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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
(3) DELAY IN PUBLICATION OF THE ANNUAL RESULTS FOR
THE YEAR ENDED 31 DECEMBER 2017 AND
DESPATCH OF 2017 ANNUAL REPORT
AND
(4) MONTHLY UPDATE REGARDING RESUMPTION

This announcement is made by Tianhe Chemicals Group Limited (the “**Company**”) pursuant to Rules 13.09(2) and 13.49(3) 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, 30 March and 18 August 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, 2016 and 2017 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 Year Ended 31 December 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 consolidated financial information from its management accounts for the year ended 31 December 2017 as set out below.

	Year ended 31 December		Year-on- Year changes
	2017	2016	
	RMB million (unaudited)	RMB million (unaudited)	
Revenue	2,296.4	2,821.1	(18.6)%
Cost of sales	(1,285.8)	(1,424.1)	
Gross Profit	1,010.6	1,397.0	(27.7)%
Other income	3.6	9.8	
Other (losses) gains	(7.0)	14.7	
Selling and distribution costs	(22.8)	(19.5)	
Administrative expenses	(160.2)	(198.8)	
Other expenses	(13.0)	(14.2)	
Profit from operations	811.2	1,189.0	(31.8)%
Finance cost	(129.7)	(119.3)	
Profit before taxation	681.5	1,069.7	(36.3)%
Income tax expense	(118.1)	(168.7)	
Profit and total comprehensive income for the year attributable to the owners of the Company	<u>563.4</u>	<u>901.0</u>	(37.5)%

Based on the unaudited consolidated management accounts, the Group recorded revenue of approximately RMB2,296.4 million for the year ended 31 December 2017, representing a decline of approximately 18.6% when compared with that of 2016. The decline was mainly attributable to the adverse impact of the production interruption caused by the relocation of Fuxin Hengtong's production facilities for TI products which are the key raw materials required for producing TEI products and downstream specialty fluorochemical products. In 2016, the TI products in the Group's inventory enabled the segment to generate revenue of approximately RMB483.7 million. However, as the residual inventory of such raw materials was very limited by 2017, this segment recorded revenue of approximately RMB124.7 million for the year, representing a drop of approximately 74.2% year-on-year. The gross profit of the specialty fluorochemicals segment recorded a decrease of approximately 84.5% from RMB369.3 million in 2016 to RMB57.1 million in 2017. The Company targets to complete the relocation of the upstream TI production and to re-engage customers for pre-orders in the third quarter of this year, and to progressively resume the production of specialty fluorochemical products afterwards. It is expected that the production and sales of specialty fluorochemical products will then gradually resume to prior levels of revenue generation for this segment.

The Group's lubricant additives segment recorded a mild decrease of approximately 7.1% in revenue, from RMB2,337.4 million in 2016 to RMB2,171.7 million in 2017. Such decline mainly came from the lower demand for individual lubricant additive component products from our major domestic customers, resulting in domestic sales dropping by approximately 14.5% in 2017 as compared with 2016. However, export sales of the segment continued to generate solid growth of approximately 29.8% in 2017, which was mainly attributable to the higher demand for lubricant additive package products from our major overseas customers. The proportion of export sales in the lubricant additives segment increased from 16.7% in 2016 to 23.3% in 2017. Currently, this segment's major customers include five of top ten largest oil companies in the world. With the leadership of our newly appointed CEO of the lubricant additives segment, we expect our presence in the overseas markets will be further enhanced while maintaining our position in the domestic market. In 2017, the gross profit margin of the segment maintained at approximately 43.9% which is in line with 44.0% in 2016. Due to the decline in sales, the gross profit decreased from approximately RMB1,027.6 million in 2016 to approximately RMB953.8 million in 2017.

As at 31 December 2017, the Group had cash balances (including bank deposits and cash and cash equivalents) of approximately RMB3,285.7 million (unaudited) and total borrowings and shareholder's loan of RMB2,896.8 million (unaudited).

The above financial information has not been audited or reviewed by the Company's auditor. The Company's auditor has commenced audit work for 2017 financial information.

