



天合化工集團有限公司

TIANHE CHEMICALS GROUP LIMITED

(Incorporated in the British Virgin Islands with Limited Liability)
Stock Code : 1619

Interim Report 2014





CONTENTS

Performance Highlights	2
Management Discussion and Analysis	3-9
Report on Review of Condensed Consolidated Financial Statements	10
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	11
Condensed Consolidated Statement of Financial Position	12-13
Condensed Consolidated Statement of Changes in Equity	14
Condensed Consolidated Statement of Cash Flows	15
Notes to the Condensed Consolidated Financial Statements	16-33
Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures	34-36
Share Option Scheme	37
Corporate Governance and Other Information	38-39
Corporate Information	40

PERFORMANCE HIGHLIGHTS

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.

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. At 30 June 2014, the Group had a net cash position.
- (5) Interest coverage is calculated by dividing EBIT by finance costs.

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% of 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 fluorochemical 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 capitalised 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 fluorochemical 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 capitalise 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 specialty 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 fluorochemical 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 RMB84.8 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 an increase 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 RMB160.9 million for the six months ended 30 June 2013. Increase in profits generated from both business segments led to higher income tax expenses 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 oil 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, and fluorinated lubricating oil;
- 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 ("**Driven Goal**").

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

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.

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).

Event after the reporting period

In July 2014, in connection with the partial exercise of over-allotment option by the joint global coordinators on behalf of the international underwriters of the Company's global offering (the "**Global Offering**"), 404,922,000 shares were sold by Driven Goal and one of the Company's pre-IPO investors Investec Bank plc at HK\$1.80 (before expenses) per share being the offer price under the Global Offering. Further details were set out in the Company's announcement of 13 July 2014.



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
TIANHE CHEMICALS GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Tianhe Chemicals Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 11 to 33, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“ISRE 2410”). A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2013 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with ISRE 2410.

Deloitte Touche Tohmatsu
Certificated Public Accountants
Hong Kong
22 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014	2013
		RMB'000 (unaudited)	RMB'000 (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

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 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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note a)	Safety reserve RMB'000 (Note b)	Other reserves RMB'000 (Note c)	Retained earnings RMB'000	Total RMB'000
For the six months ended 30 June 2014							
At 1 January 2014 (audited)	3	396,177	375,696	15,789	9,785	6,656,157	7,453,607
Profit and total comprehensive income for the period	-	-	-	-	-	1,477,697	1,477,697
Appropriation of safety reserve	-	-	-	5,425	-	(5,425)	-
Utilisation of safety reserve	-	-	-	(1)	-	1	-
Issue of shares (note 19(b))	13	2,918,822	-	-	-	-	2,918,835
Issue costs	-	(87,742)	-	-	-	-	(87,742)
Capitalisation issue (note 19(c))	142	(142)	-	-	-	-	-
Dividends paid to immediate holding company	-	-	-	-	-	(810,000)	(810,000)
At 30 June 2014 (unaudited)	158	3,227,115	375,696	21,213	9,785	7,318,430	10,952,397
For the six months ended 30 June 2013							
At 1 January 2013 (audited)	3	396,177	375,696	11,980	9,785	4,033,737	4,827,378
Profit and total comprehensive income for the period	-	-	-	-	-	1,019,690	1,019,690
Appropriation of safety reserve	-	-	-	2,469	-	(2,469)	-
Utilisation of safety reserve	-	-	-	(4)	-	4	-
At 30 June 2013 (unaudited)	3	396,177	375,696	14,445	9,785	5,050,962	5,847,068

Notes:

(a) Statutory reserve

In accordance with relevant rules and regulation in the People's Republic of China (the "PRC") and provisions within the articles of association of those companies established in the PRC, each of the PRC subsidiaries is required to transfer 10% of the profit after taxation, determined in accordance with the relevant accounting policies and financial regulations applicable to entities established in the PRC, to the statutory reserve until the balance reach 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase paid-in capital of respective companies. Except for the reduction of losses incurred, any other usage should not result in the reserve balance falling below 25% of the registered capital.

