083,420	6,707,652
Total equity attributable to equity shareholders of the Company		6,083,432	6,707,664
Non-controlling interests		165,341	170,928
Total equity		6,248,773	6,878,592

Notes to the financial information

1 Corporate information

The Company was incorporated in the Cayman Islands on 25 September 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in production and sales of industrial gases in the People's Republic of China (the "PRC"). The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 October 2009.

2 Basis of preparation of the financial statements

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

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet debt obligation as they fall due and financial support from bankers to meet future capital expenditures.

At 31 December 2016, the Group had cash and cash equivalents of RMB 736,855,000 (2015: RMB 678,450,000); the Group also had net current liabilities of RMB 1,993,452,000 (2015: RMB 481,044,000) and total borrowings of RMB 10,383,993,000 (2015: RMB 9,663,500,000).

The total borrowings included a syndicated loan of USD 90,000,000 and HKD 77,500,000 equivalent to RMB 680,794,000. The Group has failed to fulfil a financial covenant requirement in relation to the amount of the net tangible assets of the Group ("Event of Default") under the syndicated loan and the Group has not remedied this requirement at the reporting date. Therefore, the syndicated loan lenders have (via the syndicated loan agent) the right to require the syndicated loan to be immediately repaid prior to its original repayment dates as defined in the original syndicated loan agreement. As at 31 December 2016, the entire outstanding amount of the syndicated loan was reclassified as current liabilities. The Directors are in communication with the syndicated loan lenders about the syndicated loan and the Event of Default. If the Directors are unable to come to an acceptable arrangement with the syndicated loan lenders with regards to the Event of Default and the Company is unable to secure alternative funding to replace the syndicated loan, then an acceleration of repayment of the syndicated loan may trigger a cross default of other financial indebtedness and result in the Group being under an immediate repayment obligation for such financial indebtedness. As of the date hereof, the Company has not received notice from the syndicated loan agent to accelerate the repayment of the syndicated loan.

The Directors have reviewed the current performance and cashflow projections as part of their assessment of the Group's going concern, and after carefully considering the matters described above, the Directors have a reasonable expectation that the Group is able to continue as a going concern for at least next twelve months from the end of the reporting period and to meet its obligations, as and when they fall due, having regard to the following:

(i) the Group generated net cash from operating activities of approximately RMB 1,884 million during the year ended 31 December 2016 (2015: RMB 1,374 million) and expects to continue to improve its working capital management and generate positive operating cash flows for the next twelve months;

(ii) at 31 December 2016, the Group has available unutilised bank facilities of RMB 595 million;

2 Basis of preparation of the financial statements (continued)

(iii) the Group has the ability to renew or refinance the banking facilities upon maturity;

(iv) the Directors have been actively communicating with the lenders of the syndicated loan as mentioned above;

(v) the Group determines to postpone certain planned capital expenditure for the next twelve months; and

(vi) according to the Company's offer announcement from PAGAC II-2 Limited ("PAG" or "Offeror") dated 7 March 2017 ("PAG Offers"), PAG provided voluntary conditional cash offers to acquire all issued shares of the Company at HKD 6 per share, for a total maximum consideration of approximately HKD 11,288 million.

It has been stated in the PAG Offers that "It is the Offeror's intention to acquire a majority interest in the Company pursuant to the Offers. The Offeror intends to maintain the Company's existing principal activities. After completion of the Offers, the Offeror will assist the Company to review its existing funding programs in place, to optimise its capital structure to ensure adequate liquidity in the context of the Company's business activities, and in general to assist in improving the Company's operations to create shareholder value."

As refer to the announcement dated 6 April 2017, the PAG Offers have become unconditional in all respects, taking into account of approximately 23.61% of issued share capital held by PAG and valid acceptance under the PAG Offers which resulted PAG and its Concert Parties holding an aggregate of approximately 53.87% of the issued share capital and voting rights of the Company. PAG is the largest shareholder of the Company.

Consequently, the Directors have concluded that the Company and the Group have the ability to continue as a going concern. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

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

– financial instruments classified as available-for-sale or as trading securities; and

– derivative financial instrument.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Revenue

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

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

	2016	**2015**
	RMB'000	*RMB'000*
Sales of industrial gases to on-site customers	7,021,211	6,886,264
Sales of industrial gases to merchant customers	954,520	824,593
Revenue from other related services	428,201	208,004
	8,403,932	7,918,861

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2016 revenues from sales to this customer amounted to RMB 863,607,000 (2015: RMB 888,957,000). All the customers of the Group are from the PRC.

5 Impairment loss on property, plant and equipment and construction in progress

Impairment losses of RMB46,893,000, in respect of certain building, plant and machinery of the Group which were obsolete, damaged or that could not generate future economic benefits, were provided against for impairment for the year ended 31 December 2016.

