TIANHE CHEMICALS GROUP LIMITED
天合化工集團有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1619)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Revenue increased by 52.2% to RMB3,072.7 million from RMB2,018.9 million.
- Gross profit margin increased to 62.4% from 57.0%.
- Profit attributable to owners of the Company increased by 44.9% to RMB1,477.7 million from RMB1,019.7 million. Basic earnings per share increased by 46.5% to RMB6.3 cents from RMB4.3 cents.
- Profit attributable to owners of the Company before listing expenses increased by 50.3% to RMB1,532.1 million from RMB1,019.7 million.

FINANCIAL RESULTS

The Board of Directors (the "**Board**") of Tianhe Chemicals Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2014, together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**3,072,736**	2,018,923
Cost of sales		**(1,155,698)**	(869,145)
Gross profit		**1,917,038**	1,149,778
Other income	*5*	**26,910**	84,762
Other gains and losses	*6*	**(15,350)**	21,288
Selling and distribution expenses		**(7,308)**	(4,294)
Administrative expenses		**(45,188)**	(36,914)
Other expenses	*7*	**(68,701)**	(5,033)
Finance costs		**(42,605)**	(29,035)
Profit before taxation		**1,764,796**	1,180,552
Income tax expenses	*8*	**(287,099)**	(160,862)
Profit and total comprehensive income for the period attributable to the owners of the Company		**1,477,697**	1,019,690
Earnings per share (Basic), in RMB cents	*9*	**6.3**	4.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	**5,192,997**	4,155,452
Prepaid lease payments		**936,169**	952,424
Intangible assets		**229,247**	246,673
Deposits paid for acquisition of non-current assets	*12*	**2,773,763**	2,073,306
Deferred tax assets		**8,775**	8,080
		9,140,951	7,435,935
Current assets			
Inventories	*13*	**338,940**	305,583
Trade and bills receivables	*14*	**101,874**	138,253
Other receivables, deposits and prepayments		**98,449**	46,444
Amount due from a related party	*23(d)*	**–**	813,744
Income tax recoverable		**7,307**	10,080
Value-added tax recoverable		**195,974**	195,917
Prepaid lease payments		**21,778**	20,944
Bank deposits	*15*	**461,410**	456,000
Pledged bank deposits		**895,000**	–
Cash and cash equivalents	*16*	**2,270,519**	984,832
		4,391,251	2,971,797
Current liabilities			
Trade and other payables	*17*	**209,954**	166,512
Amounts due to related parties	*23(d)*	**–**	172,473
Income tax payable		**81,120**	7,380
Bank borrowings – due within one year	*18*	**2,239,102**	1,281,030
Dividends payable	*23(d)*	**–**	2,237
Shareholder's loans	*23(e)*	**–**	1,234,862
		2,530,176	2,864,494
Net current assets		**1,861,075**	107,303
Total assets less current liabilities		**11,002,026**	7,543,238

	Notes	At **30 June** **2014** ***RMB'000*** **(unaudited)**	At 31 December 2013 *RMB'000* (audited)
Non-current liabilities			
Bank borrowings – due after one year	*18*	**29,546**	43,109
Deferred tax liabilities		**14,275**	40,162
Deferred income		**5,808**	6,360
		49,629	89,631
Net assets		**10,952,397**	7,453,607
Capital and reserves			
Share capital	*19*	**158**	3
Reserves		**10,952,239**	7,453,604
Total equity		**10,952,397**	7,453,607

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. GENERAL INFORMATION

The Company was incorporated as a British Virgin Islands business company with limited liability on 8 March 2007. The registered office of the Company is located at Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands (the "**BVI**"). On 15 March 2013, the board of directors of the Company approved the change of the Company's name from Inspeed International Limited to Tianhe Chemicals Group Limited.

The Company's immediate holding company is Driven Goal Ltd. ("**Driven Goal**"), incorporated in the BVI. The Company's ultimate holding company is Elite Choice Properties Limited, also incorporated in the BVI.

The Company is an investment holding company. The principal activities of the subsidiaries are manufacture and sale of fine chemical products. The two major product groups are (i) lubricant additives; and (ii) specialty fluorochemicals.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 20 June 2014.

The condensed consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation ("**IFRIC**") and amendments to standards ("**new and revised IFRSs**") that are mandatorily effective for its accounting period beginning on or after 1 January 2014.

Amendments to International Financial Reporting Standard ("**IFRS**") 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The application of the above new and revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and on disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sale of goods, net of discounts and sales related taxes.

The Group is organised based on the types of products manufactured and sold. These are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the Executive Directors of the Company) to make strategic decisions. The Group's operating segments under IFRS 8 Operating Segments are identified as the following two product groups of:

- Lubricant additives: this segment produces and sells lubricant additives products.

- Specialty fluorochemicals: this segment produces and sells specialty fluorochemicals.

