



**YINGDE GASES GROUP COMPANY LIMITED**  
**盈德氣體集團有限公司**

# Investor Presentation

*Hong Kong, February 2017*



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# Today's Presenters

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**Mr. Zhao Xiangti**

*Chairman & Executive Director*

- Co-founder of Yingde
- Lead in management, business development and expansion since October 2001
- Over 16 years of experience in the industrial gas industry
- Became the Manager of China FAW Group Xinjiang No. 1 Auto Factory in 1995 at age of 36; Previously led the industry research on the heavy truck sector and the drafting of Torch Automobile Group's initial acquisition strategy. Played an important role in many of Torch Automobile Group's investments. Led Torch Automobile Group's investment in Yingde Gases beginning with the initial feasibility study, which led to the formation of the Company
- Bachelor of Engineering from Hebei Science and Technology University in 1982



**Ms. Samantha Sze Wing Wong**

*Chief Financial Officer & Joint Company Secretary*

- Joined on July 1, 2008
- Over 15 years of accounting experience in the industrial sector
- Former chief financial officer of Orange Sky Entertainment Group
- Bachelor of Business Administration from the University of Hong Kong, and EMBA from China Europe International Business School
- Chartered member of the Hong Kong Institute of Certified Public Accountants in 2003



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# Today's Presenters (Cont'd)



**Mr. Zhang Yunfeng**

*Chief Operations Officer*

- Joined Yingde in 2013 as advisor, and assisted company to streamline operations, formulate strategic plans, manage market value, and execute investments, mergers and acquisitions
- Over 20 years of experience in industrial gases sector
- Prior Executive Partner at Zhonghe Ventures/Dingxing International Capital, General Manager of Investments for Shenyang Hejin Holdings (SSE:000633) and Deputy Head of Markets for Xi'an Xihejingda Instruments
- Bachelor's degree in Industrial Analysis from Wuhan Engineering University in 1997, and Master's Degree In Industrial Economics from Wuhan University of Technology in 2002



**Mr. Suo Yaotang**

*Vice President of Markets and Investment, Deputy General Manager*

- Joined Yingde in 2001; Former Head of Developments Division, Non-Executive Director of Group
- Over 53 years of experience in industrial gas manufacturing and applications
- Former Deputy General Manager of Tsitsihar Steel Plant
- Bachelor of Metallurgical Mechanics from Beijing Institute Of Iron And Steel (Now Beijing University Of Science And Technology) in 1964



**Mr. Li Hai**

*Vice President of Design, Manufacturing & Engineering*

- Joined Yingde in 2007; Former Project Manager, Baotou Yingde General Manager, Mongolia Region Manager and Zhihai Chemicals General Manager
- Over 22 years of experience in industrial gas manufacturing and applications
- Former Chief Engineer of Zhejiang Industrial Equipment Installation Group, in charge of multiple gas and air separation projects
- Bachelor from Nanjing Tech University in Equipment Installation Engineering in 1964



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# Other Key Management

## Diversified and Experienced Team Supportive of Senior Management

Name	Current Position/Responsibility	Years of Experience in the Industry	Years of Service in Group
Chen Kai	Vice President of Operation Center	24	16
Suo Yaotang	Vice President of Markets and Investment (Deputy General Manager)	53	16
Zhang Jianye	Vice President of Finance	22	11
Zhang Shunkai	Co - Vice President of Market and Investment	43	16
Li Hai	Vice President of Design, Manufacturing & Engineering	22	10
Fang Ming	Assistant to President (in Charge of Technology Center)	28	5
Jiao Zhen	Assistant to President (in Charge of Administration Center)	23	3



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**Section 1: Summary and Situation Recap**

**Section 2: Air Products Proposal and Our Strategic Review**

**Section 3: Financial Performance**

**Section 4: Corporate Governance and Recent Initiatives**

**Section 5: Transaction Statistics**



# Summary

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- February 13, 2017, we announced that we had instructed Morgan Stanley Asia Limited (“Morgan Stanley”) to run a sale process for the company
- Potential Bidders have been contacted, including international private equity firms and strategic players
- Timeline is fast and the due diligence data room will be available very soon
- We are creating the optimal condition for value to be created for shareholders, entrust us with the role of finding the right transaction for Yingde



