# 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)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

**Financial Highlights**

- Revenue of our Group was RMB**4,761** million, representing a **15**% increase as compared with the same period in 2016.
- Profit attributable to equity shareholders of our Company was RMB**536** million, representing a **38.5**% increase as compared with the same period last year.
- Our Group has a total of **72** gas supply facilities in operation, and the total installed oxygen capacity amounts to **2,007,300** $Nm^3/hr$.
- Basic earnings per share amounted to RMB**0.291** (six months ended 30 June 2016: RMB0.216).

## RESULTS

The board (the "Board") of directors (the "Directors") of Yingde Gases Group Company Limited (our "Company", together with its subsidiaries are referred to as our "Group") is pleased to announce the unaudited consolidated results of our Group for the six months ended 30 June 2017 as follows:

## FINANCIAL INFORMATION

Financial information extracted from the unaudited interim financial report of our Group for the six months ended 30 June 2017, together with comparative figures for the six months ended 30 June 2016, prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting", issued by the International Accounting Standards Board and the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") is as follows:

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **RMB'000** | RMB'000 |
| **Revenue** | | **4,761,084** | 4,139,636 |
| Cost of sales | | **(3,286,083)** | (2,869,317) |
| **Gross profit** | | **1,475,001** | 1,270,319 |
| Other income | | **29,775** | 60,615 |
| Selling expenses | | **(89,114)** | (73,039) |
| Administrative expenses | | **(347,909)** | (163,284) |
| **Profit from operations** | | **1,067,753** | 1,094,611 |
| Finance costs | 5(a) | **(181,349)** | (443,431) |
| Share of results of associates and joint ventures | | **(10,480)** | (17,173) |
| **Profit before taxation** | 5 | **875,924** | 634,007 |
| Income tax | 6 | **(330,117)** | (249,766) |
| **Profit and total comprehensive income for the period** | | **545,807** | 384,241 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **535,831** | 386,955 |
| Non-controlling interests | | **9,976** | (2,714) |
| **Profit and total comprehensive income for the period** | | **545,807** | 384,241 |
| **Earnings per share (RMB cents)** | 7 | | |
| Basic | | **29.1** | 21.6 |
| Diluted | | **29.1** | 21.6 |

## Consolidated Statement of Financial Position

at 30 June 2017 – unaudited
(Expressed in Renminbi)

| | Note | **At 30 June 2017 RMB'000** | At 31 December 2016 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment, net | | **10,106,103** | 10,632,823 |
| Construction in progress | | **2,342,703** | 2,085,920 |
| Lease prepayments | | **402,687** | 407,286 |
| Intangible assets | | **37,424** | 40,964 |
| Receivables under finance leases | | **9,077** | 9,628 |
| Interest in associates and joint ventures | | **424,007** | 433,435 |
| Other non-current assets | | **1,322,605** | 1,273,515 |
| Deferred tax assets | | **164,354** | 138,509 |
| **Total non-current assets** | | **14,808,960** | 15,022,080 |
| **Current assets** | | | |
| Inventories | | **104,413** | 108,443 |
| Trade and other receivables | 8 | **2,446,123** | 2,049,518 |
| Receivables under finance leases | | **2,117** | 2,117 |
| Income tax recoverable | | **9,521** | 5,209 |
| Other financial assets | | **21,205** | 68,587 |
| Pledged bank deposits | | **721,079** | 1,229,769 |
| Cash at bank and on hand | | **1,451,860** | 736,855 |
| **Total current assets** | | **4,756,318** | 4,200,498 |
| **Current liabilities** | | | |
| Borrowings | | **5,196,609** | 3,878,769 |
| Trade and other payables | 9 | **2,122,814** | 1,849,207 |
| Amounts due to a controlling shareholder | | **689,406** | – |
| Obligations under finance leases | | **160,547** | 223,674 |
| Income tax payable | | **282,778** | 242,300 |
| **Total current liabilities** | | **8,452,154** | 6,193,950 |
| **Net current liabilities** | | **(3,695,836)** | (1,993,452) |
| **Total assets less current liabilities** | | **11,113,124** | 13,028,628 |