Segment profit represents the profit earned by each segment without allocation of interest income, directors' remunerations, auditor's remuneration and income tax expenses, certain part of finance costs, depreciation, release of prepaid lease payments, administrative expenses, other expenses and other gains and losses not attributable to respective segment. This is the measure reported to the Group's chief operating decision maker for the purpose of resources allocation and performance assessment.

(a) **Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable and operating segment.

	Lubricant additives *RMB'000* **(unaudited)**	**Specialty fluorochemicals** *RMB'000* **(unaudited)**	**Total** *RMB'000* **(unaudited)**
Six months ended 30 June 2014			
Revenue	**1,026,709**	**2,046,027**	**3,072,736**
Segment profit	**267,642**	**1,629,599**	**1,897,241**
Six months ended 30 June 2013			
Revenue	905,849	1,113,074	2,018,923
Segment profit	230,374	911,395	1,141,769

	Six months ended 30 June	
	2014 *RMB'000* **(unaudited)**	2013 *RMB'000* (unaudited)
Revenue		
Segment revenue	**3,072,736**	2,018,923
Profit		
Segment profit	**1,897,241**	1,141,769
Interest income	**22,868**	82,555
Finance costs	**(40,266)**	(26,067)
Depreciation	**(14,186)**	(12,976)
Release of prepaid lease payments	**(1,540)**	(1,540)
Administrative expenses	**(25,617)**	(22,717)
Other expenses	**(54,445)**	–
Other gains and losses	**(15,415)**	20,371
Auditor's remuneration	**(1,530)**	(662)
Directors' remunerations	**(2,314)**	(181)
Profit before taxation	**1,764,746**	1,180,552

5. OTHER INCOME

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(Note)*	**3,489**	801
Recognition of deferred government grants	**553**	1,406
Interest income on bank deposits and bank balances	**22,868**	9,368
Imputed interest income on amount due from a related party *(note 23(d))*	**–**	73,187
	26,910	84,762

Note: The Group's businesses have been encouraged by the PRC government and certain subsidies have been provided by the PRC government. There are no unfulfilled conditions or contingencies relating to these grants. They have been recognised by the Group as income upon the receipt of these subsidies.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net exchange (loss) gain *(Note)*	**(15,586)**	21,007
Gain (loss) on disposal of property, plant and equipment	**36**	(120)
Net (loss) gain on disposal of testing products and others	**(17)**	458
Others	**217**	(57)
	(15,350)	21,288

Note: During the period ended 30 June 2014, the amount mainly includes a loss arising on settlement of shareholder's loans denominated in United States dollars ("**US$**") due to the depreciation of RMB against US$.

7. OTHER EXPENSES

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Research and development expenses	**14,256**	5,033
Listing expenses *(Note)*	**54,445**	–
	68,701	5,033

Note: The amount represents professional fees for the preparation of the listing of the Company's shares on the Main Board of the Stock Exchange.

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
PRC enterprise income tax ("**EIT**")	**313,681**	163,116
Deferred tax	**(26,582)**	(2,254)
Income tax expenses	**287,099**	160,862

In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise is subject to income tax at a rate of 15%. 錦州惠發天合化學有限公司 (Jinzhou DPF-TH Chemical Co., Ltd.) ("**Jinzhou DPF-TH**"), a wholly owned subsidiary of the Company, was certified as a New and High Technical Enterprise on 29 November 2011 for 3 years in accordance with the applicable Law of the PRC on Enterprise Income Tax (the "**EIT Law**"), and was subject to income tax at a tax rate of 15% for the six months ended 30 June 2014 and 2013. Subject to approval by the relevant local government authority, Jinzhou DPF-TH will continue to enjoy this tax treatment of a preferential tax rate of 15%.

阜新恒通氟化學有限公司 (Fuxin Hengtong Fluoride Chemicals Co., Ltd.) ("**Fuxin Hengtong**"), a wholly owned subsidiary of the Company, was certified as a New and High Technical Enterprise on 27 November 2012 in accordance with the applicable EIT Law and was subject to income tax at a tax rate of 15% for the six months ended 30 June 2014 and 2013.

Other subsidiaries established in the PRC were subject to income tax rate of 25% for the six months ended 30 June 2014 and 2013. The Company and its subsidiaries incorporated the BVI and Hong Kong had no assessable profits for the six months ended 30 June 2014 and 2013.

During the six months ended 30 June 2014, withholding tax amounting to RMB40,000,000 in respect of intra-group declared dividends has been recognised and included in current tax expense. Deferred tax expense for current period includes the reversal of deferred tax liability in respect of the withholding tax amounting to RMB40,000,000 described above and the recognition of deferred tax liability in respect of undistributed earnings of PRC subsidiaries of the Group for profit generated during the first quarter of 2014.

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to the owners of the Company	**1,477,697**	1,019,690

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share *(Note)*	**23,614,160,000**	23,490,000,000

Note: The number of ordinary shares for both periods is arrived at after considering the effect of the share split and capitalisation issue as described in note 19.

No diluted earnings per share is presented for the six months ended 30 June 2014 and 2013 since there is no potential ordinary shares in issue during both periods.