(b) Safety reserve

Pursuant to the relevant regulation in the PRC, a subsidiary of the Company is required to provide for safety reserve based on sales revenue.

(c) Other reserves

Included in the other reserves was an amount of RMB9,785,000 represented expenses of the Group paid by a related company. The arrangement was considered as a deemed capital contribution and recorded as other reserves of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014	2013
		RMB'000 (unaudited)	RMB'000 (unaudited)
Net cash generated from operating activities		1,660,813	918,588
Cash paid for acquisition of:			
– Property, plant and equipment		(1,809,877)	(1,085,889)
– Prepaid lease payments		–	(30,196)
Settlement of receivable from disposal of marine fuel assets in previous year		813,744	64,502
Proceeds from disposal of non-current assets		75	47
Withdrawal of bank deposits		106,000	706,000
Placement of bank deposits		(111,410)	(556,000)
Placement of pledged bank deposit		(895,000)	–
Advance to related parties, net		–	269,300
Repayment from related parties, net		–	(10,374)
Refund of bidding deposits		5,161	17,290
Net cash used in investing activities		(1,891,307)	(625,320)
Interests paid		(40,050)	(29,401)
Repayment of shareholder's loans		(1,267,928)	(6)
Advancement of shareholder's loans		33,066	–
Dividend paid to a related party		(2,237)	–
Dividend paid to the immediate holding company		(810,000)	–
Advance from related parties		–	256,465
Repayment to related parties		(172,473)	–
New bank borrowings raised		2,057,976	758,000
Repayment of bank borrowings		(1,113,562)	(779,846)
New shares issued under the initial public offering		2,918,835	–
Payment of transaction costs attributable to issue of new shares		(87,742)	–
Net cash generated from financing activities		1,515,885	205,212
Net increase in cash and cash equivalents		1,285,391	498,480
Cash and cash equivalents at the beginning of the period		984,832	254,634
Effect of foreign exchange rate changes		296	(91)
Cash and cash equivalents at the end of the period	15	2,270,519	753,023

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 (the “**Directors**”) 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 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 “**Stock Exchange**”).

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

Amendments to IAS 32

Amendments to IAS 36

Amendments to IAS 39

IFRIC 21

Investment Entities

Offsetting Financial Assets and Financial Liabilities

Recoverable Amount Disclosures for Non-Financial Assets

Novation of Derivatives and Continuation of Hedge Accounting

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.

For the six months ended 30 June 2014

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.

All assets are allocated to operating segments other than deferred tax assets, other receivables, deposits and prepayments, income tax recoverable, amount due from a related party, bank deposits and cash and cash equivalents, property, plant and equipment, prepaid lease prepayments, deposits paid for acquisition of non-current assets, inventories and value-added tax recoverable to the extent that are not attributable to respective segment.

All liabilities are allocated to operating segments other than amounts due to related parties, income tax payable, dividends payable, shareholder's loans and deferred tax liabilities, other payables and bank borrowings to the extent that are not attributable to respective segment.

(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

For the six months ended 30 June 2014

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)**(a) Segment revenue and results (continued)**

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(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	1,764,796	1,180,552

(b) Segment assets and liabilities

	Lubricant additives	Specialty fluorochemicals	Total
	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)
As at 30 June 2014			
Segment assets	7,200,799	1,591,178	8,791,977
Unallocated:			
Property, plant and equipment			380,936
Prepaid lease prepayments			149,616
Deposits paid for acquisition of non-current assets			262,731
Deferred tax assets			8,775
Inventories			9,508
Other receivables, deposits and prepayments			98,449
Income tax recoverable			7,307
Value-added tax recoverable			195,974
Bank deposits			1,356,410
Cash and cash equivalents			2,270,519
Consolidated total assets			13,532,202
Segment liabilities	154,606	7,579	162,185
Unallocated:			
Other payables			123,577
Income tax payable			81,120
Bank borrowings			2,198,648
Deferred tax liabilities			14,275
Consolidated total liabilities			2,579,805