Business Updates

Progress on Fuxin Hengtong's Relocation

As disclosed in the Company's announcement dated 18 August 2017, in mid-2017 the Company decided to relocate Fuxin Hengtong's entire production facilities to Bawang Village Production Base (霸王莊生產基地) of the Group located in Jinzhou City. The Company has since been actively working on the approval procedures as well as preparing the construction work relating to the relocation. Currently, the Company expects the environmental protection authority will hold an assessment meeting regarding the relocation project in the near future and will issue its approval for environmental impact assessments.

The Company's relocation task force has conducted a thorough assessment of the production equipment disassembled from Fuxin Hengtong's production facilities. The results of the assessment were more favourable than expected in terms of most pieces of equipment are suitable for re-installation and re-use at the Bawang Village Production Base. This will lead to savings in time and expense relating to the relocation compared to earlier expectations. The preparation work including civil engineering planning, technical process design, layout planning and orders of key equipment have been concluded, and basic construction work was completed during the last quarter of 2017. Other work relating to the relocation will be commenced immediately after obtaining the official approval of environmental impact assessments.

The Company maintains the target to complete the relocation, installation and adjustments of the production lines, and to commence trial run in phases in the third quarter of 2018. The adverse situation of the specialty fluorochemicals segment caused by the relocation and the limited inventory of TI products will continue to impact full year 2018 results.

Other Businesses

Regarding the new business of production and sale of specialty lubricating oil, the Company has procured Group II/III/IV/V base oils and completed relevant preparation work for production. During the last quarter of 2017, the Company has started trial production to fine tune the production equipment and proceeded from pilot to scale trial production for different kinds of specialty lubricating oil products, the results of which were positive. It is expected that lubricating oil products applying to agricultural machinery and other areas will be launched in the market during the first half of 2018.

In the lubricant additives segment, the Company has resumed certain production capacity expansion projects including the construction of facilities for T154 ashless dispersant and T106 detergent products. Currently, the construction is on-going according to the plan, and the Company maintains the expectation that such projects will be completed during the first half of 2018.

The Company is a leading company in developing the lubricant additives business in China. With the growth of China's economy and the implementation of the "one belt one road" strategy, the demand for lubricant additives, specialty lubricating oil, marine lubricant oil and other relevant products are set to grow gradually. In addition, given the experience and track record of our management team in penetrating and building the overseas market for our lubricant additives segment, the Company remains positive to the prospects of this segment.

Delay in Publication of 2017 Annual Results and Despatch of 2017 Annual Report

Due to the delay of publication of the 2014 Annual Results, 2015 Interim Results, 2015 Annual Results, 2016 Interim Results, 2016 Annual Results and 2017 Interim Results, the Company will not be able to publish its annual results for the year ended 31 December 2017 ("**2017 Annual Results**") on or before 31 March 2018 as well as despatch its annual report for the year ended 31 December 2017 ("**2017 Annual Report**") to its shareholders on or before 30 April 2018.

The Board acknowledges that the delay in the publication of the 2017 Annual Results and the despatch of the 2017 Annual Report will constitute non-compliance of Rules 13.49(1) and 13.46(2) 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 Annual Results, the expected date of despatch of the 2017 Annual Report as well as any other material information as and when appropriate.

Monthly Update regarding Resumption

This monthly update is made by the Company pursuant to Rule 13.24A of the Listing Rules. Reference is made to the announcements published by the Company on 25 May, 18 August, 29 September 2017 and subsequent month-ends.

As of the date of this announcement, the Company has been proactively taking steps to address the Commission's concerns. The Company will continue to address the concerns of the Commission to its satisfaction in order to lift the trading suspension. The Company will keep its shareholders and potential investors informed of any material development in connection with the above matters by way of periodic announcements and/or further announcements 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, 29 March 2018

As at the date of this announcement, the Board of Directors of the Company comprises WEI Qi, WEI Xuan, and JIANG Po, as executive Directors; Homer SUN and Joseph LEE, as non-executive Directors; LOKE Yu (alias LOKE Hoi Lam), CHAN Kin Sang and XU Xiaodong, as independent non-executive Directors.