# Situation Recap

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- **Prior to November 2016**, Yingde's share price declined significantly along with all major operating metrics
  - Some macroeconomic headwinds, but also over expansion and over-leveraged
  - Issues in relationship between key customers and prior management led to disputes idling roughly 10% of the Group's oxygen production capacity
- **November 5, 2016**: After careful deliberation, a majority of the Board, including all independent non-executive directors, voted to remove Mr. Sun and Mr. Strutt from executive roles.
  - Originwater had previously acquired 4.2% of shares on market; Mr. He joined the board first in 2013
  - At end October 2016, Company had less than US\$12MM offshore. PRC currency controls were simultaneously tightening. After seeking terms from a number of private investors, Board agreed to raise HK\$1.2 Bn of proceeds from placing equity to Originwater (at 3.2% premium to last trade) to replace CDB loan
- **December 12, 2016**: Entities affiliated with Mr. Sun & Mr. Strutt raised requisition to remove Mr. Zhao and other executive directors of the Company
- **December 29, 2016**: Air Products submitted an unsolicited offer to the Company at a price of HK\$5.5 – 6.0 per share
- **January 9, 2017**: Board announces termination of Originwater placing
- **January 19, 2017**: Entities affiliated with Chairman Zhao requisitioned an EGM to remove Mr. Sun and Mr. Strutt as directors
- **February 6, 2017**: To avoid unnecessary speculation, Majority Board publishes announcement clarifying it will not issue new shares, unless shareholders in the future approved such issuance by a specific or general mandate

