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## **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)

**(1) UNAUDITED FINANCIAL INFORMATION**  
**(2) BUSINESS UPDATES**  
**AND**  
**(3) DELAY IN PUBLICATION OF THE INTERIM RESULTS FOR**  
**THE SIX MONTHS ENDED 30 JUNE 2017 AND**  
**DESPATCH OF 2017 INTERIM REPORT**

This announcement is made by Tianhe Chemicals Group Limited (the “**Company**”) pursuant to Rules 13.09(2) and 13.49(6) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Reference is made to the announcements published by the Company on 26 March, 29 May, 31 August 2015, 23 March, 30 August 2016 and 30 March 2017 in relation to, among others, delay in (i) publication of the 2014, 2015 and 2016 Annual Results and despatch of corresponding annual reports, and (ii) publication of the 2015 and 2016 Interim Results and despatch of corresponding interim reports. Capitalised terms used in this announcement shall have the same meanings as defined in the abovementioned announcements unless the context otherwise requires.

### **Unaudited Financial Information for the Six Months Ended 30 June 2017**

In order to provide additional information to the shareholders of the Company for an assessment of the most recent financial performance of the Group, the Board hereby announces the Group’s unaudited financial information from its management accounts for the six months ended 30 June 2017 as set out below.

	Six months ended 30 June		Year-on- Year changes
	2017	2016	
	RMB million (unaudited)	RMB million (unaudited)	
<b>Revenue</b>	1,104.6	1,342.2	(17.7)%
Cost of sales	(600.8)	(706.5)	
<b>Gross Profit</b>	<u>503.8</u>	<u>635.7</u>	(20.7)%
Other income	2.5	9.0	
Other gains (losses)	2.4	(1.5)	
Selling and distribution costs	(11.0)	(8.3)	
Administrative expenses	(72.6)	(79.9)	
Other expenses	(5.8)	(7.9)	
<b>Profit from operations</b>	<u>419.2</u>	<u>547.1</u>	(23.4)%
Finance cost	(67.6)	(63.2)	
<b>Profit before taxation</b>	<u>351.6</u>	<u>483.9</u>	(27.3)%
Income tax expense	(55.0)	(78.7)	
<b>Profit and total comprehensive income for the period attributable to the owners of the Company</b>	<u>296.7</u>	<u>405.2</u>	(26.8)%

(Note: Certain amounts and percentage figures above have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.)

Based on the unaudited consolidated management accounts, the Group recorded a net profit of approximately RMB296.7 million for the six months ended 30 June 2017, representing a decline of approximately 26.8% when compared with that of the corresponding period in 2016. The decline was mainly attributable to our specialty fluorochemicals segment and the adverse impact of the relocation of the Group's primary upstream production facility located at Fuxin Hengtong. The sales and gross profit of the specialty fluorochemicals segment recorded a decrease of approximately 51.0% and 58.7% respectively on a year-on-year comparison. While our lubricant additives segment recorded a mild decline in both revenue and gross profit for the first half of 2017, the overall gross profit margin of this segment was stable at approximately 43.9% with a slight increase over the corresponding period in 2016. Due to weakened demand for certain lubricant additive products in domestic market, domestic sales of our lubricant additives segment decreased by approximately 23.2% during the current period. Export sales, on the other hand, continued to report solid growth of approximately 55.8% in the first half of 2017 when compared with the same period in 2016.

As at 30 June 2017, the Group had cash balances (including bank deposits and cash and cash equivalents) of approximately RMB2,790.7 million (unaudited) and total borrowings and shareholder's loan of RMB2,939.7 million (unaudited).

The above financial information has not been reviewed by the Company's auditor 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.

## **Business Updates**

### *Progress on Fuxin Hengtong's Relocation*

As disclosed in the Company's announcement dated 30 March 2017, in order to comply with the local government's administrative order, the relocation appeared unavoidable, and the Company then anticipated that a relocation plan could be concluded in mid-2017. After prudent consideration of factors such as environmental and production feasibilities, construction cost, approval procedures of the government authorities, room for future development and timeframe for production capacity's restoration, the Company has decided to relocate Fuxin Hengtong's entire production facilities for specialty fluorochemicals to Bawang Village Production Base (霸王莊生產基地) of Jinzhou DPF-TH Chemicals Co., Ltd. (錦州惠發天合化學有限公司) located in Jinzhou City.

Based on careful assessment and consideration, the Company considers this proposal to be the most economical and efficient for the reasons set out below. Firstly, there are available and reserved land parcels in Bawang Village Production Base which are able to satisfy the needs for the relocation of Fuxin Hengtong's production facilities and business development in the future without incur any additional land-use fees. Secondly, the industrial water sources available at Bawang Village Production Base are able to meet the stringent standards required for the production of specialty fluorochemicals. Moreover, after such relocation, Fuxin Hengtong's production facilities can share the existing infrastructures and ancillary facilities in Bawang Village Production Base such as primary and back-up electricity, industrial gas pipelines as well as wastewater treatment facilities; as a result, these construction costs can be avoided and relocation costs can be saved. Therefore, the Company believes that this proposal not only can save cost and reduce construction time, but also generate synergies with the specialty fluorochemicals segment which will be beneficial to the segment's future development.

