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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)

### **RESULTS OF INTERNAL CONTROL REVIEW AND UPDATE ON FULFILMENT OF RESUMPTION CONDITIONS**

Reference is made to the announcements published by the Company on 3 November 2015, 15 February, 30 August and 31 October 2016. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the abovementioned announcements.

#### **RESULTS OF INTERNAL CONTROL REVIEW**

As set out in the abovementioned announcements, one of the Resumption Conditions is to demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its obligations under the Listing Rules. Accordingly, the Company announced on 15 February 2016 that ZHONGHUI ANDA Risk Services Limited has been engaged as the Internal Control Consultant of the Company to conduct the Internal Control Review, so as to assist the Board to assess if the Company's financial reporting procedures and internal control systems are adequate to enable the Company to meet its obligations under the Listing Rules.

The Internal Control Review was conducted with reference to (i) "Hong Kong Standard on Related Services 4400 Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by HKICPA, (ii) "Corporate Governance Code and Corporate Governance Report" as set out in Appendix 14 of the Listing Rules, (iii) "Internal Control and Risk Management - A Basic Framework (2005)" published by HKICPA, and (iv) "A Guide on Better Corporate Governance Disclosure (2014)" published by HKICPA.

During the Internal Control Review, the Internal Control Consultant has identified a number of internal control issues and deficiencies of the Group. The management of the Group has reviewed such issues and deficiencies, and has taken appropriate actions and steps to address those internal control issues and deficiencies with reference to the recommendations of the Internal Control Consultant.

Major deficiencies identified by the Internal Control Consultant and the Company's subsequent responses are set out as follows:

<b>Major deficiencies</b>	<b>Company's responses</b>
<p>The Company is unable to publish the 2014 annual results announcement, the interim results and annual results announcements for the subsequent year/periods, and the respective interim reports and annual reports within the time limit as required by the Listing Rules.</p>	<p>The Company's auditor ZHONGHUI ANDA has substantially completed the audit of 2014 Annual Results and 2015 Annual Results, and the review of interim results for the relevant periods in 2015 and 2016. The Company's directors and the management are proactively cooperating with ZHONGHUI ANDA to deal with the remaining work so as to comply with the requirements under the Listing Rules as soon as practicable.</p>
<p>Certain subsidiaries of the Company (including Sino Asia Petrochemical, North China Petrochemical and Tianhe Zhiye) only provided monthly financial reports but not regular written work progress reports to the Company's headquarters, and the general manager or person-in-charge of each of these subsidiaries did not hold regular meetings with the Company's headquarters nor keep relevant meeting minutes.</p>	<p>Sino Asia Petrochemical's project manager-in-charge reports progress and issues to the Company's headquarters and the Group's Chairman from time to time. Since the Company's management can access the latest information, regular monthly or quarterly written reports are not required to be provided. The latest written year report sets out the details of the progress of the project.</p> <p>North China Petrochemical and Tianhe Zhiye are collectively managed by DPF-TH's engineering department and equipment department. The reporting method is similar to that of Sino Asia Petrochemical. The latest written year report sets out details of the progress of the project.</p>
<p>DPF-TH and Fuxin Hengtong did not keep comprehensive written records for the new customer background checks, such as details of visits of the customer's place of business or production site to conduct interview or on-site inspection.</p>	<p>The Group conducts new customer background checks in accordance with the internal guidelines prior to any transactions. For customers with smaller scale of orders, the background checks usually include checking business registration documents and interviewing through tele-conference. For customers with expected larger scale of orders, the Group conducts stringent background checks in addition to the above, which includes visiting customer's business place and site-visits. The Group's management has requested the sales department of DPF-TH and Fuxin Hengtong to improve their filings for all the new customer background checks, complete comprehensive documentation and maintain the relevant records.</p>

