

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

MARKET MISCONDUCT TRIBUNAL

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

SYNOPSIS

Persons suspected to have engaged in market misconduct activities

- (1) Tianhe Chemicals Group Limited (“**Tianhe**”)
- (2) Wei Xuan

(collectively, “**the Specified Persons**”)

Background

- 1. Tianhe was a company incorporated in the British Virgin Islands (“**BVI**”) on 8 March 2007.
- 2. At all material times:
 - (1) Tianhe was an investment holding company. Its subsidiaries included certain intermediate holding and service companies incorporated in the BVI, Hong Kong and Singapore, and operating subsidiaries established in Mainland China (Tianhe and its subsidiaries are collectively described as “**the Group**”). One of the Group’s key operational arms was Tianhe’s indirectly wholly owned subsidiary in the People’s Republic of China (“**the PRC**”) known as Jinzhou DPF-TH Chemicals Co., Ltd. (錦州惠發天合化學有限公司) (“**Jinzhou DPF-TH**”) which manufactured and sold lubricant additives and specialty fluorochemicals to the Group’s customers.
 - (2) Wei Xuan was:
 - (a) an Executive Director and the Chief Executive Officer of Tianhe;
 - (b) a Director of Jinzhou DPF-TH;

- (c) a substantial indirect shareholder of Tianhe;
 - (d) responsible for, *inter alia*, sales, general management and day-to-day operation of the Group; and
 - (e) responsible for overseeing the application for listing of Tianhe's shares in Hong Kong (as detailed below) and was actively involved in the customer due diligence conducted by the Joint Sponsors (as defined below) and Tianhe's key contact person in the process.
- 3. Tianhe's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**") on 20 June 2014 (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. The joint sponsors of Tianhe's IPO were: (1) Morgan Stanley Asia Limited; (2) UBS Securities Hong Kong Limited; and (3) Merrill Lynch Far East Limited (collectively "**the Joint Sponsors**").
- 5. As a result of the Listing, a total of 2,043,000,000 new shares were issued by Tianhe to the investing public at HK\$1.80 per share. The net IPO proceeds were approximately HK\$3,520.5 million and a substantial portion (45.2% / HK\$1,590.8 million) was used to repay shareholder's loans granted to Tianhe by its largest shareholder, Driven Goal Limited ("**Driven Goal**"). Driven Goal held 72.36% of Tianhe's total issued share capital immediately before the Listing. Immediately upon the Listing (i.e. as of 20 June 2014), Driven Goal held 64.58% of Tianhe's total issued share capital.
- 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 Tianhe's 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.

False or misleading information in Tianhe's IPO Prospectus

10. On or about 9 June 2014, Tianhe published a prospectus in relation to the IPO ("**Prospectus**") containing, *inter alia*, the following information about the Group for the three financial years ("**FY**") ending 31 December 2011, 31 December 2012 and 31 December 2013 ("**the Track Record Period**"):

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

11. Contrary to the information contained in the Prospectus as referred to in paragraph 10 above, Tianhe's sales revenue (and as a result, its gross profit, profit before tax and net profit) were materially inflated by overstating its sales (through Jinzhou DPF-TH) to the following three of the Group's purported top customers for the Track Record Period, namely:

- (1) CITIC International Company Limited ("**CITIC**");
- (2) PetroChina Company Limited ("**PetroChina**"); and
- (3) Shanghai High-Lube Additives Company Limited ("**Shanghai High-Lube**").

12. The true sales revenue of the Group to CITIC, PetroChina and Shanghai High-Lube in the Track Record Period 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	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

13. 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 12 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%

14. By reason of the overstatement of sales revenue in the Track Record Period set out in paragraph 13 above, the information set out in paragraph 10 above in relation to gross profit, profit before tax and net profit of the Group were also materially inflated and were therefore false or misleading as to a material fact, and further or alternatively constituted untrue statements.
15. The information referred to in paragraph 10 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.
16. The Commission's investigation revealed, *inter alia*, that in relation to:

CITIC

- (1) The purported sales by Jinzhou DPF-TH to CITIC during the Track Record Period were materially overstated in the Prospectus (see paragraph 13 above).
- (2) 11 purported sales contracts between CITIC and Jinzhou DPH-TH during the Track Record Period provided to the Joint Sponsors during their customer due diligence process were not in fact entered into by CITIC.
- (3) CITIC did not participate in the customer due diligence interview by the Joint Sponsors. They purportedly interviewed a deputy manager of CITIC named Li Bin (李濱), who was in fact not a staff member of CITIC; and

the purported Li Bin walked out of the interview when he was asked to produce identification documents for verification. Subsequently, a potential investor in the IPO, Temasek Holdings (Private) Limited (“**Temasek**”), was unable to locate such Li Bin at CITIC when it carried out its background check on CITIC.

PetroChina

- (4) The purported sales by Jinzhou DPF-TH to PetroChina during the Track Record Period were materially overstated in the Prospectus (see paragraph 13 above).
- (5) Of the 8 factories of PetroChina which, according to Tianhe, had purchased from Jinzhou DPF-TH during the Track Record Period:
 - (a) Purported contracts entered between 4 factories¹ with Jinzhou DPF-TH were fictitious; and
 - (b) Purported representatives of 3 of the factories² interviewed by the Joint Sponsors during the due diligence process were in fact not related to nor were staff of the factories.
- (6) 3 entities³ purporting to be under or related to PetroChina and customers of Jinzhou DPF-TH which contributed to its sales to PetroChina in the Track Record Period, were in fact not related to PetroChina at all.

Shanghai High-Lube

- (7) Shanghai High-Lube had no business transactions with Jinzhou DPF-TH in the Track Record Period, and did not enter into any of the contracts

¹ Namely, PetroChina Daqing No. 1 Lubricant Plant; PetroChina Huadong Lubricant Plant; PetroChina Dalian Lubricant Plant; and PetroChina Fushun Lubricant Plant.

² Namely, WANG Rui (王銳) of PetroChina Daqing No. 1 Lubricant Plant; LIU Feng Chuang (劉鳳闖) of PetroChina Dalian Lubricant Plant; and WANG Xiao Gang (王曉剛) of PetroChina Fushun Lubricant Plant.

³ Namely, Gansu Xinxing Ruidi Petrochemical Co., Ltd. (甘肅新星瑞迪石化科技有限公司); Dalian Qixing Lubricant Technological Development Co. (大連七星潤滑油技術開發公司); and Lanzhou Hongye Fine Chemicals (Sanye) Co. (蘭州紅葉精細化工(三葉)公司).

provided to the Joint Sponsors during their customer due diligence process.

- (8) During the Track Record Period, Shanghai High-Lube had business dealings with one Liaoning Tianhe Fine Chemicals Co., Ltd. (“**Liaoning Tianhe**”) which was a PRC company not forming part of the Group. Instead Liaoning Tianhe was a company wholly owned by Wei Xuan, his brother Wei Qi, and Wei Qi’s daughter.

The Specified Persons were reckless or negligent as to whether the information set out in the Prospectus was false or misleading as to a material fact or was false or misleading through the omission of a material fact

17. Wei Xuan was reckless or negligent as to whether the information in the Prospectus stated in paragraph 10 above was false or misleading as to a material fact or was false or misleading through the omission of a material fact. In particular:
 - (1) He was an Executive Director and the Chief Executive Officer of Tianhe. He and his family were the controlling shareholders of the Group.
 - (2) He was at all material times a Director of Jinzhou DPF-TH, the relevant subsidiary in the Group which purportedly had substantial transactions with the Group’s top customers, namely CITIC, PetroChina and Shanghai High-Lube.
 - (3) He was in charge of sales of the Group and the overstatements in sales revenue of the Group in the Prospectus were massive and persisted over a long period of time.
 - (4) He was responsible for overseeing the Listing. He was actively involved in the Joint Sponsors’ customer due diligence and was Tianhe’s key contact person with the Joint Sponsors.
 - (5) He was aware of (i) Li Bin’s refusal to produce his business card and/or identification document and walkout from the customer due diligence interview conducted by the Joint Sponsors; (ii) the Joint Sponsors’ opinion that it was very difficult to verify Li Bin’s identity; and (iii)

Temasek's inability to locate Li Bin at CITIC. Despite such knowledge he took no steps to verify Li Bin's identity and authority, or any steps to review, verify or investigate into the accuracy of the Group's purported sales to CITIC.