10. DIVIDENDS

On 5 March 2014, a special dividend of RMB810,000,000 was declared to the sole shareholder, Driven Goal, and were fully settled in April 2014.

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment amounting to approximately RMB1,117,000,000 (six months ended 30 June 2013: RMB125,700,000) and disposed of property, plant and equipment with the carrying amount of approximately RMB300,000 (six months ended 30 June 2013: approximately RMB3,000,000). Depreciation amounting to RMB79,400,000 was provided during the period (six months ended 30 June 2013: RMB64,100,000).

12. DEPOSITS PAID FOR ACQUISITION OF NON-CURRENT ASSETS

	At 30 June 2014 *RMB'000* (unaudited)	At 31 December 2013 *RMB'000* (audited)
Deposits paid for property, plant and equipment	**2,317,634**	1,616,477
Deposits paid for prepaid lease payments	**456,129**	456,829
	2,773,763	2,073,306

13. INVENTORIES

	At 30 June 2014 *RMB'000* (unaudited)	At 31 December 2013 *RMB'000* (audited)
Raw materials	**60,591**	73,632
Consumables	**4,791**	4,246
Work in progress	**15,114**	20,978
Finished goods	**258,444**	206,727
	338,940	305,583

14. TRADE AND BILLS RECEIVABLES

	At 30 June 2014 *RMB'000* (unaudited)	At 31 December 2013 *RMB'000* (audited)
Trade receivables	**79,491**	124,228
Bills receivable	**22,641**	14,283
	102,132	138,511
Less: allowance for doubtful receivables	**(258)**	(258)
	101,874	138,253

Trade and bills receivables are mainly from sales of goods. The Group generally delivers goods upon payments. For some customers, the Group would grant credit terms of 30 days to 90 days. The following is an aged analysis of the Group's trade and bills receivable, net of allowance for doubtful receivables by invoice date as at the end of the reporting period:

	At 30 June 2014 *RMB'000* (unaudited)	At 31 December 2013 *RMB'000* (audited)
Within 30 days	**58,474**	53,027
31 to 60 days	**24,700**	28,167
61 to 90 days	**12,385**	21,013
91 to 180 days	**6,289**	26,424
181 to 365 days	**26**	9,622
	101,874	138,253

15. BANK DEPOSITS

As at 30 June 2014, the Group's bank deposits with original maturity of more than three months carried fixed interest rate of 3.05% (31 December 2013: 3.05%) per annum.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group, and short-term bank deposits that borne interest at prevailing market interest rates.

	At 30 June 2014 *RMB'000* (unaudited)	At 31 December 2013 *RMB'000* (audited)
Bank deposits denominated in:		
– RMB	**659,645**	953,788
– US$	**28,291**	28,029
– HK$	**1,580,464**	2,161
– Others	**1,694**	554
Cash on hand	**425**	300
	2,270,519	984,832

The bank balances carry interest rates as follows:

	Six months ended 30 June 2014 *RMB'000* (unaudited)	2013 *RMB'000* (unaudited)
Range of interest rate per annum	**0.01%–0.35%**	0.01%–0.35%

17. TRADE AND OTHER PAYABLES

	At 30 June 2014 *RMB'000* (unaudited)	At 31 December 2013 *RMB'000* (audited)
Trade payables	**16,719**	22,100
Retention and other payables	**54,929**	32,967
Payable for prepaid lease payment	**54,054**	54,054
Staff welfare payables	**21,854**	21,400
Other tax payables	**41,367**	19,536
Accrued interests	**3,419**	864
Advance received from customers	**17,612**	15,591
	209,954	166,512

Retention and other payables are unsecured, interest-free and repayable on demand.

Payable for prepaid lease payment is due upon issuance of land use right certificate by relevant government authorities.

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	At 30 June 2014 *RMB'000* (unaudited)	At 31 December 2013 *RMB'000* (audited)
Within 90 days	**12,732**	16,578
91 to 365 days	**2,357**	4,150
1 to 2 years	**986**	431
2 to 3 years	**113**	124
Over 3 years	**531**	817
	16,719	22,100

The average credit period on purchases of goods is 90 days.

18. BANK BORROWINGS

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Unsecured bank borrowings *(Note)*	**1,370,000**	1,254,000
Secured bank borrowings	**898,648**	70,139
Total bank borrowings	**2,268,648**	1,324,139

Note: The bank borrowings with the balances amounting to RMB454,000,000 as at 30 June 2013 were guaranteed by 遼寧天合精細化工股份有限公司 (Liaoning Tianhe Fine Chemical Co., Ltd.) ("**Liaoning Tianhe**"), a company controlled by Wei's family. Such guarantees were fully released on 20 June 2014.