The Company is now handling the relevant approval procedures, and has started relevant preliminary construction work; preliminary environment impact assessment work has been completed. The Company believes that the relevant approval procedures can be completed in the near future. The Company targets to complete the relocation, installation and adjustments of the production lines, and to commence trial run in phases in the third quarter of 2018. On this basis, the production and sales of specialty fluorochemical products will then be gradually ramped up. The adverse impact of the relocation to the specialty fluorochemicals segment will likely extend to the full year of 2018.

### *Progress on Group II/III Base Oil and Fluoride Lubricating Oil Project*

The major construction of the Group II/III base oil project and fluoride lubricating oil project has been completed and machines and equipment have been properly installed. Yet, part of the ancillary facilities essential for production have not been constructed to date as some local households refused to cooperate with the relocation arrangement of the local government. Based on the Company's communication with the local government, the government will remain responsible for the communication and negotiation with the local households in order to reach consensus on relocation arrangement promptly. The Company will continue to urge the local government to take appropriate actions in order to proceed with the relocation arrangement as soon as possible, and will also provide the local government with necessary assistances for the relocation arrangement. Due to the impact of the above incidents, the Company is unable to anticipate the exact operation date for the Group II/III base oil project and fluoride lubricating oil project. The Company will make disclosure to the market when appropriate in case the government's relocation achieves substantial progress.

### *Purchase Base Oil for Specialty Lubricating Oil Production*

The Company originally planned to produce Group II/III base oil internally for further production of fluoride lubricating oil products and the development of the downstream lubricating oil business. However, since the Company's Group II/III base oil project and fluoride lubricating oil project cannot commence operation as scheduled, the Company has decided to proceed with the production of specialty lubricating oil by externally procuring different types of base oil so as to capture the market opportunities and enter into the downstream lubricating oil business as soon as possible.

In order to manufacture products that cater to market needs, the production of specialty lubricating oil requires the blending of different groups of base oil with various lubricant additives to enable a range of specific functions and properties. The Company believes that the development of its downstream lubricating oil business can fully utilise the Company's competitive edges in terms of a full product portfolio and the excellent performance of our lubricant additives products. The Company is of the view that specialty lubricating oil business holds promising prospects and will generate substantial income for the Company. Currently, the Company has completed relevant preparation work for the production which includes the selection of supplier for Group II/III/IV/V base oils.

According to the Company's market research, there are broad market prospects and potential for specialty lubricating oil to be applied in areas such as agricultural machinery, railway and aviation. In the case of agricultural applications, for example, the market of lubricating oil for agricultural machineries in China remains at a nascent stage of development; there are no leading products, and most producers are small scale enterprises. We believe we are well-placed to take advantage of the sizeable market opportunities presented for lubricating oil amidst the current competitive landscape. The Company expects that lubricant oil products relating to agricultural machinery and other areas will be launched to market in the first quarter of 2018.

### *Progress on Expansion Plans for Lubricant Additives Segment*

As disclosed in the Company announcement of 23 March 2016, the Company has adopted a conservative approach and slowed down previously planned capacity expansion projects. Based on the assessment of latest market conditions, the Company has decided to resume certain production capacity expansion projects including the construction of facilities for T154 ashless dispersant and T106 detergent products under the lubricant additives segment, which will be completed during the first half of 2018. The construction-in-progress project of individual lubricant components and packages for industry and fuel oil in Qinzhou, Guangxi will remain suspended. The Company will carefully assess the relevant schedule for resuming the project based on the ongoing market assessments.

### **Delay in Publication of 2017 Interim Results and Despatch of 2017 Interim Report**

Due to the delay of publication of the 2014 Annual Results, 2015 Interim Results, 2015 Annual Results, 2016 Interim Results and 2016 Annual Results, the Company will not be able to publish its results for the six months ended 30 June 2017 (“**2017 Interim Results**”) on or before 31 August 2017 as well as despatch its interim report for the six months ended 30 June 2017 (“**2017 Interim Report**”) to its shareholders on or before 30 September 2017.

The Board acknowledges that the delay in the publication of the 2017 Interim Results and the despatch of the 2017 Interim Report will constitute non-compliance of Rules 13.49(6) and 13.48(1) of the Listing Rules respectively.

The Company will publish further announcement(s) to inform the Company’s shareholders the date of board meeting and the publication of the 2017 Interim Results, the expected date of despatch of the 2017 Interim Report as well as any other material information as and when appropriate.

Trading in the shares of the Company on the Stock Exchange will remain suspended until further notice.

By order of the Board of Directors  
**Tianhe Chemicals Group Limited**  
**WEI Qi**  
*Chairman and Executive Director*

Hong Kong, 18 August 2017

*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.*