- (6) He approved the publication of the Prospectus in Tianhe's Board meetings on 5 March 2014 and 22 May 2014, and gave a confirmation and undertaking to the SEHK on 10 March 2014 that all the information in the Prospectus was true, accurate and complete, when by reason of the above matters he was, or ought to have been, aware that there was at the very least a significant risk that the financial information relating to the Group in the Prospectus set out in paragraph 10 above might be false.
 - (7) He partly owned and had knowledge and/or had control over the business of Liaoning Tianhe and access to its documents, which had transactions with Shanghai High-Lube during the Track Record Period. Therefore he was, or ought to have been, aware that Shanghai High-Lube purchased from Liaoning Tianhe and not from the Group, and could not have been a major customer of the Group as described in the Prospectus.
18. Tianhe, acting through the directing mind of Wei Xuan, was reckless or negligent as to whether the information in the Prospectus stated in paragraph 10 above was false or misleading as to a material fact or was false or misleading through the omission of a material fact. The knowledge and involvement of Wei Xuan (who was in charge of the Listing) in the disclosure, circulation and/or dissemination of such information were imputed to Tianhe. By reason of the matters referred to above, Tianhe was, or ought to have been, aware that there was at the very least a significant risk that the financial information relating to the Group in the Prospectus set out in paragraph 10 above might be false.
19. By reason of the above matters, the Specified Persons engaged or may have engaged in market misconduct under section 277(1) of the Securities and Futures Ordinance (Cap 571).

Dated this 19th day of June 2020.

Securities and Futures Commission

Table 8 – Tianhe Group's Revised Gross Profit, Revised Profit before tax and Revised Net Profit during the Review Period (Revised Cost of Sales calculated by applying Gross Profit Margin)