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Bank borrowings repayable:		
Within one year	**2,239,102**	1,281,030
More than one year but not exceeding two years	**29,546**	27,030
More than two years but not exceeding five years	**–**	16,079
	2,268,648	1,324,139
Less: Amount due within one year shown under current liabilities	**(2,239,102)**	(1,281,030)
Amount due after one year	**29,546**	43,109

During the six months ended 30 June 2014, the Group borrowed new bank loans amounting to RMB2,058,000,000 (30 June 2013: RMB758,000,000) and repaid bank borrowings amounting to RMB1,113,600,000 (30 June 2013: RMB779,800,000).

19. SHARE CAPITAL

	Number of ordinary shares at US$0.01 per share	at US$0.000001 per share	Share capital
			RMB'000
	(unaudited)	(unaudited)	(unaudited)
At 1 January 2014 (audited)	46,500	–	3
Subdivided of every share of US$0.01 each into US$0.000001 each *(Note a)*	(46,500)	465,000,000	–
Capitalization issue *(Note b)*	–	23,025,000,000	142
Issue of shares upon listing of the Company's shares on the Stock Exchange on 20 June 2014 *(Note c)*	–	2,043,000,000	13
At 30 June 2014 (unaudited)	–	25,533,000,000	158

Note:

(a) Pursuant to a resolution in writing passed by the sole shareholder of the Company on 22 May 2014, the Company subdivided each of the 46,500 issued and 4,953,500 unissued shares with a par value of US$0.01 each into 10,000 shares with a par value of US$0.000001 each, so that thereafter, (a) the maximum number of shares which the Company is authorised to issue shall be 50,000,000,000 shares with a par value of US$0.000001 each; and (b) the number of issued shares shall be 465,000,000 shares of US$0.000001 each, while the number of the unissued shares shall be 49,535,000,000 shares of US$0.000001 each.

(b) On 22 May 2014, the Directors capitalised US$23,025 (equivalent to approximately RMB142,000) from the share premium account of the Company and applied the same amount in paying up in full 23,025,000,000 shares at par, which was allotted and issued to the sole shareholder of the Company, Driven Goal. Subsequent to the capitalisation issue, the Company had 23,490,000,000 issued shares, which were solely held by Driven Goal.

(c) On 20 June 2014, the Company issued 2,043,000,000 shares with par value of US$0.000001 each under the global offering at HK$1.8 per share.

20. PLEDGE OF ASSETS

The following assets were pledged to secure certain bank borrowings granted to the Group at the end of reporting period:

	At 30 June 2014	At 31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Property, plant and equipment	**45,989**	47,896
Prepaid lease payments	**5,317**	5,450
Bank deposits *(Note)*	**895,000**	–
	946,306	53,346

Note: Advanced Grade International Limited, a wholly owned subsidiary of the Company entered into a bank facility agreement with a bank on 2 April 2014, for a banking facility of US$139,300,000 (equivalent to approximately RMB850,000,000), which is secured by a pledge over Jinzhou DPF-TH's onshore deposit placed with the bank.

21. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period is as follows:

	At 30 June 2014	At 31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Acquisition or construction of property, plant and equipment:		
Contracted but not provided for	**1,076,991**	1,469,017

(b) Operating lease commitments – the Group as lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 30 June 2014	At 31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
No later than 1 year	**2,799**	330
Later than 1 year and no later than 5 years	**2,991**	–
Total	**5,790**	330

22. CONTINGENT LIABILITIES

The amounts of the outstanding financial guarantees provided by the Group at the end of each reporting period are as follows:

	At 30 June 2014 *RMB'000* **(unaudited)**	At 31 December 2013 *RMB'000* (audited)
Financial guarantees given to banks	–	300,000

As at 31 December 2013, the Group issued financial guarantees to banks in respect of banking facilities granted to Liaoning Tianhe. The amount disclosed above represents the aggregate amount that could be required to be paid if the guarantees were called upon in entirety, which has been fully utilised by Liaoning Tianhe as at 31 December 2013.

In the opinion of the Directors, the fair value of the financial guarantees issued by the Group is insignificant at initial recognition and the possibility of default by Liaoning Tianhe is not probable. Accordingly, no provision has been recognised at the inception of the guarantee and as at 31 December 2013.

The financial guarantees have been released in March 2014.

23. RELATED PARTY BALANCES AND TRANSACTIONS

The following parties are identified as related parties to the Group and the respective relationships are set out below:

Name of related parties	**Relationship with the Group**
Driven Goal	Immediate holding company
Liaoning Tianhe	A company controlled by Wei's family*
錦州天合進出口貿易有限公司 (Jinzhou Tianhe Import & Export Trading Co., Ltd.) ("**Jinzhou Tianhe**")	A company controlled by Wei's family
義縣第一運輸有限責任公司 (Yixian the First Public Transportation Co., Ltd.) ("**Yixian Transportation**")	A company controlled by Wei's family
錦州海森堡石化科技有限公司 (Jinzhou Heisenberg Petrochemical Equipment Technology Co., Ltd.) ("**Jinzhou Heisenberg**")	A company controlled by Wei's family
錦州企峰石化科技有限公司 (Jinzhou Peak Petrochemical Technology Co., Ltd.) ("**Jinzhou Peak**")	A company controlled by Wei's family

* Wei's family including Mr. Wei Qi, Mr. Wei Xuan (Mr. Wei Qi's brother) and Ms. Wei Xiao (Mr. Wei Qi's daughter). Mr. Wei Qi is the ultimate controlling shareholder of the Company, Mr. Wei Xuan is also the director of the Company.

