

MARKET MISCONDUCT TRIBUNAL

**IN THE MATTER OF THE LISTED SECURITIES OF
TIANHE CHEMICALS GROUP LIMITED (STOCK CODE: 1619)**

**NOTICE TO THE MARKET MISCONDUCT TRIBUNAL
PURSUANT TO SECTION 252(2) AND SCHEDULE 9 OF THE
SECURITIES AND FUTURES ORDINANCE (CAP 571)**

Whereas it appears to the Securities and Futures Commission (“**the Commission**”) that market misconduct within the meaning of section 277 of Part XIII of the Securities and Futures Ordinance (“**the Ordinance**”) has or may have taken place in relation to the securities of Tianhe Chemicals Group Limited (天合化工集團有限公司) (“**Tianhe**”) (Stock Code: 1619) listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**SEHK**”), the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:

- (a) whether any market misconduct has taken place;
- (b) the identity of any person who has engaged in the market misconduct; and
- (c) the amount of any profit gained or loss avoided, if any, as a result of the market misconduct found to have been perpetrated.

Persons suspected to have perpetrated market misconduct

- (1) Tianhe Chemicals Group Limited
- (2) Wei Xuan (魏宣)

(each a “**Specified Person**” and collectively, “**the Specified Persons**”)

Statement for Institution of Proceedings

1. Tianhe was a company incorporated in the British Virgin Islands (“**BVI**”) on 8 March 2007. At all material times, Tianhe owned its assets and ran its business through its subsidiaries. Tianhe and its subsidiaries as a whole are referred to as “**the Group**”. According to its published information, the Group purported to be a specialty chemicals producer with its headquarters in the People’s Republic of China (“**the PRC**”).
2. At all material times, the Group’s main operating company in the PRC was Jinzhou DPF-TH Chemicals Co., Ltd. (錦州惠發天合化學有限公司) (“**Jinzhou DPF-TH**”). Jinzhou DPF-TH engaged in the purported sales of chemical products to the Group’s customers.
3. On 20 June 2014, Tianhe’s shares were listed on the Main Board of the SEHK (stock code: 1619) (“**the Listing**”) by way of an initial public offering (“**IPO**”), which comprised a Hong Kong public offering and an international offering.
4. A total of 2,043,000,000 Tianhe shares were issued at the price of HK\$1.80 per share at the global offering. The net proceeds from the IPO after deduction of the underwriting fees and commissions and expenses were approximately HK\$3.52 billion.
5. Morgan Stanley Asia Limited, UBS Securities Hong Kong Limited and Merrill Lynch Far East Limited were the joint sponsors of the IPO (together, the “**Joint Sponsors**”).
6. On 2 September 2014, Anonymous Analytics published a report alleging that the accounts of Tianhe were false or misleading. Trading in Tianhe’s shares was suspended that day. Trading of Tianhe’s shares was subsequently resumed on 9 October 2014.
7. On 26 March 2015, Tianhe announced that the publication of the annual results for the year ended 31 December 2014 would be delayed. As a result, the trading of its shares was suspended from 26 March 2015. Deloitte Touche Tohmatsu (“**Deloitte**”) resigned as Tianhe’s auditors with effect from 16 September 2015. Deloitte were also the auditors and reporting accountants for the IPO.

8. The Commission exercised its power under section 8(1) of the Securities and Futures (Stock Market Listing) Rules to direct the SEHK to suspend all dealings in the shares of Tianhe with effect from 25 May 2017.
9. The SEHK cancelled the listing of Tianhe's shares with effect from 11 June 2020.
10. At all material times, Wei Xuan was an Executive Director and Chief Executive Officer of Tianhe, and a Director of Jinzhou DPF-TH. He also had an indirect interest in Tianhe's shares via Driven Goal Limited (a company incorporated in the BVI and a substantial shareholder of Tianhe) upon the Listing.
11. On or about 9 June 2014, Tianhe and Wei Xuan disclosed, circulated or disseminated, or authorized or were concerned in the disclosure, circulation or dissemination of, a prospectus ("**Prospectus**") to the public in relation to the IPO containing, inter alia, the following information about the Group for the three financial years ending 31 December 2011, 31 December 2012 and 31 December 2013 ("**the Track Record Period**"):

Financial year ("FY") ended	Sales Revenue (RMB '000)	Gross Profit (RMB '000)	Profit before tax (RMB '000)	Net Profit (RMB '000)
31.12.2011	3,359,368	1,489,914	1,164,220	948,111
31.12.2012	4,192,553	2,541,253	2,553,656	2,189,964
31.12.2013	5,033,795	3,046,990	3,100,407	2,626,229

12. The information contained in the Prospectus as referred to in paragraph 11 above was false or misleading as to a material fact or was false or misleading through the omission of a material fact, in that Tianhe's sales revenue (and as a result, its gross profit, profit before tax and net profit) in the relevant financial years had been materially overstated.
13. In particular, the true sales revenue to the Group's three key customers, i.e. CITIC International Company Limited ("**CITIC**"), PetroChina Company Limited ("**PetroChina**") and Shanghai High-Lube Additives Company Limited ("**Shanghai High-Lube**") for the Track Record Period were not provided to Deloitte, who audited the accounts, or to the Joint Sponsors. The true position should be as follows:

CITIC

FY	True sales revenue (RMB '000)	Sales revenue adopted in the Prospectus (RMB '000)
2011	12,881	828,999
2012	6,181	953,140
2013	3,421	1,485,449
Total	22,483	3,267,588

PetroChina

FY Ended	True sales revenue (RMB '000)	Sales revenue adopted in the Prospectus (RMB '000)
2011	19,173	1,080,791
2012	20,576	1,046,298
2013	11,535	1,065,054
Total	51,284	3,192,143

Shanghai High-Lube

FY	True sales revenue (RMB '000)	Sales revenue adopted in the Prospectus (RMB '000)
2011	0	143,714
2012	0	105,545
2013	0	115,639
Total	0	364,898

14. Tianhe's overall overstatement of the sales revenue of the Group during the Track Record Period in respect of CITIC, PetroChina and Shanghai High-Lube (referred to in paragraph 13 above) is summarised below:

FY	Amount of sales overstated in relation to CITIC (RMB '000)	Amount of sales overstated in relation to PetroChina (RMB '000)	Amount of sales overstated in relation to Shanghai High-Lube (RMB '000)	Total sales of the Group reported in the Prospectus (RMB '000)	Percentage of sales revenue overstated
2011	816,118	1,061,618	143,714	3,359,368	60.2%
2012	946,959	1,025,722	105,545	4,192,553	49.6%
2013	1,482,028	1,053,519	115,639	5,033,795	52.7%

15. The overstated sales revenue of the Group for the Track Record Period set out in paragraph 14 above in turn caused the overstatement of the gross profit, profit before tax and net profit of the Group during that period.
16. The information referred to in paragraph 11 above was likely to induce the subscription, or the sale or purchase in Hong Kong of the shares of Tianhe by another person or to increase the price of the shares of Tianhe in Hong Kong.
17. Each of Tianhe and Wei Xuan was reckless or negligent as to whether the information stated in paragraph 11 above was false or misleading as to a material fact or was false or misleading through the omission of a material fact.
18. By reason of the above matters, the Specified Persons have or may have engaged in market misconduct under section 277(1) of the Ordinance.

Dated this 19th day of June 2020.

Securities and Futures Commission
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