## Consolidated Statement of Financial Position (Continued)

at 30 June 2017 - unaudited

(Expressed in Renminbi)

| | **At 30 June 2017 RMB'000** | At 31 December 2016 RMB'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Borrowings | **3,607,337** | 6,505,224 |
| Obligations under finance leases | **70,302** | 115,892 |
| Other non-current liabilities | **52,245** | 56,777 |
| Deferred tax liabilities | **133,054** | 101,962 |
| **Total non-current liabilities** | **3,862,938** | 6,779,855 |
| **Net assets** | **7,250,186** | 6,248,773 |
| **Capital and reserves** | | |
| Share capital | **13** | 12 |
| Reserves | **7,074,856** | 6,083,420 |
| **Total equity attributable to equity shareholders of the Company** | **7,074,869** | 6,083,432 |
| **Non-controlling interests** | **175,317** | 165,341 |
| **Total equity** | **7,250,186** | 6,248,773 |

## Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2017 - unaudited
(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **RMB'000** | RMB'000 |
| **Operating activities** | | | |
| Profit before taxation | | **875,924** | 634,007 |
| Adjustments for: | | | |
| Depreciation | 5(b) | **486,460** | 418,208 |
| Amortisation | 5(b) | **8,139** | 8,130 |
| Finance income | | **(14,255)** | (5,659) |
| Finance costs | 5(a) | **181,349** | 443,431 |
| Net gain on disposal of property, plant and equipment | | **(1,318)** | (2,443) |
| Share of results of associates and joint ventures | | **10,480** | 17,173 |
| Expenses of the Share Allotment Scheme | 5(b) | **60,872** | 4,869 |
| Decrease/(increase) in inventories | | **4,030** | (26,456) |
| Increase in trade debtors and other receivables | | **(183,327)** | (391,937) |
| (Increase)/decrease in bills receivable | | **(302,269)** | 237,870 |
| Increase in trade and other payables | | **99,412** | 139,554 |
| Cash generated from operations | | **1,225,497** | 1,476,747 |
| Interest received | | **14,518** | 5,481 |
| Interest paid | | **(317,643)** | (279,601) |
| Income tax paid | | **(288,704)** | (221,799) |
| **Net cash generated from operating activities** | | **633,668** | 980,828 |

## Condensed Consolidated Cash Flow Statement (Continued)

for the six months ended 30 June 2017 - unaudited
(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **RMB'000** | RMB'000 |
| **Investing activities** | | | |
| Capital expenditure | | **(300,365)** | (243,952) |
| Pledged bank deposits related to purchase of property, plant and equipment | | **(170,045)** | (41,118) |
| Other cash flows arising from investing activities | | **22,752** | 16,935 |
| **Net cash used in investing activities** | | **(447,658)** | (268,135) |
| **Financing activities** | | | |
| Proceeds from borrowings | | **858,349** | 1,012,260 |
| Repayment of borrowings | | **(1,287,809)** | (508,656) |
| Payment of obligations under finance leases | | **(114,314)** | (97,419) |
| Dividend paid to equity shareholders of the Company | 10(b) | **–** | (264,680) |
| Payment for repurchase of senior notes | | **–** | (207,481) |
| Pledged bank deposits used for borrowings | | **–** | (278,735) |
| Pledged bank deposits released upon repayment of borrowings | | **678,735** | – |
| Proceeds from sale of shares under the Share Allotment Scheme | | **394,734** | – |
| **Net cash generated from/(used in) financing activities** | | **529,695** | (344,711) |
| **Net increase in cash and cash equivalents** | | **715,705** | 367,982 |
| **Cash and cash equivalents as at 1 January** | | **736,855** | 678,450 |
| **Effect of foreign exchange rate changes** | | **(700)** | 3,151 |
| **Cash and cash equivalents as at 30 June** | | **1,451,860** | 1,049,583 |

**Notes to the unaudited interim financial information**

## 1 Corporate information

Yingde Gases Group Company Limited (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 Company and its subsidiaries (the "Group") are principally engaged in the 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.

On 7 March 2017, the Company received offers from PAGAC II-2 Limited ("PAG" and "PAG offers") to be made through UBS AG, Hong Kong Branch to acquire all issued shares of the Company at the price of HKD 6 per share in cash and to cancel all outstanding share options of the Company at a cancellation price of HKD 6 less the exercise price in respect of the relevant option in cash. As refer to the announcement dated 4 May 2017, PAG and its concert parties held an aggregate of approximately 98.11% of the issued share capital and voting rights of the Company. PAG is the controlling shareholder of the Company.

## 2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, Interim financial reporting, issued by the International Accounting Standards Board (IASB). It was authorised for issue on 8 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

In determining the appropriate basis of preparation of financial statements, 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 its debt obligations as they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditures.