In addition to the related party transactions disclosed in notes 18 and 22, the Group entered into the following significant transactions with its related parties:

(a) Sales of goods

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of goods:		
– Liaoning Tianhe	**997**	11,779
– Jinzhou Tianhe	**–**	67
– Yixian Transportation	**72**	181
	1,069	12,027

(b) Purchases of goods

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Purchases of goods:		
– Jinzhou Peak	**299**	–

(c) Land lease

Liaoning Tianhe, as landlord, entered into a land lease agreement with Jinzhou DPF-TH, as tenant, on 1 November 2008 for a piece of land for 12 years commencing from 1 November 2008 at an aggregate lease payment of RMB6,000,000. The amount was fully paid in 2008 and included in "Prepaid lease payments".

On 10 March 2014, Liaoning Tianhe has transferred the relevant land to the Group at nil consideration. On 28 March 2014, Jinzhou DPF-TH obtained the land use right for a lease term up to November 2020.

(d) Balances with related parties

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Amount due from a related party (non-trade):		
– Jinzhou Heisenberg *(Note)*	–	813,744

Note:

The amount due from Jinzhou Heisenberg is unsecured, non-interest bearing and repayable on demand. It represents the consideration receivable from Jinzhou Heisenberg in relation to the disposal of the marine fuel assets from the Group to Jinzhou Heisenberg on 12 December 2011. The amount due from Jinzhou Heisenberg was measured at fair value using the discounted cash flows method by applying an effective interest rate of 20% per annum and the expected repayment term of two years at initial recognition. The amount has been subsequently settled in full in March 2014.

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Amounts due to related parties (non-trade):		
– Mr. Wei Xuan	–	37
– Liaoning Tianhe	–	172,436
	–	172,473
Dividends payable		
– Liaoning Tianhe	–	2,237

The amounts are unsecured, non-interest bearing and repayable on demand.

(e) **Shareholder's loans**

	At 30 June 2014 *RMB'000* **(unaudited)**	At 31 December 2013 *RMB'000* (audited)
Driven Goal	**–**	1,234,862

The loans from immediate holding company are denominated in US$. They are unsecured, non-interest bearing and repayable on demand.

(f) **Key management personnel emoluments**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and other key management of the Group. The key management personnel compensations are as follows:

	Six months ended 30 June	
	2014 *RMB'000* **(unaudited)**	2013 *RMB'000* (unaudited)
Short-term employee benefits	**5,609**	3,038
Retirement benefit contributions	**6**	5
	5,615	3,043

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the reporting period, as a result of our strong research and development capabilities and leading proprietary technologies and flexible operations, the Company achieved favourable growth on year-on-year basis in both business segments.

The Group's revenue reached RMB3,072.7 million for the six months ended 30 June 2014, representing an increase of 52.2% over the corresponding period of 2013. Total profit attributable to owners of the Company was RMB1,477.7 million, an increase of 44.9% over the corresponding period of 2013. Excluding the listing expenses of RMB54.4 million incurred in 2014, the adjusted total profit attributable to owners of the Company was RMB1,532.1 million, an increase of 50.3%.

Lubricant Additives

Our lubricant additive business segment recorded revenue and gross profit of RMB1,026.7 million and RMB272.2 million respectively in current period, representing an increase of 13.3% and 17.9% respectively over the corresponding period of 2013. The lubricant additives segment accounted for 33.4% of the Group's revenue, compared to 44.9% for the corresponding period in 2013. The export sales accounted for 12.3% total revenue in lubricant additives segment in the current period (30 June 2013: 5.8%).

Benefited from the upgrade and expansion of existing production capacity for extreme pressure anti-wear additives in November 2013, the commencement of operation of new lubricant additive packages plant in July 2013, and the significant marketing effort on export sales, the sales volume, average selling price as well as the gross profit margin of the lubricant additives business segment reported steady growth during the period. While our products were still focused in domestic markets, the export sales revenue recorded a strong growth of over 140% when compared to the corresponding period in 2013. The sales to Total and a multinational lubricant manufacturer in Europe contributed a significant part of export sales in current period.

Specialty Fluorochemicals

Our specialty fluorochemicals business segment continued to show a favourable growth in 2014. During the period, the Group's sales of specialty fluorochemicals products amounted to RMB2,046.0 million, a 83.8% increase from the corresponding period in 2013. Out of our total revenue, 66.6% revenue was generated from the special fluorochemicals business segment, compared to 55.1% for the corresponding period in 2013.