In relation to the Kelamayi project involving the construction of a Coal to Hydrogen plant, having assessed its prospects and the Company's financial resources, the Company has decided to indefinitely suspend the project and will not make any further investment into it. The equipment purchased under the project will be transferred to other parts of the businesses of the Company and its subsidiaries. As a result, it indicates that construction in progress of the project in Kelamayi is impaired. The Company re-assessed the recoverable amount of this project with reference to the fair value less cost of disposal of these assets. For the assets which cannot be moved or disposed, mainly plant under construction and the capitalised interest cost, the Company decided to make full impairment provision as it is expected that the recoverable amount is minimal. While, the equipment and machinery in Kelamayi project site are nearly brand new, mainly includes a set of air separator and a set of hydrogen manufacturing converter, can be moved from the construction site in Kelamayi to another project. The Company assessed the recoverable amount of these equipment and machinery based on these equipment and machinery's fair value less costs of disposal, by reference to recent market prices of air separator set and hydrogen manufacturing converter set of similar capacity and condition. As a result of the above, a total impairment loss of RMB481,686,000 for this project mainly related to the plant under construction in Kelamayi was recognised for the year ended 31 December 2016.

5 **Impairment loss on property, plant and equipment and construction in progress (continued)**

Besides, impairment losses of RMB83,333,000 were recognised on other construction projects, mainly plants under construction, during the year ended 31 December 2016 due to projects suspension, primarily based on their assessment that the recoverable amount are minimal.

6 **Profit before taxation**

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

	2016 *RMB'000*	2015 *RMB'000*
(a) Finance costs/(income)		
Interest income	(9,519)	(27,415)
Finance income on receivables under finance leases	(1,235)	(1,346)
Total interest income	(10,754)	(28,761)
Gain on remeasurement of derivative financial instruments	(68,765)	(2,090)
Finance income	(79,519)	(30,851)
Interest on bank loans and other borrowings	632,694	712,133
Finance charges on obligations under finance leases	19,399	35,244
Total interest expenses	652,093	747,377
Less: borrowing costs capitalised	(40,815)	(103,046)
Foreign currency exchange loss	405,558	323,993
Finance costs	1,016,836	968,324
	937,317	937,473

The borrowing costs have been capitalised at the following rates:

Capitalised interest rate (per annum)	4.4% - 8.2%	2.8% - 8.1%

6 Profit before taxation (continued)

	2016	2015
	RMB'000	*RMB'000*
(b) Staff costs		
Salaries, wages, bonuses and benefits	244,793	286,929
Contributions to defined contribution retirement schemes	24,519	29,744
Expenses of share schemes	9,792	8,199
	279,104	324,872

Staff costs included the Directors' emoluments.

Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement schemes (the "Schemes") organised by the respective local government authorities whereby the Group is required to make contributions to the Schemes at rates in the range of 12% to 20% of the eligible employees' salaries during the year.

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

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

6 Profit before taxation (continued)

	2016	2015
	RMB'000	*RMB'000*
(c) Other items		
Utilities		
– Electricity	3,838,825	3,580,277
– Steam	696,887	649,099
Depreciation	882,886	753,669
Amortisation		
– Land lease prepayments	9,197	8,064
– Intangible assets	7,069	4,883
Auditors' remuneration		
– Audit services	7,724	6,987
– Non-audit services	213	184
Operating lease charges: minimum lease payment (land and buildings)	19,013	17,720
Net (gain)/loss on disposal of property, plant and equipment	(2,658)	10,615
Impairment losses recognised on		
– Trade and other receivables	81,684	143,577
– Non-current assets		
Property, plant and equipment	46,893	–
Construction in progress	565,019	–
Interest in joint ventures	15,034	–
Other non-current assets	–	10,000

7 Income tax

(a) Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	RMB'000	*RMB'000*
Provision for income tax for the year	486,066	419,042
Deferred tax	35,028	(1,257)
	521,094	417,785

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

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	372,918	950,490
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (Note (i))	267,041	421,516
Tax effect of non-deductible expenses	192,878	18,682
Tax losses and temporary differences not recognised	25,032	13,284
Reversal of deferred tax assets recognised in previous years	36,001	8,660
Effect of tax concessions (Note (i))	(27,556)	(49,667)
Tax on distributable profits of subsidiaries in the PRC (Note (ii))	–	8,509
Tax effect in respect of share of results of associates and joint ventures	12,442	(3,199)
Others	15,256	–
Actual income tax expense	521,094	417,785

7 Income tax (continued)

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

Notes:

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

Hong Kong profits tax rate for 2016 is 16.5% (2015: 16.5%). No provision has been made for Hong Kong profits tax as the Group did not earn any income which is subjected to Hong Kong profits tax.