At 30 June 2017, the Group had cash at bank and on hand of RMB1,451,860,000; the Group also had net current liabilities of RMB3,695,836,000 and total borrowings of RMB8,803,946,000. The Group regularly monitors current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term.

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 RMB634 million during the six month period ended 30 June 2017 and expects to continue to improve its working capital management and generate positive operating cash flows for the next twelve months;

## 2 Basis of preparation (Continued)

(ii) at 30 June 2017, the Group has available unutilised bank facilities of RMB1,307 million and bank acceptance bills of RMB677 million which can be discounted for cash at any time, if necessary;

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

(iv) the Company is currently in discussion with certain banks for refinancing loans for repayment of its outstanding borrowings, including its Senior Notes I with outstanding balance of USD391 million due in April 2018;

(v) the Group has short-term borrowings of RMB689,406,000 from PAG as at 30 June 2017, PAG will not call for repayment of the amounts due to PAG if such a repayment would cause the Group to be unable to settle its liabilities to other parties when they fall due during the 12 month period from 30 June 2017; and

(vi) PAG will continue to assist the Company to optimise its capital structure to ensure adequate liquidity in the context of the Company's business activities, and to assist the Company to obtain necessary financing, if necessary.

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 preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants.

## 3 Changes in accounting policies

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

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

## 4 Segment reporting

The Group is principally engaged in the production and sales of industrial gases in the PRC. Although the industrial gases are sold to on-site and merchant customers, the Group's most senior executive management regularly review their consolidated financial information to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

## 5 Profit before taxation

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

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **(a) Finance costs:** | | |
| Interest on borrowings | **351,020** | 321,169 |
| Finance charges on obligations under finance leases | **5,597** | 10,694 |
| Total interest expenses | **356,617** | 331,863 |
| Less: interest expenses capitalised | **(28,865)** | (42,168) |
| | **327,752** | 289,695 |
| Net foreign exchange (gain)/loss | **(146,403)** | 153,736 |
| Finance costs | **181,349** | 443,431 |
| Interest expenses have been capitalised at the following rates: | | |
| Capitalised interest rate (per annum) | **4.35%-8.2%** | 2.1% - 8.1% |

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **(b) Other items:** | | |
| Utilities | | |
| – Electricity | **2,167,044** | 1,938,952 |
| – Steam | **427,508** | 300,831 |
| Depreciation | **486,460** | 418,208 |
| Amortisation | | |
| – Land lease premium | **4,599** | 4,598 |
| – Intangible assets | **3,540** | 3,532 |
| Staff costs | **150,955** | 129,185 |
| Expenses of the Share Allotment Scheme | **60,872** | 4,869 |
| Legal and professional fees | **111,344** | 14,151 |
| Net gain on disposal of property, plant and equipment | **(1,318)** | (2,443) |
| Impairment losses recognised on trade and other receivables | **11,891** | 11,192 |
| Gains on repurchase of senior notes | **–** | (36,470) |

## 6 Income tax

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Provision for PRC income tax during the period | **324,870** | 235,244 |
| Deferred tax | **5,247** | 14,522 |
| | **330,117** | 249,766 |

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.

No provision has been made for Hong Kong profits tax as the Group did not earn any income which is subject to Hong Kong profits tax during the current and prior periods.

The provision for current PRC income tax is based on a statutory rate of 25% (six months ended 30 June 2016: 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 is subject to a preferential tax rate of 15% for their operations located in the western developing region of the PRC.

## 7 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB535,831,000 (six months ended 30 June 2016: RMB386,955,000) and the weighted average of 1,838,830,406 ordinary shares (2016: 1,793,173,500 shares) in issue during the interim period.

### (b) Diluted earnings per share

The amount of diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2017 and 30 June 2016.