During the period, our revenue from downstream specialty fluorochemical products recorded a strong growth. This mainly came from an increase in sales volume of anti-mar and certain high revenue generating products such as fluorochemical intermediates for pharmaceutical use and surfactants we introduced in second half of 2013. Because the expansion of our 2,400 tonnes of telomer plant in Fuxin was completed and commenced operation in November 2013, revenue from telomers also increased 122.5% during the period.

Research and Development (R&D)

To maintain our leading position in the specialty chemical industry, the Group persists in technological innovation through the expertise in the highly skilled team of scientists. We are committed to developing new products and processes, as well as improving existing products and processes, focusing on identifying the most cost-efficient way to deliver product performances that meet our customers' expectations.

During the period, our expenses in relation to our R&D activities amounted to RMB14.3 million which primarily included salaries for our R&D staff and depreciation and amortization expenses of our laboratory equipment which accounted for approximately 0.5% to our revenue. As at 30 June 2014, the net carrying value of our R&D costs capitalized as intangible assets amounted to RMB229.2 million.

Production Capacity

The Group is executing the prescribed expansion plan as mentioned in the Prospectus. Through the expansion of production capacity in Jinzhou, Liaoning Province and the construction of new production plant in Qinzhou, Guangxi Province, we expect our production capacity is sufficient to meet the growing demand in both business segments.

Outlook

The global consumption of lubricant additives is forecasted to remain stable. However, driven by China's positive economic development in recent years, its lubricant additives market is expected to grow faster than other regions over the next few years. Regarding specialty fluorochemicals products, it is forecasted China will also drive a significant growth given its rising income levels and advancing manufacturing technology for end-application.

We will continue to expand existing production capacity in the PRC to capitalize on the strong demand for our products, invest in R&D projects to expand our current product offering of high revenue generating products, increase penetration of overseas markets through partnership with international players, set up R&D centers and sales force in selected international markets and improves efficiencies and reduce costs in our existing operations to further increase margins through process innovations. The above development principles are executed step-by-step as we mentioned in the Prospectus.

Looking ahead, the Group remains optimistic about the business outlook. The Group is committed to upholding its development principles and maximizing returns to its shareholders.

FINANCIAL REVIEW

The Group reported its financial information in two segments – the lubricant additives business and the specialty fluorochemicals business – during the period.

For the six months ended 30 June	2014 *(RMB'000)* (unaudited)	2013 *(RMB'000)* (unaudited)	Change (%)
Revenue	**3,072,736**	2,018,923	52.2
Cost of sales	**(1,155,698)**	(869,145)	33.0
Gross profit	**1,917,038**	1,149,778	66.7
Other income	**26,910**	84,762	(68.3)
Other gains and losses	**(15,350)**	21,288	n/a
Selling and distribution expenses	**(7,308)**	(4,294)	70.2
Administrative expenses	**(45,188)**	(36,914)	22.4
Other expenses	**(68,701)**	(5,033)	1,265.0
Finance costs	**(42,605)**	(29,035)	46.7
Profit before taxation	**1,764,796**	1,180,552	49.5
Income tax expenses	**(287,099)**	(160,862)	78.5
Profit attributable to the owners of the Company	**1,477,697**	1,019,690	44.9
Adjusted profit attributable to the owners of the Company (before listing expenses of RMB54.4 million)	**1,532,142**	1,019,690	50.3
EBITDA	**1,883,084**	1,210,106	55.6
Adjusted EBITDA (before listing expenses of RMB54.4 million)	**1,937,529**	1,210,106	60.1

Our revenue, cost of sales and gross profit by product segment for the six months ended 30 June 2013 and 2014 are set as follows.

For the six months ended 30 June	**2014** *(RMB'000)* **(unaudited)**	2013 *(RMB'000)* (unaudited)	**Change** (%)
Sales	**3,072,736**	**2,018,923**	**52.2**
Lubricant additives	**1,026,709**	905,849	13.3
Specialty fluorochemicals			
Downstream specialty fluorochemical products	**927,761**	583,307	59.1
Telomers and specialty fluorochemical intermediates	**1,092,425**	490,918	122.5
Others	**25,841**	38,849	(33.5)
Sub-total special fluorochemicals	**2,046,027**	1,113,074	83.8
Cost of sales	**(1,155,698)**	**(869,145)**	**33.0**
Lubricant additives	**(754,465)**	(674,986)	11.8
Specialty fluorochemicals	**(401,233)**	(194,159)	106.7
Gross profit	**1,917,038**	**1,149,778**	**66.7**
Lubricant additives	**272,244**	230,863	17.9
Specialty fluorochemicals	**1,644,794**	918,915	79.0
Gross profit margin (%)	**62.4**	**57.0**	
Lubricant additives	**26.5**	25.5	
Specialty fluorochemicals	**80.4**	82.6	

Revenue

Revenue for the six months ended 30 June 2014 was RMB3,072.7 million, representing an increase of 52.2% from RMB2,018.9 million for the six months ended 30 June 2013. The increase was mainly attributable to the strong demand of specialty fluorochemicals products, expansion of capacity and commercialisation of new products.