The provision for current PRC income tax is based on a statutory rate of 25% (2015: 25%) of the assessable profit as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Group, which operate in the western developing region of the PRC are granted the preferential tax rate of 15%, pursuant to the relevant documents issued by the state and local tax bureau of the PRC during 2016.

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

(c) Income tax payable in the consolidated statement of financial position represents:

	2016	**2015**
	RMB'000	*RMB'000*
At 1 January	177,336	182,610
Provision for income tax for the year	486,066	419,042
PRC income tax paid	(428,400)	(424,316)
PRC income tax refund	2,089	–
At 31 December	237,091	177,336
Representing:		
Income tax recoverable	(5,209)	(7,604)
Income tax payable	242,300	184,940
	237,091	177,336

7 Income tax (continued)

(d) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

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

	Property, plant and equipment	Allowance for doubtful debts	Tax loss carry forwards	Profits expected to distribute	Accrued expenses not yet paid	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
Deferred tax arising from:						
At 1 January 2015	20,819	12,366	45,331	(61,137)	52,939	70,318
Credited/(charged) to profit or loss	19,003	4,401	(2,261)	(8,508)	(11,378)	1,257
At 31 December 2015	39,822	16,767	43,070	(69,645)	41,561	71,575
At 1 January 2016	39,822	16,767	43,070	(69,645)	41,561	71,575
(Charged)/credited to profit or loss	(29,307)	(4,634)	(24,705)	54,156	(30,538)	(35,028)
At 31 December 2016	10,515	12,133	18,365	(15,489)	11,023	36,547

Note:

Deferred tax liabilities on undistributed profits represent temporary differences relating to the distributable profits accumulated since 1 January 2008 of the Group's subsidiaries in the PRC that are expected to be distributed in the foreseeable future.

(ii) Reconciliation to the consolidated statement of financial position

	2016	2015
	RMB'000	*RMB'000*
Net deferred tax asset recognised in the consolidated statement of financial position	138,509	165,006
Net deferred tax liability recognised in the consolidated statement of financial position	(101,962)	(93,431)
	36,547	71,575

7 Income tax (continued)

(e) Deferred tax assets not recognised on tax losses

The Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB176,991,000 (2015: RMB153,768,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Tax losses of RMB16,001,000, RMB42,072,000, RMB30,272,000, RMB37,077,000 and RMB51,569,000, if unused, will expire in 2017, 2018, 2019, 2020 and 2021, respectively.

(f) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to the distributable profits accumulated since 1 January 2008 of the Group's subsidiaries in the PRC, that are not expected to be distributed in the foreseeable future, amounted to RMB6,124,587,000 (2015: RMB6,146,491,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on distribution of these retained earnings as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

8 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB142,589,000 (2015: profit of RMB535,941,000) and the weighted average number of shares of 1,793,173,500 issued and fully paid ordinary shares (2015: 1,793,173,500 ordinary shares) during the year.

8 **(Loss)/earnings per share (continued)**

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB142,589,000 (2015: profit of RMB535,941,000) and the weighted average number of ordinary shares of 1,793,173,500 shares (2015: 1,793,180,733 ordinary shares), calculated as follows:

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

	2016	**2015**
	RMB'000	*RMB'000*
(Loss)/Profit attributable to ordinary equity shareholders	(142,589)	535,941
After tax effect of expenses recognised on the Share Allotment Scheme	–	–
(Loss)/Profit attributable to ordinary equity shareholders (diluted)	(142,589)	535,941

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

	2016	**2015**
Weighted average number of ordinary shares at 31 December	1,793,173,500	1,793,173,500
Effect of Share Allotment Scheme	–	–
Effect of share option scheme	–	7,233
Weighted average number of ordinary shares (diluted) at 31 December	1,793,173,500	1,793,180,733

9 Trade and other receivables

	2016 *RMB'000*	2015 *RMB'000*
Trade debtors		
– joint ventures	13,384	55,952
– an associate	309,759	261,821
– a non-controlling shareholder	11,709	–
– third parties	1,434,762	1,601,892
Bills receivable	374,920	685,139
Less: allowance for doubtful debts	(444,530)	(376,809)
Trade debtors and bills receivable	1,700,004	2,227,995
Gross amounts due from customers for construction contract work	40,916	–
Deposits and other receivables		
– an associate	25,000	25,000
– third parties	283,598	429,869
Current portion of trade and other receivables	2,049,518	2,682,864

All of the trade and other receivables are expected to be recovered within one year.

Credit terms may be granted to customers, depending on the credit assessment carried out by the management on an individual basis.

At 31 December 2016, certain of the Group's trade debtors with total carrying amount of RMB50,503,000 (2015: RMB67,132,000) were pledged to secure the Group's borrowings amounting to RMB203,557,000 (2015: RMB469,087,000).