## 8 Trade and other receivables

| | At 30 June 2017 RMB'000 | At 31 December 2016 RMB'000 |
|---|---|---|
| Trade receivables | | |
| – a joint venture | **4,043** | 13,384 |
| – an associate | **371,406** | 309,759 |
| – a non-controlling shareholder | **10,600** | 11,709 |
| – third parties | **1,528,163** | 1,434,762 |
| | **1,914,212** | 1,769,614 |
| Less: Allowance for doubtful debts | **(452,499)** | (444,530) |
| | **1,461,713** | 1,325,084 |
| Bills receivable | **677,189** | 374,920 |
| Trade debtors and bills receivable | **2,138,902** | 1,700,004 |
| Gross amounts due from customers for construction contract work | **40,916** | 40,916 |
| Deposits and other receivables | | |
| – associates | **25,000** | 25,000 |
| – third parties | **241,305** | 283,598 |
| Current portion of trade and other receivables | **2,446,123** | 2,049,518 |

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

| | At 30 June 2017 RMB'000 | At 31 December 2016 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **1,047,725** | 795,051 |
| Within 1 month | **332,678** | 242,406 |
| 1 to 3 months | **140,507** | 120,117 |
| 3 to 6 months | **171,274** | 102,686 |
| 6 to 12 months | **147,781** | 336,150 |
| Over 1 year but within 2 years | **298,937** | 103,594 |
| Amounts past due | **1,091,177** | 904,953 |
| Trade debtors and bills receivable, net of allowance for doubtful debts | **2,138,902** | 1,700,004 |

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.

## 9 Trade and other payables

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

| | At 30 June 2017 RMB'000 | At 31 December 2016 RMB'000 |
|---|---|---|
| Within 1 month | **37,700** | 60,836 |
| 1 to 3 months | **36,997** | 377,723 |
| 3 to 6 months | **595,891** | 39,968 |
| Over 6 months but within 12 months | **159,339** | 92,847 |
| Total trade creditors and bills payable | **829,927** | 571,374 |
| Payable for property, plant and equipment | | |
| – third parties | **752,991** | 773,926 |
| – an associate | **75** | 75 |
| – a non-controlling shareholder | **10,769** | 30,071 |
| Amounts due to a joint venture | **100,803** | 103,223 |
| Advance from a non-controlling shareholder | **3,920** | – |
| Accrued expenses and other payables | **424,329** | 370,538 |
| | **2,122,814** | 1,849,207 |

## 10 Dividends

### (a) Dividends payable to equity shareholders attributable to the interim period

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| No interim dividend declared after the interim period (2016: RMB0.139 per ordinary share) | **–** | 262,790 |

The interim dividend has not been recognised as a liability at the end of the reporting period.

### (b) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

| | Six months ended 30 June | |
|---|---|---|
| | 2017 RMB'000 | 2016 RMB'000 |
| No final dividend in respect of the previous financial year approved during the following interim period (six months ended 30 June 2016: RMB0.14 per ordinary share) | **–** | 264,680 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In the first half of 2017, due to the improvement of external environment, rise in commodity price and property market, the economy in China experienced upward trend, the new energy and traditional energy both became stronger, good circulation was established among demand and supply, investment and consumption, industrial production and corporate efficiency cycle, excess capacity in steel industry was significantly improved. It is expected in the second half of 2017, under the improved external environment whilst stability is enhanced, demand for industrial gas will remain stable.

As a leader of the industrial gas industry in China, our Company has established a solid foundation as a result of many years' continuous development and professional management. The development of our Group remained stable in the first half of 2017, and during the period under review, our Group has newly added 35,000 $Nm^3$/hr installed oxygen capacity, which has laid a solid foundation for the future development of our Group.

As at 30 June 2017, our Group had a total of 72 gas supply facilities in operation and 14 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 2.3% as compared with the corresponding period last year. During the period under review, our Group sold 14,885 million $Nm^3$ of industrial gases, representing a growth of 15.2% as compared with the corresponding period last year. The total sales volume of oxygen products, nitrogen products and argon products were 6,594 million $Nm^3$, 6,090 million $Nm^3$ and 151 million $Nm^3$, respectively. It is expected that the total installed capacity will exceed 2,300,000 $Nm^3$/hr by 2018 upon completion of all facilities under development.

**Review of on-site gas supply operation**

According to the 2016 SAI Report, our Group is the largest independent industrial gas supplier in the PRC in terms of revenue, and our major gas products are oxygen, nitrogen and argon. For the six months ended 30 June 2017, the revenue generated from our on-site gas operation amounted to RMB4,003 million, representing an increase of 15.6% as compared with the corresponding period last year.

On-site gas supply accounted for approximately 84% of the revenue of our Group. It is mainly contributed by customers from the steel, chemical and non-ferrous metals industries. In order to secure a stable stream of income, it is our Group's policy to enter into long-term on-site gas supply contracts that include a take-or-pay clause and minimum gas supply commitment with customers selected through stringent process.