Gross Profit

The Group's gross profit increased to RMB1,917.0 million for the six months ended 30 June 2014 with gross profit margin reached 62.4%, as compared with RMB1,149.8 million and 57.0% for the six months ended 30 June 2013. The increase in the Group's gross profit margin was mainly contributed by the substantial volume sold in certain specialty fluorochemical products during the period. Since the growth of higher profit downstream specialty fluorochemical products was surpassed by that of upstream telomers and specialty fluorochemical intermediates such as TI and TEI during the period, the gross profit margin of the specialty fluorochemicals business segment slightly decreased.

Other Income

Other income amounted to RMB26.9 million for the six months ended 30 June 2014, represented a decrease of 68.3% as compared with RMB85.3 million for the six months ended 30 June 2013. The decrease was mainly due to the lack of an imputed interest income (2013: RMB73.2 million) from Jinzhou Heisenberg as the balance outstanding was fully settled in 2014, and partially offset by the interest income arising from the pledged bank deposits.

Other gains and losses

Other losses for the six months ended 30 June 2014 mainly represented a net exchange loss of RMB15.6 million arising on settlement of shareholder's loan denominated in US$ due to the depreciation of RMB against US$. For the six months ended 30 June 2013, it was a gain of RMB21.0 million arising from the retranslation of that shareholder's loan due to the appreciation of RMB against US$.

Selling and Distribution Expenses

Selling and distribution expenses amounted to RMB7.3 million for the six months ended 30 June 2014, representing an increase of 70.2% from RMB4.3 million for the six months ended 30 June 2013. The increase in the export sales had led to a higher export charges incurred.

Administration Expenses

Administration expenses amounted to RMB45.2 million for the six months ended 30 June 2014, representing an increase of 22.4% from RMB36.9 million for the six months ended 30 June 2013. The increase was mainly due to increase in management personnel and staff salary costs.

Other Expenses

Substantial increase in other expenses represented IPO expenses of RMB54.4 million incurred in the current period and increased in research and development expenses of RMB9.3 million.

Finance Costs

Finance costs of the Group for the six months ended 30 June 2014 increased by 46.7% to RMB42.6 million when compared with RMB29.0 million for the same period in 2013, as a result of the drawn down on a bank facility of US$136.9 million in April 2014 for the payment of the dividend of approximately RMB810.0 million (net of withholding tax) to our shareholders before IPO.

Income Tax Expenses

Income tax expenses for the six months ended 30 June 2014 was RMB287.1 million, as compared with RMB160.8 million for the six months ended 30 June 2013. Increase in profits generated from both business segments led to a higher income tax expense during the period.

Profit from Operating Activities and Net Profit

Even though part of the profit was offset by the listing expenses incurred, the Group's net profit for the six months ended 30 June 2014 reached RMB1,477.7 million (30 June 2013: RMB1,019.7 million), an increase of 44.9% when compare with the corresponding period in 2013. EBITDA for the six months ended 30 June 2014 reached RMB1,883.1 million (30 June 2013: RMB1,210.1 million), an increase of 55.6%. The Group's EBITDA margin increased to 61.3% for the first half of 2014 (30 June 2013: 59.9%).

For the six months ended 30 June 2014, the adjusted net profit of the Group (before listing expenses) amounted to RMB1,532.1 million, an increase of 50.3% when compare with the corresponding period in 2013. Adjusted EBITDA (before listing expenses) for the six months ended 30 June 2014 reached RMB1,937.5 million, an increase of 60.1%. Adjusted EBITDA margin (before listing expenses) of the Group increased to 63.1% for the first half of 2014.

Capital Expenditure

For the six months ended 30 June 2014, the total capital expenditure of the Group amounted to RMB1,809.9 million (30 June 2013: RMB1,116.1 million), a 62.2% increase. The capital expenditure for the period was mainly used in the construction of production plants and procurement of equipment for the lubricant additives project in Qinzhou, Guangxi Province, the fluorinated lubricant additives project and the ashless dispersant products project under the lubricant additives segment, and the TFE production facility with an expected design production capacity of 5,000 tonnes per year and the TI/TEI production project with an expected design production capacity of 2,000 tonnes per year in Fuxin, Liaoning Province, under the specialty fluorochemicals segment.

Liquidity and Financial Resources

For the six months ended 30 June 2014, the Group's main source of funding were cash generated from operating activities. The net cash from operating activities for the period was RMB1,660.8 million. The net cash used in investing activities were RMB1,891.3 million, mainly attributed to acquisition of property, plant and equipment, placement of pledged bank deposits and settlement of the remaining outstanding balance by Jinzhou Heisenberg from disposal of marine fuel assets. Net cash generated from financing activities was RMB1,515.9 million which included net proceeds raised in IPO, repayment of shareholder loans, new bank borrowings raised and dividend paid before IPO.