For the six months ended 30 June 2014

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)**(b) Segment assets and liabilities (continued)**

	Lubricant additives RMB'000 (audited)	Specialty fluorochemicals RMB'000 (audited)	Total RMB'000 (audited)
As at 31 December 2013			
Segment assets	6,053,909	1,217,309	7,271,218
Unallocated:			
Property, plant and equipment			223,285
Prepaid lease prepayments			152,588
Deposits paid for acquisition of non-current assets			266,248
Deferred tax assets			8,080
Amount due from a related party			813,744
Inventories			557
Other receivables, deposits and prepayments			46,444
Income tax recoverable			10,080
Value-added tax recoverable			174,656
Bank deposits			456,000
Cash and cash equivalents			984,832
Consolidated total assets			10,407,732
Segment liabilities	155,875	11,151	167,026
Unallocated:			
Other payables			75,846
Amounts due to related parties			172,473
Income tax payable			7,380
Bank borrowings			1,254,139
Dividends payable			2,237
Shareholder's loans			1,234,862
Deferred tax liabilities			40,162
Consolidated total liabilities			2,954,125

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

5. OTHER INCOME

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Government grants (<i>Note</i>)	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 (<i>note 23(d)</i>)	–	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 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Net exchange (loss) gain (<i>Note</i>)	(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 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Research and development expenses	14,256	5,033
Listing expenses (<i>Note</i>)	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.

For the six months ended 30 June 2014

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2014	2013
	RMB'000 (unaudited)	RMB'000 (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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2014	2013
	RMB'000 (unaudited)	RMB'000 (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).

For the six months ended 30 June 2014

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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
– Hong Kong dollars (“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%

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

18. BANK BORROWINGS

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Unsecured bank borrowings (<i>Note</i>)	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 (six months ended 30 June 2013: RMB758,000,000) and repaid bank borrowings amounting to RMB1,113,600,000 (six months ended 30 June 2013: RMB779,800,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

19. SHARE CAPITAL

	Number of ordinary shares issued		Share capital
	at US\$0.01 per share	at US\$0.000001 per share	RMB'000
	(unaudited)	(unaudited)	(unaudited)
At 1 January 2014 (audited)	46,500	–	3
Subdivision of every share of US\$0.01 each into US\$0.000001 each (<i>Note a</i>)	(46,500)	465,000,000	–
Capitalisation issue (<i>Note b</i>)	–	23,025,000,000	142
Issue of shares upon listing of the Company's shares on the Stock Exchange on 20 June 2014 (<i>Note c</i>)	–	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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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

For the six months ended 30 June 2014

21. COMMITMENTS (CONTINUED)

(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 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (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.

For the six months ended 30 June 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 includes 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

For the six months ended 30 June 2014

23. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**(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	At
	30 June	31 December
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(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.

For the six months ended 30 June 2014

23. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**(d) Balances with related parties (continued)**

	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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”), were as follows:

Interest in our Company

Name of Director	Nature of Interest	Number and class of shares	Approximate percentage of shareholding
Wei Qi	Interested of a controlled corporation ⁽¹⁾	16,488,072,000 ^(L) 2,196,315,000 ^{(L)(3)}	64.58% 8.60% ⁽¹⁾
Wei Xuan	Interested of a controlled corporation ⁽²⁾	2,196,315,000 ^{(L)(3)}	8.60% ⁽¹⁾
Joseph Lee	Beneficial interest	18,607,680 ^{(L)(4)}	0.07% ⁽²⁾

Notes:

⁽¹⁾ Wei Qi directly holds the entire issued share capital of Elite Choice Properties Limited (“Elite Choice”) (which holds 76.20% of the total issued share capital of Gain Elite Holdings Limited (“Gain Elite”)) and therefore, is deemed to be interested in the same number of shares in which Elite Choice is interested.