During the six months ended 30 June 2017, our Group has entered into two new long-term on-site syn-Gas gas supply contracts and an operation service contract with China National Coal Group Co., Ltd..

## BUSINESS REVIEW (Continued)

### Review of merchant gas operation

For the six months ended 30 June 2017, the manufacturing sector recovers, demand steady increased and increasing price in downstream. The revenue generated from our merchant gas operation of our Group amounted to RMB712 million, representing an increase of 77.1% as compared with the corresponding period last year. The percentage of merchant sales accounting for revenue of our Group also increased to 15.0%. Due to the recovers of the metal processing industry, the unit price of oxygen increased by 23.5% as compared with the corresponding period last year. Affected by the macroeconomic growth, the unit price of nitrogen and argon increased by 13.1% and 103.1% respectively as compared with the same period last year.

## FINANCIAL REVIEW

Our Group managed to record stable revenue growth in the first half of 2017 leveraging on our extensive market experience and business strategy. For the six months ended 30 June 2017, the total revenue of our Group amounted to RMB4,761 million, representing a 15.0% increase as compared with RMB4,140 million for the corresponding period in 2016. The increase was mainly attributable to the increase in revenue from our on-site gas supply operation resulting from 2 additional production facilities commencing operation comparing to the corresponding period in 2016. Besides, the recovery of the merchant gas business resulted in the increase in revenue as a whole, the growth in gross profit was contributed by the increase in merchant unit-price.

The gross profit of our Group for the six months ended 30 June 2017 was RMB1,475 million, representing an increase of 16.1% as compared with the corresponding period last year. The overall gross profit margin of our Group for the six months ended 30 June 2017 was 31.0%.

Moreover, our Group recorded a net profit attributable to equity shareholders of our Company of RMB536 million.

### Revenue

Our revenue mainly consists of proceeds from the sales of industrial gas products and provision of construction and operating services for the downstream customers. Our revenue is recognized when our gas products are delivered to the customers' premises and such customers have accepted the goods and related risks and ownership right are transferred. The revenue figures represent the aggregate of the invoiced value of goods sold, net of value-added tax.

## FINANCIAL REVIEW (Continued)

### Revenue (Continued)

The table below sets forth our revenue generated from our on-site and merchant customers for the periods indicated:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **RMB'000** | **(%)** | RMB'000 | (%) |
| **Revenue** | | | | |
| On-site | **4,003,352** | **84.0** | 3,463,658 | 83.7 |
| Merchant | **712,124** | **15.0** | 401,533 | 9.7 |
| Others | **45,608** | **1.0** | 274,445 | 6.6 |
| **Total** | **4,761,084** | **100.0** | 4,139,636 | 100.0 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | Unit price (RMB/$Nm^3$) | |
| Oxygen | **0.84** | 0.68 |
| Nitrogen | **0.69** | 0.61 |
| Argon | **2.62** | 1.29 |
| **Weighted average unit price** | **1.06** | 0.76 |

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

### Cost of sales

Our cost of sales mainly comprises utilities, depreciation of property, plant and equipment used for production, staff costs for our production team and other expenses. Utilities mainly consist of electricity and steam expenses, representing 79.0% and 78.1% of our total cost of sales for the six months ended 30 June 2017 and 2016, respectively. Depreciation and amortization expenses relate primarily to self-owned property, plant and equipment and intangible assets and are calculated on a straight-line basis over their estimated useful life. Staff costs mainly relate to salaries, bonuses, benefits and contributions we pay to our employees or make for the benefit of our employees in production team. Other expenses primarily consist of other consumables and repair and maintenance.

## FINANCIAL REVIEW (Continued)

### Cost of sales (Continued)

Cost of sales increased by 14.5% from RMB2,869 million for the six months ended 30 June 2016 to RMB3,286 million for the six months ended 30 June 2017. Cost of sales as a percentage of revenue slightly decreased from 69.3% for the six months ended 30 June 2016 to 69.0% for the six months ended 30 June 2017.

### Income tax expenses

Income tax expenses increased by 32.0% from RMB250 million for the six months ended 30 June 2016 to RMB330 million for the six months ended 30 June 2017, primarily due to the increase in profit before taxation, expenses incurred by subsidiaries not yet profitable and by offshores companies, which are not deductible for enterprise income tax in China.