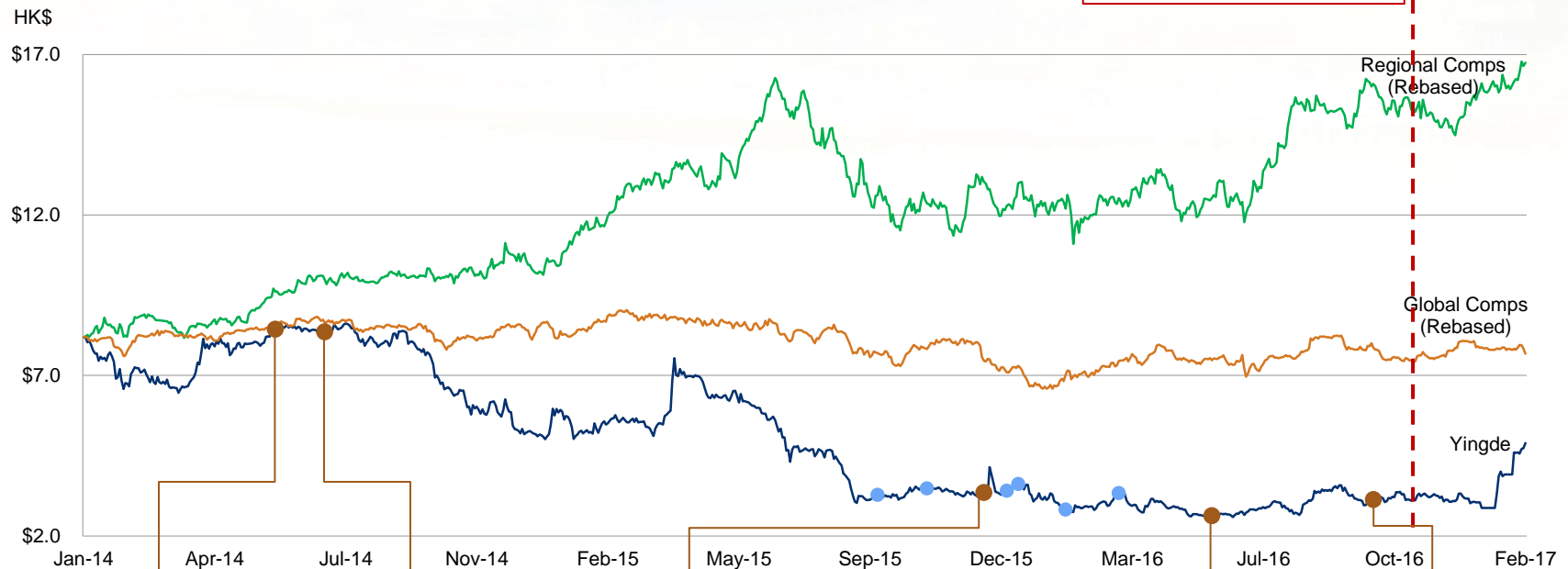




# Situation Recap: The Stock Price Decline

## Share Price Performance<sup>(1)</sup>

January 2014 – January 2017



**Nov. 6:** Mr. Sun & Mr. Strutt removed as CEO and COO

**Nov. 8:** Stock price closes 6.8% higher two days after removal announced

**Late 2014:** Mr. Zhao began privately conveying to Mr. Sun his concerns

**July 2014:** Yingde Loudi plant stoppage due to dispute in gas supply contract

**Dec 2015:** Yingde Pingshan plant seizure due to refusal to accommodate key customer Hebei Jingye Steel's payment delays

**May/June 2016:** Cashflow issues caused the Company to delay salary payments to employees for 2 mths

**October 2016:** Taking measures to raise cash, including requiring plant managers to pledge equipment and raise RMB 5MM or face two-month salary penalty

● Customer and JV Disputes



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### Notes

1. Regional comps includes Taiyo Nippon Sanso, Air Water, SK Materials and Wonik Materials; Global comps includes Air Products and Chemicals, Air Liquide and Linde Aktiengesellschaft

# The Upcoming EGMs

<b>Date and Time</b>	March 8th, 10 AM – Board & Chairman Zhao Requisitions March 8th, 11 AM – Sun & Strutt Requisitions
<b>Location</b>	Dianchang South Road, Zhuhai City, PRC (Yingde Zhuhai Office)
<b>Proxy Cut Off Date</b>	March 6th, 10 AM (may be earlier depending on your broker)
<b>Voting Mechanics</b>	<ul style="list-style-type: none"><li>• Investor may vote on each director's removal or nomination separately. Each resolution will be carried by a simple majority of those present or voting by proxy</li><li>• First EGM (10 AM): Board &amp; Chairman Requisitions; if approved, Mr. Sun and Mr. Strutt will be removed as directors</li><li>• Second EGM (11 AM): Sun &amp; Strutt Requisitions; if approved, Mr. Zhao, Mr. He Yuanping, Mr. Zhang Yunfeng, Mr. Suo Yaotang, Dr. Feng Ke will be removed as directors; Mr. Ma Zhihe will be nominated; the board will be capped at 5 members</li></ul>



# Why You Should Support Us

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## **We are committed to achieving the best value for your company**

- The Company and Chairman Zhao, the latter as a shareholder of Yingde and as a director, are prepared to facilitate a sale, to APD or otherwise
  - However indicative price of HKD 5.50 - or even HKD 6.00 - appears potentially opportunistic

## **We have initiated a sale process**

- We have voluntarily formed an Independent Board Committee
- We have engaged Morgan Stanley to evaluate strategic alternatives and conduct sale process
  - Potential bidders contacted. Dataroom preparation underway. Dataroom access as early as these two days or shortly thereafter
- Met with APD to indicate our willingness to engage

## **We have reached out to Mr. Sun and Mr. Strutt through our advisors to facilitate a sale**

- We believe that it is only through coordination that greater value can be achieved by all shareholders

**Mr. Zhao has also notified the Majority Board, in his capacity as a shareholder of the Company, that as long as he remains a director of the Company and as such is informed of the progress of any sale exercise, he is willing to sell his shares in any transaction involving all the issued shares of the Company and which is recommended by the Majority Board in the foreseeable future**

**We believe a professional, coordinated strategy and process is needed to identify the best outcome for the Company and its shareholders**



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# The Air Products Proposal

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## **The possible Air Products offer was disclosed on January 8, 2017**