⁽²⁾ Wei Xuan directly holds the entire issued share capital of MegaSky Global Limited (“MegaSky”) and therefore, is deemed to be interested in the same number of shares in which MegaSky is interested.

⁽³⁾ As disclosed in the Company’s prospectus dated 9 June 2014 (“Prospectus”), under certain conditions, if MSPEA Specialty Chemicals Holdings Limited (“MSPEA”) proposes to sell or otherwise dispose of any shares of the Company, Gain Elite, Crown Indigo Company Limited (“Crown Indigo”) or MegaSky shall have a right of first offer with respect to such shares. As such, each of Gain Elite, Crown Indigo and MegaSky is considered to have a derivative interest in the 2,196,315,000 shares held by MSPEA.

⁽⁴⁾ As disclosed in the Prospectus, the number of shares of Joseph Lee entitled was based on the assumption that (i) conversion of US dollars into Hong Kong dollars is based on the exchange rate of US\$1 to HK\$7.75, and (ii) each share has the value equal to mid-point of the offer price in the Global Offering (as defined in the Prospectus), being HK\$2.00. Joseph Lee’s entitlement to the shares is subject to the fulfillment of certain conditions. In addition, the Company has the right to elect to make cash payment to Joseph Lee in lieu of the issuance of shares (in part or in whole).

^(L) Denotes long position.

Interest in associated corporation

Name of Director	Name of associated corporation	Number of shares	Percentage Shareholding
Wei Qi	Driven Goal	3,485,920 ^{(L)(1)}	70.45% ⁽¹⁾
Wei Qi	Gain Elite	762 ^{(L)(2)}	76.20% ⁽²⁾
Wei Qi	Elite Choice	1 ^(L)	100%
Wei Xuan	Driven Goal	712,500 ^{(L)(3)}	14.40% ⁽³⁾
Wei Xuan	Gain Elite	238 ^{(L)(4)}	23.80% ⁽⁴⁾
Wei Xuan	MegaSky	1,000 ^(L)	100%
Wei Xuan	Grace Harvest Management Ltd.	1 ^(L)	100%

Notes:

⁽¹⁾ through his controlling interests in Gain Elite.

⁽²⁾ through his controlling interests in Elite Choice.

⁽³⁾ through his controlling interests in MegaSky.

⁽⁴⁾ through his controlling interests in Grace Harvest Management Ltd..

^(L) denotes long position.

Save as disclosed above, as at 30 June 2014, none of the directors and chief executives of the Company had an interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, so far as the directors or chief executives of the Company were aware, the person(s) or institution(s) (other than a director or chief executives of the Company) who had interests or short positions in any shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of shares	Percentage of shareholding
Driven Goal	Beneficial owner	16,488,072,000 ^(L)	64.58%
Gain Elite ⁽¹⁾	Interest of a controlled corporation	16,488,072,000 ^(L)	64.58%
	Derivative interest	2,196,315,000 ^{(L)(4)}	8.60% ⁽⁴⁾
Elite Choice ⁽²⁾	Interest of a controlled corporation	16,488,072,000 ^(L)	64.58%
	Derivative interest	2,196,315,000 ^{(L)(4)}	8.60% ⁽⁴⁾
Tian Xiaoping ⁽³⁾	Interest of spouse	16,488,072,000 ^(L)	64.58%
		2,196,315,000 ^{(L)(4)}	8.60% ⁽⁴⁾
MegaSky	Derivative interest	2,196,315,000 ^{(L)(4)}	8.60% ⁽⁴⁾