9 Trade and other receivables (continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the ageing analysis as of the year end date:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	795,051	1,313,194
Less than 1 month past due	242,406	134,947
1 to 3 months past due	120,117	215,131
3 to 6 months past due	102,686	259,033
6 to 12 months past due	336,150	226,809
12 to 24 months past due	103,594	78,881
Amounts past due	904,953	914,801
	1,700,004	2,227,995

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

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the year including both specific and collective loss components, is as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	376,809	233,232
Impairment loss recognised	141,340	151,687
Write-back of impairment loss	(59,656)	(8,110)
Uncollectible amounts written off	(13,963)	–
At 31 December	444,530	376,809

9 Trade and other receivables (continued)

(b) Impairment of trade debtors and bills receivable (continued)

At 31 December 2016, the Group's trade debtors of RMB697,155,000 (2015: RMB1,102,877,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB141,340,000 (2015: RMB 143,577,000) were recognised during the year.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(c) Gross amounts due from customers for construction contract work

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work at 31 December 2016 is RMB 386,490,000 (2015: Nil). The gross amounts due from customers from contract work are expected to be recovered upon contract term.

	2016	**2015**
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits less anticipated losses	386,490	–
Less: Progress billings	–	–
Net contract work	386,490	–
Representing:		
Gross amounts due from customers for contract work		
– Non-current	345,574	–
– Current	40,916	–
	386,490	–

10 Trade and other payables

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	60,836	142,806
Over 1 month but within 3 months	377,723	277,022
Over 3 months but within 6 months	39,968	189,758
Over 6 months but within 12 months	92,847	1,111
Total trade and bills payable	571,374	610,697
Payables for property, plant and equipment		
– third parties	773,926	965,377
– an associate	75	–
– a non-controlling shareholder	30,071	10,359
Amount due to an associate (Note (ii))	–	270,000
Amount due to a joint venture (Note (ii))	103,223	93,528
Advance from a non-controlling shareholder	–	4,394
Accrued expenses and other payables	370,538	331,153
	1,849,207	2,285,508

Notes:

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

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

11 Dividends

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

	2016	2015
	RMB'000	*RMB'000*
Interim dividend declared and paid of RMB0.139 per ordinary share (2015: RMB 0.06)	262,790	111,094
No final dividend proposed after the end of the reporting period (2015: RMB0.14 per ordinary share)	–	264,680
	262,790	375,774

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

	2016	2015
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.14 per ordinary share (2015: RMB0.20)	264,680	369,867

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

In 2016, global economic recovery has been sluggish, while the market and regulatory environment confronted by China's domestic industries has been complex. Although the macroeconomic environment was filled with uncertainties, as a leader of the industrial gas industry in China, our Group maintained steady development in 2016, thanks to the professional management which has laid a solid foundation for our sustainable development. Apart from iron and steel makers, in recent years, we further diversified our customer base into enterprises in industries including chemical, nonferrous metal, electronics and energy, as well as expanding business into new geographic regions. At the mean time, we adopted a more constructive way of handling customer relationships, in order to keep operation stable.

As at 31 December 2016, our Group had a total of 70 facilities in operation and 13 facilities under development. The total installed capacity amounted to 2,007,300 Nm^3/hr in terms of installed oxygen capacity, representing an increase of 3.3% as compared with last year. During the year, our Group sold 27,048 million Nm^3 of industrial gases, representing a growth of 12.5% as compared with last year. The total sales volume of oxygen products, nitrogen products and argon products were 11,876 million Nm^3, 11,114 million Nm^3 and 255 million Nm^3, respectively. It is expected that the total installed capacity will exceed 2,300,000 Nm^3/hr in 2018 when construction of all facilities under development is completed.

Review of On-site Gas Supply Operation

Our Group is principally engaged in on-site gas supply. After years of continuing development and with our professional management, we currently maintain a stable and quality customer base and an established professional reputation in the industrial gas industry. To ensure reliable and stable gas supply to our customers, we provide on-site services including design, construction, operation and maintenance of production facilities at our customers' premises or in close proximity.

According to the SAI Report of 2016, our Group was the largest independent on-site industrial gas supplier in the PRC with a market share of 34.5% in 2016. Our major gas products include oxygen, nitrogen and argon. For the year ended 31 December 2016, the revenue of our Group's on-site gas supply business amounted to RMB7,021 million, representing an increase of 2.0% as compared with last year. On-site gas supply accounted for approximately 83.5% of the revenue of our Group, mainly contributed by customers from steel, chemical and non-ferrous metals industries. To secure stable stream of income, our Group has been stringent in customer selection, and will normally enter into long term take-or-pay on-site gas supply contracts with customers with a term from 10 to 30 years, which include terms of minimum gas supply commitment.

For the year ended 31 December 2016, our Group has entered into 3 new long-term on-site gas supply contracts.