Year ended 31 December		Calculation	2011 RMB'000*	2012 RMB'000*	2013 RMB'000*
Per Prospectus					
1	Total Sales Revenue	A	3,359,368	4,192,553	5,033,795
2	(Cost of Sales)		(1,869,454)	(1,651,300)	(1,986,805)
3	Gross Profit	B	1,489,914	2,541,253	3,046,990
4	Gross Profit Margin	$C = (B \div A) \times 100\%$	44.4%	60.6%	60.5%
5	Net Income / (Expenses)	D	(325,694)	12,403	53,417
6	Profit before tax	$E = B + D$	1,164,220	2,553,656	3,100,407
7	(Income tax expenses)	F	(216,109)	(363,692)	(474,178)
8	Net Profit	$G = E + F$	948,111	2,189,964	2,626,229
9	Net Profit Margin	$(G \div A) \times 100\%$	28.2%	52.2%	52.2%
Calculation 1 – CITIC International + PetroChina + Sinopec / Shanghai High-Lube Discrepancies					
10	Revised Total Sales Revenue (Refer to Table 6)	H	1,337,918	2,114,327	2,382,609
11	(Revised Cost of Sales)	H - I	(743,882)	(833,045)	(941,131)
12	Revised Gross Profit	$I = H \times C$	594,036	1,281,282	1,441,478
13	% Decrease in Gross Profit	$[(B - I) \div B] \times 100\%$	60.1%	49.6%	52.7%
14	Revised Profit before tax	$J = I + D$	268,342	1,293,685	1,494,895
15	% Decrease in Profit before tax	$[(E - J) \div E] \times 100\%$	77.0%	49.3%	51.8%
16	Revised Net Profit	$K = J + F$	52,233	929,993	1,020,717
17	Revised Net Profit Margin	$(K \div H) \times 100\%$	3.9%	44.0%	42.8%
18	% Decrease in Net Profit	$[(G - K) \div G] \times 100\%$	94.5%	57.5%	61.1%
Calculation 2 – CITIC International + PetroChina Discrepancies					
19	Total Sales Revenue		3,359,368	4,192,553	5,033,795
Discrepancies in Sales Revenue for:					
20	- (CITIC International) (see Table 3)		(816,118)	(946,959)	(1,482,028)
21	- (PetroChina) (see Table 4)		(1,061,618)	(1,025,722)	(1,053,519)
22	Revised Total Sales Revenue	L	1,481,632	2,219,872	2,498,248
23	(Cost of Sales)	L - M	(823,787)	(874,630)	(986,808)
24	Revised Gross Profit	$M = L \times C$	657,845	1,345,242	1,511,440
25	% Decrease in Gross Profit	$[(B - M) \div B] \times 100\%$	55.8%	47.1%	50.4%
26	Revised Profit before tax	$N = M + D$	332,151	1,357,645	1,564,857
27	% Decrease in Profit before tax	$[(E - N) \div E] \times 100\%$	71.5%	46.8%	49.5%
28	Revised Net Profit	$O = N + F$	116,042	993,953	1,090,679
29	Revised Net Profit Margin	$(O \div L) \times 100\%$	7.8%	44.8%	43.7%
30	% Decrease in Net Profit	$[(G - O) \div G] \times 100\%$	87.8%	54.6%	58.5%
Calculation 3 – PetroChina + Sinopec / Shanghai High-Lube Discrepancies					
31	Total Sales Revenue		3,359,368	4,192,553	5,033,795
Discrepancies in Sales Revenue for:					
32	- (PetroChina) (see Table 4)		(1,061,618)	(1,025,722)	(1,053,519)
33	- (Sinopec) (see Table 5)		(143,714)	(105,545)	(115,639)
34	Revised Total Sales Revenue	P	2,154,036	3,061,286	3,864,637
35	(Cost of Sales)	P - Q	(1,197,644)	(1,206,147)	(1,526,532)
36	Revised Gross Profit	$Q = P \times C$	956,392	1,855,139	2,338,105
37	% Decrease in Gross Profit	$[(B - Q) \div B] \times 100\%$	35.8%	27.0%	23.3%
38	Revised Profit before tax	$R = Q + D$	630,698	1,867,542	2,391,522
39	% Decrease in Profit before tax	$[(E - R) \div E] \times 100\%$	45.8%	26.9%	22.9%
40	Revised Net Profit	$S = R + F$	414,589	1,503,850	1,917,344
41	Revised Net Profit Margin	$(S \div P) \times 100\%$	19.3%	49.1%	49.6%
42	% Decrease in Net Profit	$[(G - S) \div G] \times 100\%$	56.3%	31.3%	27.0%

Table 8 (cont'd) – Tianhe Group's Revised Gross Profit, Revised Profit before tax and Revised Net Profit during the Review Period (Revised Cost of Sales calculated by applying Gross Profit Margin)