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

Name of shareholder	Nature of interest	Number of shares	Percentage of shareholding
Li Min ⁽⁵⁾	Interest of spouse	2,196,315,000 ^{(L)(4)}	8.60% ⁽⁴⁾
Crown Indigo	Derivative interest	2,196,315,000 ^{(L)(4)}	8.60% ⁽⁴⁾
Wei Xiao ⁽⁶⁾	Interest of a controlled corporation	2,196,315,000 ^{(L)(4)}	8.60% ⁽⁴⁾
MSPEA	Beneficial owner	2,196,315,000 ^(L)	8.60%
MSPEA Specialty Chemicals, LP.	Interest of a controlled corporation	2,196,315,000 ^(L)	8.60%
MSPEA Chemical Holdings Limited	Interest of a controlled corporation	2,196,315,000 ^(L)	8.60%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd	Interest of a controlled corporation	2,196,315,000 ^(L)	8.60%
Morgan Stanley Private Equity Asia III, L.P.	Interest of a controlled corporation	2,196,315,000 ^(L)	8.60%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest of a controlled corporation	2,196,315,000 ^(L)	8.60%
Morgan Stanley Private Equity Asia III, Inc.	Interest of a controlled corporation	2,196,315,000 ^(L)	8.60%
MS Holdings Incorporated	Interest of a controlled corporation	2,196,315,000 ^(L)	8.60%
Morgan Stanley	Interest of a controlled corporation	2,792,452,993 ^(L) 422,588,000 ^(S)	10.93% 1.65%
Investec Bank plc	Beneficial owner	1,532,017,000 ^(L)	6.00%
Investec plc	Interest of a controlled corporation	1,532,017,000 ^(L)	6.00%
Investec 1 Limited	Interest of a controlled corporation	1,532,017,000 ^(L)	6.00%

Notes:

^(L) denotes long position

^(S) denotes short position

⁽¹⁾ Gain Elite holds 70.45% of the total issued share capital of Driven Goal. Accordingly, Gain Elite is deemed to have interest in the 16,488,072,000 shares held by Driven Goal.

⁽²⁾ Elite Choice directly holds 76.20% of the total issued share capital of Gain Elite and therefore, is deemed to be interested in a total of 16,488,072,000 shares held by Driven Goal.

⁽³⁾ Tian Xiaoping is the spouse of Wei Qi. Under the SFO, Tian Xiaoping is deemed to be interested in the same number of shares in which her spouse is interested.

⁽⁴⁾ As disclosed in the Prospectus, under certain conditions, if MSPEA proposes to sell or otherwise dispose of any Shares, Gain Elite, Crown Indigo or MegaSky shall have a right of first offer with respect to such shares. As such, each of Gain Elite, Crown Indigo and MegaSky is considered to have a derivative interest in the 2,196,315,000 shares to be held by MSPEA.

⁽⁵⁾ Li Min is the spouse of Wei Xuan. Under the SFO, Li Min is deemed to be interested in the same number of shares in which her spouse is interested.

⁽⁶⁾ Wei Xiao directly holds the entire issued share capital of Crown Indigo and therefore, is deemed to be interested in the same number of shares in which Crown Indigo is interested.

Save as disclosed above, as at 30 June 2014, the directors were not aware of any other persons who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Scheme**”) on 22 May 2014 which became effective on 20 June 2014. The purpose of the Scheme is to recognize and acknowledge the contributions by our employees and our third party contributors to us and our subsidiaries or Invested Entity (as defined below) and associated companies. By providing them with the opportunity to acquire equity interests in the Company, the Scheme aims to (i) attract skilled and experienced personnel, to incentivize them to remain with us or our subsidiaries or any entity in which any member of the Group holds any equity interest (“**Invested Entity**”) (as the case may be) and to give effect to our Company’s customer-focused corporate culture, and to motivate them to think as shareholders and strive for the future development and expansion of the Company and its subsidiaries or Invested Entity; and (ii) attract and retain or otherwise maintain on-going business relationships with suppliers and customers whose contributions are or will be beneficial to the long-term growth of the Company.