Review of Merchant Gas Operation

As the manufacturing sector remained in the doldrums with shrinking demand from downstream sectors, the revenue of our Group's merchant gas operation for the year ended 31 December 2016 amounted to RMB955 million, representing an increase of 15.8% as compared with last year. The percentage of merchant sales accounting for the revenue of our Group also increased to 11.4%. Due to the recovery of the metal processing industry in the PRC, our sales volume of oxygen increased by 18.8% and unit price of oxygen increased by 4.2% in 2016 as compared with last year. Due to the strong recovery of stainless steel industry in the PRC, the volume and unit price of argon increased by 23.8% and 11.7% respectively in 2016 as compared with last year.

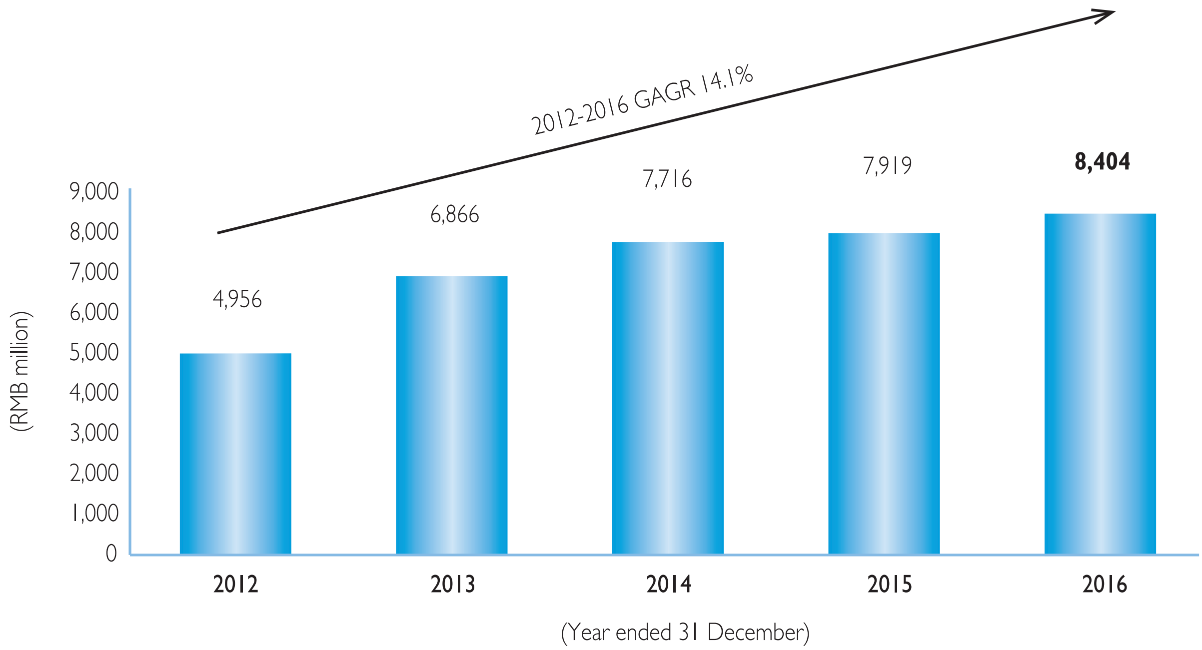
FINANCIAL REVIEW

Leveraging on our comprehensive market strategy, effective control over cost and expenditure, development of business, and devotion from our management and staff, our Group recorded an increase in both our production and sales in 2016, resulting in a steady growth of revenue in 2016.

For the year ended 31 December 2016, our revenue increased by RMB485 million to RMB8,404 million from RMB7,919 million in 2015. The increase in revenue is mainly attributable to the commencement of operation of 2 on-site facilities during the year and the full ramp-up of facilities that commenced operation in 2015, increased in merchant sales and proceeds from the provision of construction and operating services for the downstream customers.

Revenue

Our revenue consists of proceeds from the sale of industrial gas products and provision of service. Our revenue is recognised when our gas products are delivered to and accepted by a customer, to whom our Company has transferred the related risks and ownership or other services are rendered. The revenue figures represent the aggregation of the invoiced value of goods sold or services provided, net of value-added tax. Our revenue increased by 6.1% from RMB7,919 million for the year ended 31 December 2015 to RMB8,404 million for the year ended 31 December 2016.