- Air Products sent a letter to us on 29 December 2016
  - Air Products proposed the acquisition of all of the outstanding shares of Yingde, on a fully-diluted basis, at a price of HK\$5.50 per share in cash
  - If permitted to conduct a customary due diligence on the Company, Air Products could potentially offer a price as high as HK\$6.0 per share
  - The consummation of any offer would also be subject to antitrust approval from the Ministry of Commerce of the People’s Republic of China and any other required regulatory approvals
- It does not represent a “firm” offer to buy the company under Takeovers Code
- Air Products “reserve the right to pursue, alternative transaction structures including a voluntary general offer”...
- The Company is working on addressing Air Products’ request for customary due diligence while we evaluate the offer
- There is no proposal yet for the Yingde Independent Board Committee to review





# Morgan Stanley Engagement

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## Strategic Review

- On February 10, 2017, the Company appointed Morgan Stanley as its financial advisor to assist the Company and the Board in evaluating the Possible Offers and other potential strategic alternatives
- A potentially material component of the fee payable under the terms of the Morgan Stanley engagement is benchmarked to the value of the Company's shares, as measured by, inter alia, the traded stock price of the shares or the value of any offer for the Company.
- Morgan Stanley has begun outreach to potentially interested strategic and financial investors as a part of their engagement
  - Rapid process timeline to bring bidders onto a similar timetable to Air Products



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# Business with Sustainable, Predictable Earnings

	CY2013	CY2014	CY2015	1H 2015	1H 2016
<b>Production Capacity</b>					
No. of on-site facilities	54	61	65	62	66
Production capacity – Oxygen (Nm <sup>3</sup> /hr)	1,562,900	1,749,300	1,939,300	1,809,300	1,959,300
Production capacity – Nitrogen (Nm <sup>3</sup> / hr)	2,085,600	2,273,600	2,466,600	2,373,600	2,477,600
Production capacity – Argon (Nm <sup>3</sup> / hr)	41,860	45,400	48,900	47,400	49,540
<b>Hunan Yingde Financials (CNY MM)</b>					
Revenue	2,750	2,577	2,681	1,262	1,391
EBITDA	1,004	883	873	480	
<b>Yingde Gases Group Company Limited (CNY MM)</b>					
Revenue	6,866	7,716	7,919	3,799	4,140
EBITDA	2,024	2,480	2,655	1,287	1,504



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Source: Company Filings

# Benchmarking Yingde<sup>(1)</sup>

- Yingde has the lowest AV/EBITDA and P/E multiples of peers yet high EBITDA margin and reasonable net margin

Trading Metrics <sup>(2)</sup>				LTM Metrics									
AV		Market Cap		AV/EBITDA		P/E		P/B		EBITDA Margin		Net Margin	
63,414	Air Liquide	41,903	Air Liquide	13.9x	Air Liquide	52.4x	Air Products	6.5x	Praxair	50.8%	SK	21.0%	SK
42,979	Praxair	33,171	Praxair	12.2x	Praxair	25.5x	Taiyo	5.0x	SK	34.8%	Yingde	15.1%	Praxair
38,791	Linde	30,491	Air Products	11.2x	Air Products	23.5x	Air Water	4.3x	Air Products	33.8%	Praxair	10.3%	Air Liquide
35,777	Air Products	29,742	Linde	11.0x	Taiyo	23.3x	Linde	3.3x	Air Liquide	33.6%	Air Products	10.1%	Wonik
8,457	Taiyo	5,388	Taiyo	10.3x	SK	22.9x	Air Liquide	2.1x	Linde	25.6%	Air Liquide	6.9%	Linde
5,114	Air Water	3,694	Air Water	9.1x	Linde	21.6x	SK	2.0x	Taiyo	22.8%	Linde	6.1%	Yingde
2,579	Yingde	1,581	SK	8.8x	Wonik	21.0x	Praxair	1.8x	Wonik	21.6%	Wonik	6.1%	Air Products
1,831	SK	1,187	Yingde	8.4x	Air Water	18.9x	Wonik	1.8x	Air Water	13.8%	Taiyo	3.8%	Taiyo
329	Wonik	331	Wonik	6.2x	Yingde	16.1x	Yingde	1.2x	Yingde	10.5%	Air Water	2.7%	Air Water



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Source Company filings, CapIQ (for market capitalization)

Notes

1. Trading Metrics data as of 02/10/2017; LTM data as of 06/30/2016
2. Trading Metrics unit of US\$ MM unless otherwise specified

