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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)

### BUSINESS UPDATE AND MONTHLY UPDATE ANNOUNCEMENT

This monthly update announcement is made by Tianhe Chemicals Group Limited pursuant to Rule 13.24A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Reference is made to the announcements published by the Company on 25 May, 18 August, 29 September 2017 and subsequent month-ends. Capitalised terms used in this announcement shall have the same meanings as defined in the abovementioned announcements.

#### Business Update

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

As of the date of this announcement, the Company has completed disassembling of all specialty fluorochemical production equipment as well as the testing and assessment of such equipment. In order to better identify potential issues and/or equipment that needs to be replaced, the Company's relocation task force, based on the suggestion of the Company's scientists, has increased the ratio of equipment tested and assessed to 80% which is a much higher percentage than commonly adopted. Such thorough measures will enable the Company to ensure the production equipment is in good condition to enable stable and efficient production following the relocation.

As previously disclosed, the re-usability of production equipment related to the vital upstream intermediate of TI was higher than originally expected. The Company's production technology relating to chemical chain length of telomer and purity of TI represents the core capability that differentiates our downstream specialty fluorochemical products in the market. With the benefit of a more comprehensive testing approach, the relocation task force was pleased to also determine that the major equipment for manufacturing TFE, which is an important raw material used to produce TI, was in good condition and is able to be relocated to the Bawang Village Production Base for re-use. It was previously expected that the TFE equipment would need to be scrapped due to the duration of its prior use. In light of this development, the Company expects to be able to continue to upstream-integrate its TFE production that will help to ensure higher quality and stable supply of the raw material.

As disclosed in the Company's announcement dated 29 March 2018, the Company has concluded preparation work including planning and design, ordering of key equipment and basic construction work. Following a comprehensive assessment by experts as to successfully achieving planning pre-conditions for relocation, the environmental protection authority of Jinzhou notified the Company that all other construction work relating to the relocation project could commence. Accordingly, the Company has initiated the remaining construction work such as the construction of primary manufacturing facilities as well as supplementary production units.

Due to the more comprehensive equipment assessment conducted and a slightly more protracted approval process by the environmental protection authorities than originally anticipated, the progress of the relocation project is slightly delayed compared to original expectations. Currently, the Company expects to complete the installation of equipment and commence tuning of production lines in the last quarter of 2018, and to commence trial runs in the beginning of 2019. The Company has observed through market research that during the production interruption of our specialty fluorochemical products caused by the relocation, there has been a shortage of supply of relevant products in both domestic and overseas markets which led to significant increase in the price of such products. The Company has started to re-engage major customers of the specialty fluorochemicals segment to assess their potential future demand, and when appropriate, the Company will begin the negotiation of order quantities in framework purchase agreements with major customers for specialty fluorochemical products sales in 2019. Based on the information currently available, the Company is confident that the production quantities and associated revenues of the specialty fluorochemicals segment will, starting in the first quarter of 2019, gradually recover to the level prior to the production interruption.

#### *Other Businesses*

With regards to the lubricant additives segment, the major construction work of two production capacity expansions for T154 ashless dispersant and T106 detergent products have been generally completed as planned. As of the date of this announcement, tuning of the production lines is currently underway.

Regarding the new business of production and sale of specialty lubricating oil, the scale trial production of relevant products has achieved positive progress. The Company expects that first batch of specialty lubricating oil products applying to agricultural machinery will be launched to market in the third quarter of 2018. The Company is currently considering issues regarding sales model and channel, payment collection and credit terms, and assisting customers of agricultural sector to make appropriate financial arrangements. The Company is closely communicating with local banks regarding the usage of letters of credit as a payment method in order for the Company to minimise collection and other risks arising from selling to small and medium-sized customers. The Company will continue to carefully evaluate relevant risks while proactively preparing for the launch of its specialty lubricating oil business.

#### **Resumption Progress**

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 of Hong Kong Limited 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 June 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.*