The table below sets out revenue generated from sales of industrial gases to our on-site, merchant customers and other services rendered for the years indicated:

	Year ended 31 December			
	2016		2015	
	RMB'000	*(%)*	*RMB'000*	*(%)*
Revenue				
Sales of industrial gases to on-site customer	7,021,211	83.5	6,886,264	87.0
Sales of industrial gases to merchant customer	954,520	11.4	824,593	10.4
Revenue from other related services	428,201	5.1	208,004	2.6
Total	8,403,932	100.0	7,918,861	100.0

Revenue (continued)

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

	Year ended 31 December	
	2016	**2015**
	Unit price (RMB/Nm^3)	
Oxygen	0.74	0.71
Nitrogen	0.63	0.63
Argon	1.43	1.28
Weighted Average Unit Price	0.82	0.79

Cost of sales

Our cost of sales mainly 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 and steam expenses, represented 78.8% and 80.2% of our total cost of sales for the years ended 31 December 2016 and 2015, respectively. Depreciation and amortisation expenses related primarily to property, plant and equipment and intangible assets we own and are calculated on a straight-line basis over the estimated useful lives of these assets. Staff costs mainly include salaries, bonuses, benefits and contributions that we pay to our employees or the benefit we make to our employees in our production team. Other expenses primarily consist of other consumables as well as repair and maintenance.

Cost of sales increased by 9.0% from RMB5,369 million for the year ended 31 December 2015 to RMB5,850 million for the year ended 31 December 2016, which was mainly driven by the increase in the revenue. Cost of sales as a percentage of revenue increased from 67.8% for the year ended 31 December 2015 to 69.6% for the year ended 31 December 2016.

Gross profit and gross profit margin

Our gross profit increased slightly by 0.2% from RMB2,550 million for the year ended 31 December 2015 to RMB2,554 million for the year ended 31 December 2016. Our gross profit margin decreased from 32.2% for the year ended 31 December 2015 to 30.4% for the year ended 31 December 2016, representing a slight decrease compared with last year.

Other income

Other income mainly includes subsidies and grants from local government authorities and income from certain one-off transactions. In 2016, our Group repurchased USD37 million senior notes and the relevant gain of RMB37 million on repurchase was recognised in other income.

Selling expenses

Our selling expenses primarily consist of freight charges for distribution and logistics expenses and staff costs in connection with hiring and maintaining our sales team across different regions in the PRC. Selling expenses decreased by 22.7% from RMB207 million for the year ended 31 December 2015 to RMB160 million for the year ended 31 December 2016, mainly due to the tightened control over cost.

Administrative expenses

Our administrative expenses primarily consist of staff costs in connection with hiring and retaining our management and administrative staff at our headquarters and production plant level, travel and entertainment expenses, external consulting fees and impairment losses of trade receivables. Administrative expenses decreased by RMB27 million from RMB501 million for the year ended 31 December 2015 to RMB474 million for the year ended 31 December 2016, which is mainly due to decrease in allowance made by our Group for doubtful debts of trade receivables on the on-site customers and merchant customers.

Impairment loss on property, plant and equipment and construction in progress

Impairment losses of RMB47 million, in respect of certain building, plant and machinery of the Group which were obsolete, damaged or that could not generate future economic benefits, were provided against for impairment for the year ended 31 December 2016.

In relation to the Kelamayi project involving the construction of a Coal to Hydrogen plant, having assessed its prospects and our financial resources, we have decided to indefinitely suspend the project and will not make any further investment into it. The equipment purchased under the project will be transferred to other parts of the businesses of the Company and its subsidiaries. As a result, it indicates that construction in progress of the project in Kelamayi is impaired. The Company re-assessed the recoverable amount of this project with reference to the fair value less cost of disposal of these assets. For the assets which cannot be moved or disposed, mainly plant under construction and the capitalised interest cost, we decided to make full impairment provision as it is expected that the recoverable amount is minimal. While, the equipment and machinery in Kelamayi project site are nearly brand new, mainly includes a set of air separator and a set of hydrogen manufacturing converter, can be moved from the construction site in Kelamayi to another project. The Company assessed the recoverable amount of these equipment and machinery based on these equipment and machinery's fair value less costs of disposal, by reference to recent market prices of air separator set and hydrogen manufacturing converter set of similar capacity and condition. As a result of the above, a total impairment loss of RMB482 million for this project mainly related to the plant under construction in Kelamayi was recognised for the year ended 31 December 2016.

Besides, impairment losses of RMB83 million were recognised on other construction projects, mainly plants under construction, during the year ended 31 December 2016 due to projects suspension, primarily based on their assessment that the recoverable amount are minimal.

Profit from operations and operating profit margin

As a result of the foregoing, our profit from operations decreased by 27.5% from RMB1,875 million for the year ended 31 December 2015 to RMB1,360 million for the year ended 31 December 2016, while our operating profit margin decreased from 23.7% for the year ended 31 December 2015 to 16.2% for the year ended 31 December 2016, which is mainly due to impairment loss on property plant and equipment and construction in progress of RMB612 million.

Finance income

Our finance income mainly consists of interest income from bank deposits, finance income on receivables under finance lease and the gain on remeasurement of derivative financial instruments.

Finance income increased by 158.1% from RMB31 million for the year ended 31 December 2015 to RMB80 million for the year ended 31 December 2016.