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# Corporate Governance Comparison

	Majority Board	Former Executives
Entrenchment	<ul style="list-style-type: none"> <li>Mr. Zhao holds 12.3% of the Company</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Sun and Mr. Strutt, including Mr Sun's cousin, collectively hold 30% of the Company</li> </ul>
Independent Directors	<ul style="list-style-type: none"> <li>Three independent board directors</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Zhihe Mah, the proposed nominee from Mr. Strutt and Sun, is a former employee and not truly independent</li> </ul>
Prior Company Equity Financing	<ul style="list-style-type: none"> <li>Mr. Zhao has written to Mr. Sun previously of the need to attract capital and reduce leverage</li> </ul>	<ul style="list-style-type: none"> <li>Steadfastly refused to sell shares or issue shares to third parties in the past</li> </ul>
Other Governance Issues	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Questionable cash advances to Mr. Sun</li> <li>Undisclosed competing interests</li> <li>Disclosing corporate info and board deliberations for use in proxy</li> </ul>



# Recent Initiatives

## Issues Prior to November 6

### Customers

- Ongoing endemic litigation with customers and joint venture partners disrupted operations and joint ventures
- Key customer Hebei Jingye seized Pingshan factory on Dec. 2<sup>nd</sup> 2015
- Four other disputes with key customers and joint venture partners since late 2015 involving contracts and unpaid dues

### Employees

- Low morale due to across the board pay cut of 25% since 2015, while increasing Sun & Strutt bonuses by over 50%
- Dissatisfaction from employees due to 2-month delay in salary payments for May and June 2016

### Creditors

- Less than US\$12MM in cash offshore at end of October 2016; no fundraising
- Poorly conceived and executed fundraising measures (e.g. each plant manager forced to pledge equipment to raise RMB 5 million or face two-month salary penalty)
- Disputes with customers undermined creditor confidence and rating agency views

## Current Management Actions

- Improving the strained relationship with customers and more rational approach to dealing with customer issues
- This has not been done at the expense of receivables collection, which were highest on record in December 2016 and January 2017
- Public expressions of support from all top 5 customers and 25 other major customers

- Much improved employee morale and greater engagement in managing the business
- Working on improving incentive alignment
- Public support letters from 110 core management, including VP Chen Kai and Deputy GM Suo Yaotang

- Despite termination of placing, successfully refinanced HK\$820MM due in January 2017, with support from Originwater
- Engaging in constructive discussions with creditors



# Why The Majority Board Is Best Placed To Run A Sale Process

- This management team and the Majority Board is committed to a transparent sale process that maximizes value for shareholders
- The Majority Board and current management team is the constituency that has the support of customers and employees
  - Public support letters from 110 core management, including Vice President Chen Kai and Deputy General Manager Suo Yaotang; these are the people that run our plants, manage our finances and interact with our customers
  - Public expressions of support from all top 5 customers and 25 other major customers



- These two groups are critical in successfully executing a sale transaction, especially to a strategic competitor
- Creditor relations have been tense under prior management, and their full support is needed to manage a successful sale
- The Majority Board has investment and negotiation experience (as well as operational experience) and the ability to successfully manage a sale process
- Morgan Stanley has already been engaged and directed to reach out to potential other interested parties



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# Yingde Market Valuation and Implied LTM EBITDA Multiples<sup>(1)</sup>

	Unaffected Price	Today's Price	Best APD Offer to Date
Price / Share (HK\$)	2.87	4.87	6.00
Implied FD Mkt Cap (HK\$ MM)	5,426	9,211	11,350
Aggregate Value (HK\$ MM)	16,225	20,010	22,149
LTM EBITDA Multiple <sup>(2)</sup>	5.0x	6.2x	6.8x

**Notes**

1. Price as of 2/10/2017 close at HKD4.87; CNY:HKD as of 2/10/2017 close at 0.89
2. EBITDA calculated as profit from operations + depreciation and amortization + share of earnings from associates and joint ventures



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# Selected Global Industrial Gases Precedent Transactions