Year ended 31 December	Calculation	2011 RMB'000*	2012 RMB'000*	2013 RMB'000*
Calculation 4 – CITIC International + Sinopec / Shanghai High-Lube Discrepancies				
43 Total Sales Revenue		3,359,368	4,192,553	5,033,795
Discrepancies in Sales Revenue for:				
44 - (CITIC International) (see Table 3)		(816,118)	(946,959)	(1,482,028)
45 - (Sinopec) (see Table 5)		(143,714)	(105,545)	(115,639)
46 Revised Total Sales Revenue	T	2,399,536	3,140,049	3,436,128
47 (Cost of Sales)	T – U	(1,334,142)	(1,237,179)	(1,357,271)
48 Revised Gross Profit	U = T x C	1,065,394	1,902,870	2,078,857
49 % Decrease in Gross Profit	$[(B - U) \div B] \times 100\%$	28.5%	25.1%	31.8%
50 Revised Profit before tax	V = U + D	739,700	1,915,273	2,132,274
51 % Decrease in Profit before tax	$[(E - V) \div E] \times 100\%$	36.5%	25.0%	31.2%
52 Revised Net Profit	W = V + F	523,591	1,551,581	1,658,096
53 Revised Net Profit Margin	$(W \div T) \times 100\%$	21.8%	49.4%	48.3%
54 % Decrease in Net Profit	$[(G - W) \div G] \times 100\%$	44.8%	29.2%	36.9%
Calculation 5 – CITIC International Discrepancy				
55 Total Sales Revenue		3,359,368	4,192,553	5,033,795
56 (CITIC International Discrepancy) (see Table 3)		(816,118)	(946,959)	(1,482,028)
57 Revised Total Sales Revenue	X	2,543,250	3,245,594	3,551,767
58 (Cost of Sales)	X – Y	(1,414,047)	(1,278,764)	(1,402,948)
59 Revised Gross Profit	Y = X x C	1,129,203	1,966,830	2,148,819
60 % Decrease in Gross Profit	$[(B - Y) \div B] \times 100\%$	24.2%	22.6%	29.5%
61 Revised Profit before tax	Z = Y + D	803,509	1,979,233	2,202,236
62 % Decrease in Profit before tax	$[(E - Z) \div E] \times 100\%$	31.0%	22.5%	29.0%
63 Revised Net Profit	AA = Z + F	587,400	1,615,541	1,728,058
64 Revised Net Profit Margin	$(AA \div X) \times 100\%$	23.1%	49.8%	48.7%
65 % Decrease in Net Profit	$[(G - AA) \div G] \times 100\%$	38.1%	26.2%	34.2%
Calculation 6 – PetroChina Discrepancy				
66 Total Sales Revenue		3,359,368	4,192,553	5,033,795
67 (PetroChina Discrepancy) (see Table 4)		(1,061,618)	(1,025,722)	(1,053,519)
68 Revised Total Sales Revenue	AB	2,297,750	3,166,831	3,980,276
69 (Cost of Sales)	AB – AC	(1,277,549)	(1,247,731)	(1,572,209)
70 Revised Gross Profit	AC = AB x C	1,020,201	1,919,100	2,408,067
71 % Decrease in Gross Profit	$[(B - AC) \div B] \times 100\%$	31.5%	24.5%	21.0%
72 Revised Profit before tax	AD = AC + D	694,507	1,931,503	2,461,484
73 % Decrease in Profit before tax	$[(E - AD) \div E] \times 100\%$	40.4%	24.4%	20.6%
74 Revised Net Profit	AE = AD + F	478,398	1,567,811	1,987,306
75 Revised Net Profit Margin	$(AE \div AB) \times 100\%$	20.8%	49.5%	49.9%
76 % Decrease in Net Profit	$[(G - AE) \div G] \times 100\%$	49.5%	28.4%	24.3%
Calculation 7 – Sinopec / Shanghai High-Lube Discrepancy				
77 Total Sales Revenue		3,359,368	4,192,553	5,033,795
78 (Sinopec / Shanghai High-Lube Discrepancy) (see Table 5)		(143,714)	(105,545)	(115,639)
79 Revised Total Sales Revenue	AF	3,215,654	4,087,008	4,918,156
80 (Cost of Sales)	AF – AG	(1,787,904)	(1,610,281)	(1,942,672)
81 Revised Gross Profit	AG = AF x C	1,427,750	2,476,727	2,975,484
82 % Decrease in Gross Profit	$[(B - AG) \div B] \times 100\%$	4.2%	2.5%	2.3%
83 Revised Profit before tax	AH = AG + D	1,102,056	2,489,130	3,028,901
84 % Decrease in Profit before tax	$[(E - AH) \div E] \times 100\%$	5.3%	2.5%	2.3%
85 Revised Net Profit	AI = AH + F	885,947	2,125,438	2,554,723
86 Revised Net Profit Margin	$(AI \div AF) \times 100\%$	27.6%	52.0%	51.9%
87 % Decrease in Net Profit	$[(G - AI) \div G] \times 100\%$	6.6%	3.0%	2.7%

* Figures in brackets represent those that are to be deducted.