Finance costs

Our finance costs primarily consist of interest payments for our borrowings granted by banks and other financial institutions as well as finance charges on obligations under finance lease and exchange loss.

Finance costs increased by 5.1% from RMB968 million for the year ended 31 December 2015 to RMB1,017 million for the year ended 31 December 2016, mainly due to the depreciation of Renminbi in 2016 resulting in foreign exchange loss of RMB406 million incurred in connection with our outstanding foreign currency debts and increase in bank borrowings.

Income tax expenses

Income tax expenses increased by 24.6% from RMB418 million for the year ended 31 December 2015 to RMB521 million for the year ended 31 December 2016, primarily due to the tax effect of non-deductible expenses arising from impairment losses on property, plant and equipment, construction in progress, and trade receivables in China.

Profit/Loss attributable to the equity shareholders of our Company

As a result of the foregoing, profit attributable to the equity shareholders of our Company decreased by 126.7% from RMB536 million for the year ended 31 December 2015 to a loss of RMB143 million for the year ended 31 December 2016.

Loss attributable to non-controlling interests

Loss attributable to non-controlling interests increased from RMB3 million for the year ended 31 December 2015 to RMB6 million for the year ended 31 December 2016.

Trade receivables

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Trade receivables	1,769,614	1,919,665
Bills receivable	374,920	685,139
Less: allowance for doubtful debts	(444,530)	(376,809)
	1,700,004	2,227,995

Our trade receivables decreased from RMB2,228 million as at 31 December 2015 to RMB1,700 million as at 31 December 2016. Our Group has made sufficient amount of allowance for doubtful debts in this financial year.

Turnover of trade receivables decreased from 82 days for the year ended 31 December 2015 to 79 days for the year ended 31 December 2016.

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

	Year ended 31 December	
	2016	**2015**
Turnover of trade receivables (days)*	79	82

Note:

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

Borrowings

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Short-term borrowings	1,511,456	709,676
Current portion of long-term borrowings	2,367,313	893,662
	3,878,769	1,603,338
Non-current portion of long-term borrowings	6,505,224	8,060,162
	10,383,993	9,663,500

Liquidity and capital resources

We have historically met our working capital and other capital requirements principally from equity provided by our shareholders, cash generated from operations, cash at bank and on hand, short-term and long-term borrowings from banks and other financial institutions and debt securities.

As at 31 December 2016, the total assets of our Group were approximately RMB19,223 million, representing an decrease of approximately RMB351 million from 31 December 2015. The cash at bank and on hand was RMB737 million, representing an increase of RMB59 million from 31 December 2015. The current ratio of our Group was 67.8%. The gearing ratio of our Group that is calculated by dividing total liabilities by total assets was 67.5%.

One subsidiary of our Group issued corporate bonds of aggregate amount of RMB980 million in October 2015 at an interest rate of 5.48% per annum, which will be due in 2020.

One subsidiary of our Group issued senior notes of an aggregate amount of USD250 million in August 2014 ("Senior Notes II") at an interest rate of 7.25% per annum, which will be due in 2020.

One subsidiary of our Group issued senior notes of an aggregate amount of USD425 million in April 2013 ("Senior Notes I") at an interest rate of 8.125% per annum, which will be due in 2018.

As at 31 December 2016, the carrying value of assets pledged to secure for bank borrowings and other loans was RMB3,545 million (31 December 2015: RMB2,580 million).

The total borrowings included a syndicated loan of USD 90,000,000 and HKD 77,500,000 equivalent to RMB 680,794,000. The Group has failed to fulfil a financial covenant requirement in relation to the amount of the net tangible assets of the Group ("Event of Default") under the syndicated loan and the Group has not remedied this requirement at the reporting date. Therefore, the syndicated loan lenders have (via the syndicated loan agent) the right to require the syndicated loan to be immediately repaid prior to its original repayment dates as defined in the original syndicated loan agreement. As at 31 December 2016, the entire outstanding amount of the syndicated loan was reclassified as current liabilities. The Directors are in communication with the syndicated loan lenders about the syndicated loan and the Event of Default. If the Directors are unable to come to an acceptable arrangement with the syndicated loan lenders with regards to the Event of Default and the Company is unable to secure alternative funding to replace the syndicated loan, then an acceleration of repayment of the syndicated loan may trigger a cross default of other financial indebtedness and result in the Group being under an immediate repayment obligation for such financial indebtedness. As of the date hereof, the Company has not received notice from the syndicated loan agent to accelerate the repayment of the syndicated loan.

Convertible bonds and warrants

On 24 November 2013, our Company and China Development Bank International Investment Limited ("CDB International") entered into an investment agreement whereby our Company agreed to issue and CDB International agreed to subscribe for (i) the principal amount of USD25 million 8% coupon convertible bonds due 2015; and (ii) at nil consideration, 18,953,853 warrants exercisable to purchase ordinary shares of the Company (the "Shares") (the "CDB International Warrants").