As at 30 June 2014, the aggregate of cash and bank balances amounted to approximately RMB2,270.5 million (31 December 2013: RMB984.8 million). The Group's total assets as at 30 June 2014 were RMB13,532.2 million (31 December 2013: RMB10,407.7 million). We have total bank borrowings of RMB2,268.6 million as at 30 June 2014, of which RMB898.6 million were secured bank borrowings.

As at 30 June 2014, property, plant and equipment with carrying value of RMB45.9 million (31 December 2013: RMB47.9 million) and prepaid lease payments of RMB5.3 million (31 December 2013: RMB5.5 million) were pledged to secure certain bank borrowings of the Group.

IPO Proceeds and Use of the IPO Proceeds

During the IPO, the Company has issued a total of 2,043,000,000 new Shares. After deducting the related expenses, the IPO net proceeds was approximately HK$3,520.5 million. The Group will apply the above IPO net proceeds in accordance with the manners set out in the Prospectus and the Company's announcement of 16 June 2014, being:

- 27.4%, or HK$964.8 million, would be allocated to development of lubricant additives, including special fluorized lubricating oil products;
- 27.4%, or HK$964.9 million, would be allocated to development of specialty fluorochemical products; and
- 45.2%, or HK$1,590.8 million, would be used for repayment of the shareholder's loans granted to the Company by Driven Goal Limited.

As at 30 June 2014, the shareholder's loans granted by Driven Goal have been settled by the IPO proceeds as planned. The unutilized IPO net proceeds pending their usage were deposited in licensed banks in Hong Kong.

Contingent Liabilities

As at 30 June 2014, the Group had no significant contingent liabilities.

Employee Information

As at 30 June 2014, the Group had 1,414 full-time employees. For the first six months of the year, employee costs, include Directors' emoluments, totaled RMB35.5 million. Employees are remunerated with reference to individual performance, working experience, qualification and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit scheme, employee benefits include discretionary bonuses, with share options to be granted to eligible employees.

Key Financial Ratios

	30 June 2014	30 June 2013
EBITDA margin (%)	**61.3**	59.9
Adjusted EBITDA margin (%)	**63.1**	59.9
Net profit margin (%)	**48.1**	50.5
Gearing ratio (%)	**20.7**	34.3
Net debt to equity ratio (%)	**(12.4)**	15.0
Interest coverage	**42.4**	47.4
Return on total assets (annualised %)	**21.8**	19.6
Return on equity (annualised %)	**27.0**	27.4
Current ratio	**1.7**	1.0

Notes:

(1) EBITDA margin is calculated by dividing EBITDA by revenue. EBITDA equals to the sum of EBIT, depreciation, release of prepaid lease payments and amortization of intangible assets.

(2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue. Adjusted EBITDA equals to the sum of EBIT, depreciation, release of prepaid lease payments, amortization of intangible assets, and add back the one-off IPO expenses in 2014.

(3) Gearing ratio is calculated by dividing total debt by total equity. Total debt equals the sum of bank borrowings and shareholder's loans.

(4) Net debt to equity ratio is calculated by dividing net debt by total equity at the end of the period. Net debt equals total debt minus the sum of cash and cash equivalents and bank deposits.

(5) Interest coverage is calculated by dividing EBIT by finance costs.

INTERIM DIVIDEND

On 5 March 2014, the Company made a resolution to make a special dividend totaling RMB810,000,000 to its shareholders before the listing of the shares of the Company. Investors becoming shareholders of the Company after the listing of the Company on the Stock Exchange are not entitled to such dividend.

No other dividends were declared or paid by the Company during the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the date of listing to 30 June 2014.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in the Appendix 14 – Corporate Governance Code to the Listing Rules during the six months ended 30 June 2014.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions.

Specific enquiries have been made to all directors, who have confirmed that, they were in compliance with provisions of the Model Code from date of listing to 30 June 2014.

REVIEW BY AUDITOR AND AUDIT COMMITTEE

The Audit Committee of the Company has been set up in accordance with the Listing Rules. The Audit Committee comprises one non-executive director, namely Mr. Homer Sun, and two independent non-executive directors, namely Mr. Loke Yu (alias Loke Hoi Lam) and Mr. Xu Xiaodong. The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters of the Group for the period ended 30 June 2014.

The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2014 has been reviewed by the Audit Committee, with the directors and the Company's auditor, Deloitte Touche Tohmatsu.

APPRECIATION

I wish to express my sincere gratitude to our management and staff members for the dedication and hard work during the period. I would like to extend thanks to all our business partners, customers and shareholders for their support and look forward to sharing our continued success in the future.

By order of the Board
Tianhe Chemicals Group Limited
Wei Qi
Chairman and Executive Director

Jinzhou, the PRC, 22 August 2014

As at the date of this announcement, the Board of Directors of the Company comprises Wei Qi, Wei Xuan, Joseph Lee and Jiang Po, as executive Directors; Homer Sun, as non-executive Director; Loke Yu (alias Loke Hoi Lam), Chan Kin Sang and Xu Xiaodong, as independent non-executive Directors.