## Change-of-Control Transactions In the Industrials Gases Sector Since 2014<sup>(1)</sup>

Ann. Date	Acquiror Name	Target Name	Target Country	Target Description	Implied AV (US\$MM)	Implied AV/LTMEBITDA
Apr '14	Daesung Group Partners	Daesung Industrial Gases	South Korea	Manufacturer of industrial and specialty gases	877	9.8x
May '14	Mitsubishi Chemical Holdings	Taiyo Nippon Sanso	Japan	Producer of gases in Japan, the United States, and internationally	6,781	10.0x
Nov '15	Air Liquide SA	Airgas, Inc.	United States	Supplies industrial, medical, and specialty gases; and welding equipment and related products	13,075	13.4x
Nov '15	SK Holdings Co. Ltd.	OCI Materials Co., Ltd.	South Korea	Specialty gas manufacturer	986	8.0x
Apr '16	Praxair Inc.	Yara International ASA, European CO <sub>2</sub> Business	Norway	European CO <sub>2</sub> business comprises liquefaction plants, CO <sub>2</sub> ships and terminals and dry ice production	246	10.1x
<b>Mean (All Transactions)</b>						<b>10.3x</b>
<b>Median (All Transactions)</b>						<b>10.0x</b>

**Note**

1. Transactions with publicly disclosed financials where meaningful AV/LTM EBITDA transaction multiples to be calculated



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# Appendix



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# Company Overview

## Business Description

- Yingde Gases (the “Company”) is the largest domestic independent gas supplier in the PRC in terms of revenue, which produces, supplies and distributes a variety of industrial gas products (oxygen, nitrogen, argon) to on-site and merchant customers in 19 provinces
- On-site gas sales are typically from customers who have entered into long-term gas supply contracts with the Company, while merchant gas sales are generated from local distributors on the spot market
- Currently the Company owns more than 69 gas supply facilities in China, with a total installed oxygen capacity of 1,962,300 Nm<sup>3</sup>/hr
  - Since 2012, on-site oxygen installed capacity has grown at CAGR of 12%
- The Company was established in 2001 with shares listed on the Main Board of the Hong Kong Stock Exchange since October 2009

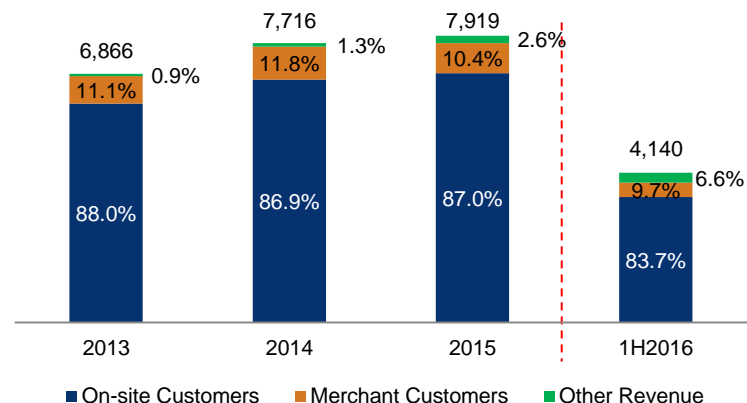
## Financial Summary

(CNY MM)	2013	2014	2015	2016 1H
<b>Revenue</b>	6,866	7,716	7,919	4,140
<b>EBITDA</b>	2,024	2,480	2,655	1,504
<b>Net Profit</b>	908	904	536	387
<b>EBITDA Margin</b>	29.5%	32.1%	33.5%	36.3%
<b>Net Profit Margin</b>	13.2%	11.7%	6.8%	9.3%
<b>ROA<sup>(2)</sup></b>	12.9%	13.9%	13.7%	15.1%
<b>ROE</b>	15.6%	14.2%	8.0%	11.4%
<b>Total Debt / Assets</b>	0.5x	0.5x	0.5x	0.5x
<b>Total Debt / EBITDA</b>	3.9x	3.9x	3.8x	3.5x <sup>(3)</sup>

## Top 5 Customers



## Sales Breakdown By Customer Type (CNY MM)



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### Notes

1. Sourced from Company Presentation 2015
2. ROA calculated as EBITDA / Total Assets
3. Multiple based on annualized EBITDA