The convertible bonds are convertible into Shares at the initial conversion price of HKD8.80 per Share. If all the convertible bonds are converted at the initial conversion price, a total of 22,024,148 new Shares will be issued. The initial price at which a share will be issued upon exercise of a warrant will be HKD10.23. The total price at which CDB International is entitled to acquire the warrant shares from our Company shall be not more than USD25 million. The net proceeds from the issue of our convertible bonds received by our Company is approximately USD25 million and were used as general working capital of our Company. Upon full exercise of the subscription rights attaching to the warrants, net proceeds of approximately USD25 million will be raised by our Company, which will be used as general working capital of the Company.

As at 31 December 2016, the convertible bonds and warrants were mature and no Share was converted.

Capital expenditure

Capital expenditures principally comprise expenditures for the construction of new production facilities, purchase of property, plant and equipment and other investments. The annual total capital expenditure for 2016 was RMB928 million (2015: RMB1,123 million), principally comprised expenditures for the construction of new production facilities, purchase of property, plant and equipment and other investments, which were financed by a combination of our internal cash flows and bank borrowings.

Dividends

The Directors do not recommend any final dividend for the year ended 31 December 2016 (2015: RMB0.14 per share).

OUTLOOK

Looking ahead, our Group will focus on cash flow generation, improvement of operation efficiency, and optimization of our capital structure in 2017. In addition, our Group will continue to work with high quality customers and maintain its leading position in the industry by providing the best gas service to our customers.

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2016, our Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules, save as otherwise disclosed in this announcement. Code provision A.2.1 states that roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual, the chairman and the chief executive officer of our Company is Mr. Zhongguo Sun ("Mr. Sun"). The Board currently comprises two executive Directors, four non-executive Directors and six independent non-executive Directors, with independent non-executive Directors representing 50% of the Board, which is higher than the requirements 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 reflect the independence of the Board.

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

COMPLIANCE WITH THE MODEL CODE

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 the standards required under the Model Code during the year ended 31 December 2016.

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

During the year under review, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of our Company's listed securities.

REPURCHASE OF SENIOR NOTES

In 2016, Yingde Gases Investment Limited (a wholly-owned subsidiary of our Company) repurchased a total of principal amount of USD30 million (approximately equivalent to RMB197 million) and USD7 million (approximately equivalent to RMB47 million) of the senior notes issued by it in April 2013 and August 2014, respectively, at an aggregate consideration of USD32 million (approximately equivalent to RMB207 million). The gain of RMB37 million on the above-mentioned senior notes purchase was recognized in other income of our Group.

AUDIT COMMITTEE

Our Company has established an audit committee (the "Audit Committee") comprising all six existing independent non-executive Directors, namely Mr. Zheng Fuya (Chairman of the Audit Committee), Dr. Wang Ching, Mr. Jhi-Ho Mah, Mr. Rawen Zhi Hong Huang, Mr. David Chan and Mr. Deng Xipeng.

The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2016, and is of the view that our Group's consolidated financial statements for the year ended 31 December 2016 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2016 as set out in the annual results announcement have been compared by our Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in our Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PARTICULARS OF IMPORTANT EVENTS AFTER THE FINANCIAL YEAR END OF 2016

Save as disclosed below, there are no important events affecting our Company that have occurred since the end of the financial year of 2016:

(i) in the extraordinary general meetings of the Company on 8 March 2017, the removal of each of Mr. Zhao Xiangti, Mr. He Yuanping, Mr. Zhang Yunfeng, Mr. Suo Yaotang and Dr. Feng Ke as a director of the Company was approved by the shareholders and the appointment of Mr. Jhi-Ho Mah as a director of the Company was approved by the shareholders;

(ii) discontinuation of the court proceedings in the Cayman Islands as disclosed in the Company's announcement dated 10 April 2017;

(iii) the Company has renewed an existing contract with a collection agency in respect of the collection of certain receivables on the same terms. No payments have been made or are required to be made under such contract as of the date hereof;

(iv) the Company is expected to incur between US$10 million to US$20 million of expenses as a result of or arising from the engagement of advisers in respect of the Offers; and

(v) as disclosed in the announcement from PAG dated 6 April 2017, the PAG Offers have become unconditional in all respects as at 4:00 p.m. on 6 April 2017.

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

Hong Kong, 13 April 2017

As at the date of this announcement, the executive directors of the Company are Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt; the non-executive directors of the Company are Mr. Wong Tak-Wai, Mr. Qiu Zhongwei, Mr. Xiao Suining and Mr. He Hui David; and the independent non-executive directors of the Company are Mr. Zheng Fuya, Dr. Wang Ching, Mr. Jhi-Ho Mah, Mr. Rawen Zhi Hong Huang, Mr. David Chan and Mr. Deng Xipeng.