<b>Major deficiencies (continued)</b>	<b>Company's responses (continued)</b>
<p>When the Company delivered products to customers through logistic companies, the customers were required to sign the receipt of delivery (收貨回執單) as a confirmation of the acceptance of goods. However, DPF-TH and Fuxin Hengtong did not (i) maintain all receipts of delivery in a register as a complete record; (ii) keep or match the receipts of delivery with relevant warehouse vouchers; and (iii) reconcile the receipts of delivery against the records returned by logistics companies.</p>	<p>There are two types of goods delivery methods used by DPF-TH and Fuxin Hengtong, namely customer pick-up and delivery arranged by the Group. For customer pick-up, since relevant customers have paid in advance before picking up the goods, the risks associated with the goods had been transferred to customers after picking up of goods from the Group's warehouse. The warehouse department states that it is difficult for them to insist for a receipt of delivery from the customers. For delivery arranged by the Group, unless the customers decline to sign, normally the Group could obtain customer-signed receipt of delivery. The Group has updated its policy on the warehouse in-and-out management, and informed the sales department, warehouse and logistics department for implementation, so as to maintain a complete set of receipts of delivery as a confirmation of the acceptance of goods.</p>
<p>During the process of selecting suppliers for large batches of raw materials, fixed assets for construction in progress, or suppliers to projects, there was lack of emails or written records to document all the details of "comparison among three suppliers" before approval.</p>	<p>The Group adopts the "comparison among three suppliers" policy (貨比三家) for procurement of large batches of raw materials and fixed assets for construction in progress, and suppliers to projects. However, written records might not be comprehensive. The Group has requested the procurement department to maintain relevant comprehensive written records from now on, updated the internal guideline on comparing and selecting suppliers and requested DPF-TH and Fuxin Hengtong to strictly implement the policy.</p>
<p>The projects under construction in progress of relevant subsidiaries were not covered by property insurance.</p>	<p>The Company has enquired certain domestic insurance companies on the matter, and such insurance companies replied that construction in progress projects could not be insured. To protect the Group's assets, the Group has established stringent internal control systems regarding quality control and safety management of constructions and effectively exercised such systems.</p>
<p>Some of the employees of DPF-TH have used unauthorised computer applications.</p>	<p>The information technology department of the Group has strengthened relevant management procedures.</p>

Following the actions and steps taken by the management of the Group, the Internal Control Consultant has conducted a follow-up review on the financial reporting procedures and internal control systems of the Group. As of the date of this announcement, the Internal Control Review Report has been finalised.

According to the Internal Control Review Report, after conducting the follow-up review, the Internal Control Consultant has come to the conclusion that no indication of any material irregularity or error on the financial reporting procedures and internal control systems of the Group was found.

Having carefully reviewed the findings and results of the Internal Control Review conducted by the Internal Control Consultant, the Board is of the view that the Group's financial reporting procedures and internal control systems are sufficient to meet the obligations under the Listing Rules.

## **UPDATE ON FULFILMENT OF RESUMPTION CONDITIONS**

As of the date of this announcement, the forensic investigation of Grant Thornton has been completed. Details of the major findings and the conclusion of the forensic investigation have been disclosed by the Company in its announcement dated 31 October 2016.

The Company's auditor ZHONGHUI ANDA is preparing and finalising the relevant auditor's reports and/or review reports for the 2014 Annual Results and subsequent interim and/or annual results of the Company.

The Company will publish further announcement(s) on any material development on the fulfilment of Resumption Conditions as and when appropriate.

## **SUSPENSION OF TRADING**

At the request of the Company, trading in the Company's shares on the Stock Exchange has been suspended with effect from 1:01 p.m. on 26 March 2015 and will continue to be suspended until further notice.

## **DEFINITIONS**

In this announcement, the following terms shall have the following meanings unless the context requires otherwise:

“2014 Annual Results”	the audited results for the year ended 31 December 2014
“2015 Annual Results”	the audited results for the year ended 31 December 2015
“Board”	the board of directors of the Company

“Company”	Tianhe Chemicals Group Limited, a company incorporated in the British Virgin Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“DPF-TH”	Jinzhou DPF-TH Chemicals Co., Ltd., a wholly owned subsidiary of the Company
“Forensic Investigation Report”	the forensic investigation report prepared by Grant Thornton
“Fuxin Hengtong”	Fuxin Hengtong Fluoride Chemicals Co., Ltd, a wholly owned subsidiary of the Company
“Grant Thornton”	Grant Thornton Advisory Services Limited
“Group”	the Company and its subsidiaries
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“Internal Control Consultant”	ZHONGHUI ANDA Risk Services Limited
“Internal Control Review”	a review of the financial reporting procedures and internal control systems of the Group
“Internal Control Review Report”	the internal control review report prepared by Internal Control Consultant
“Listing Rules”	the Rules Governing the Listing of Securities of the Stock Exchange
“North China Petrochemical”	North China Petrochemical Co., Ltd, a wholly owned subsidiary of the Company
“Resumption Conditions”	the four resumption conditions imposed by the Stock Exchange as announced by the Company on 3 November 2015
“Sino Asia Petrochemical”	Sino Asia Petrochemical Co., Ltd, a wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianhe Zhiye”	Jinzhou Huifa Tianhe Zhiye Co., Ltd, a wholly owned subsidiary of the Company

“ZHONGHUI ANDA”

ZHONGHUI ANDA CPA Limited, the Company’s  
auditor

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

Hong Kong, 11 January 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.*