### Liquidity and capital resources

We have historically met our working capital and other capital requirements principally from equity provided by the shareholders of our Company (the "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 30 June 2017, the total assets of our Group was approximately RMB19,565 million, representing an increase of RMB342 million from 31 December 2016. The cash at bank and on hand was RMB1,452 million, representing an increase of RMB715 million compared to the amount as at 31 December 2016. The current ratio of our Group was 56.3%. The gearing ratio of our Group calculated as total liabilities divided by total assets was 62.9%.

### Foreign exchange

During the six months ended 30 June 2017, our Group entered into the capped forward contract with the bank to hedge against RMB/USD currency risk, in the principal amount of USD200 million. In view of the potential Renminbi exchange rate fluctuations, our Group will consider arranging for proper financial instruments at appropriate time to avoid the corresponding risks.

**Financial resource**

Borrowings

| | **At 30 June 2017 RMB'000** | At 31 December 2016 RMB'000 |
|---|---|---|
| Short-term borrowings | **1,078,415** | 1,511,456 |
| Current portion of long-term borrowings | **4,118,194** | 2,367,313 |
| | **5,196,609** | 3,878,769 |
| Non-current portion of long-term borrowings | **3,607,337** | 6,505,224 |
| | **8,803,946** | 10,383,993 |

As at 30 June 2017, the carrying value of assets secured for borrowings was RMB2,636 million (31 December 2016: RMB3,545 million).

## HUMAN RESOURCES

The expertise and passion of our staff are the principal factors for the success of our Group. As our staff are our important assets, our Group values the efforts made by each of them and provides them with a comfortable and safe working environment to ensure their excellent performance. We review the performance of our staff annually, the result of which will be considered in reviewing the salary, bonus and other incentives of our staff. As at 30 June 2017, our Group had 2,474 employees, representing a decrease of 11 as compared with the corresponding period last year.

## INTERIM DIVIDEND

The Board has not recommended the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB0.139 per share).

## FUTURE OUTLOOK

Our Group remains confident in future market performance. Our Group will closely follow the market trend, seize market opportunities and attract more quality customers. While maintaining the on-site gas supply business, our Group will adopt a more aggressive strategy in securing customers in the merchant market so as to bring greater returns to the Shareholders.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company is committed to high standards of corporate governance. The Board believes that our Company has complied with all the code provisions set out in the Corporate Governance Code (the "Code") in Appendix 14 of the Listing Rules for the six months ended 30 June 2017 except for the deviation from the code provision A.2.1 of the Code, which stipulates that the roles of chairman and chief executive officer should be separated.

The chairman (the "Chairman") and the chief executive officer (the "CEO") of our Company is Mr. Qiu Zhongwei ("Mr. Qiu"). Nevertheless, the Board considers that this structure will not impair the balance of power and the authority of the Board. The Board currently comprises one executive Director, three non-executive Directors and three independent non-executive Directors, with independent non-executive Directors representing about 43% of the Board, which is higher than the requirement of 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.

At present, the Board believes that it is beneficial to the management and development of our Group's businesses for Mr. Qiu to be both the Chairman and CEO as it helps to fasten the Board's decision-making. The Board would still consider segregating the role of Chairman and CEO to comply with the Code if and when appropriate.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

Our Company has adopted the code of conduct on terms no less stringent than the required standards of the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to govern securities transactions by the Directors. Having made specific enquiry to all Directors, our Company confirms that all Directors complied with all required standards under the code of conduct throughout the period from 1 January 2017 to 30 June 2017.

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

During the period from 1 January 2017 to 30 June 2017, neither our Company nor any of our subsidiaries purchased, sold or redeemed any of the listed securities of our Company.

## AUDIT COMMITTEE REVIEW

The audit committee of our Company currently comprises Mr. Zheng Fuya (chairman), Mr. Rawen Zhi Hong Huang and Dr. Wang Ching, who are all independent non-executive Directors. The audit committee and the external auditor have reviewed the unaudited interim financial report of our Group for the six months ended 30 June 2017. The audit committee has also discussed matters such as the accounting policies and practices adopted by our Group and internal control with the senior management of our Company.

By order of the Board of Directors
**Yingde Gases Group Company Limited**
**Qiu Zhongwei**
*Chairman*

Hong Kong, 8 August 2017

*As at the date of this announcement, the executive Director is Mr. Qiu Zhongwei; the non-executive Directors are Mr. Wong Tak-Wai, Mr. Xiao Suining and Mr. He Hui David; and the independent non-executive Directors are Mr. Zheng Fuya, Dr. Wang Ching and Mr. Rawen Zhi Hong Huang.*