The maximum number of shares which may be issued upon exercise of all options that may be granted under the Scheme shall not in aggregate exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as of the date of listing (i.e. 20 June 2014); and the Board has been authorized to determine the grant of a right to subscribe for Shares under, and pursuant to the terms of, the Scheme and to determine the grantees, number of options to be granted to each grantee and the terms and conditions of such grants pursuant to the terms of the Scheme.

The maximum number of shares issuable under share options to each eligible person in the Scheme within any twelve-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any twelve-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company and ends on a date which is not later than ten years from the date of offer of share options.

The exercise price of share options is determinable by the directors of the Company, but may not be less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Stock Exchange’s daily quotation sheet on the offer date; and (iii) the average closing price of a share as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the offer date.

No share options were granted under the Scheme during the six-month period ended 30 June 2014.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 of the Listing Rules.

The Company has complied with the Corporate Governance Code from date of Listing to 30 June 2014.

AUDIT COMMITTEE

The audit committee (“**Audit Committee**”) of the Company has been set up in accordance with the Listing Rules. The Audit Committee comprises one non-executive director, Mr. Homer Sun, and two independent non-executive directors, Dr. Loke Yu (alias Loke Hoi Lam) and Mr. Xu Xiaodong, while Dr. Loke is the chairman of the committee.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the Listing Rules and a meeting was held on 22 August 2014. The remuneration committee currently comprises an executive director, Mr. Wei Xuan, and two independent non-executive directors, Dr. Loke Yu (alias Loke Hoi Lam) and Mr. Xu Xiaodong, while Mr. Xu is the chairman of the committee.

NOMINATION COMMITTEE

The Company has established a nomination committee in compliance with the Listing Rules and a meeting was held on 22 August 2014. The nomination committee currently comprises an executive director, Mr. Joseph Lee, and two independent non-executive directors, Mr. Chan Kin Sang and Mr. Xu Xiaodong while Mr. Chan is the chairman of the committee.

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.

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

An Audit Committee meeting was held on 22 August 2014. 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.

By order of the Board

Tianhe Chemicals Group Limited

Wei Qi

Chairman and Executive Director

Jinzhou, the PRC, 22 August 2014

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wei Qi (*Chairman*)
Mr. Wei Xuan (*Chief Executive Officer*)
Mr. Joseph Lee (*Chief Financial Officer*)
Mr. Jiang Po

Non-executive Director

Mr. Homer Sun

Independent Non-executive Directors

Dr. Loke Yu (alias Loke Hoi Lam)
Mr. Chan Kin Sang
Mr. Xu Xiaodong

AUTHORISED REPRESENTATIVES

Mr. Joseph Lee
Mr. Yeung Ming Fai

COMPANY SECRETARY

Mr. Yeung Ming Fai

COMPOSITION OF BOARD COMMITTEE

Audit Committee

Dr. Loke Yu (alias Loke Hoi Lam) (*chairman*)
Mr. Homer Sun
Mr. Xu Xiaodong

Remuneration Committee

Mr. Xu Xiaodong (*chairman*)
Dr. Loke Yu (alias Loke Hoi Lam)
Mr. Wei Xuan

Nomination Committee

Mr. Chan Kin Sang (*chairman*)
Mr. Xu Xiaodong
Mr. Joseph Lee

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPLIANCE ADVISOR

Cinda International Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

REGISTERED OFFICE

Kingston Chambers
PO Box 173, Road Town, Tortola
British Virgin Islands

HEAD OFFICE IN THE PRC

No. 100, Jiefang West Road
Jinzhou City, Liaoning Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 6208, 62nd Floor, The Center
99 Queen's Road Central
Hong Kong

LEGAL ADVISORS

As to Hong Kong laws:

Clifford Chance
27th Floor, Jardine House
One Connaught Place, Central
Hong Kong

As to PRC laws:

Commerce & Finance Law Offices
6th Floor, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District, 100022, Beijing
China

BVI PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

COMPANY'S WEBSITE

www.tianhechem.com