

WANHUA CHEMICAL GROUP CO., LTD.

Financial Statements and Auditor's Report  
For the year ended 31 December 2015

FINANCIAL STATEMENTS AND AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015

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## AUDITOR'S REPORT

De Shi Bao (Shen) Zi (16) No.P0246  
[Translation]

To the Shareholders of Wanhua Chemical Group Co., Ltd.:

We have audited the financial statements of Wanhua Chemical Group Co.,Ltd., ("Wanhua Chemical Company"), which comprise the Company's and consolidated balance sheets as at 31 December 2015, and the Company's and consolidated income statements, the Company's and consolidated statements of changes in shareholders' equity and the Company's and consolidated cash flow statements for the year then ended, and the notes to the financial statements.

### **1. Management's responsibility for the financial statements.**

Management of the Wanhua Chemical Group Co., Ltd. is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

### **2. Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 3. Opinion

In our opinion, the financial statements of Wanhua Chemical Company present fairly, in all material respects, the Company's and consolidated financial position as of 31 December 2015, and the Company's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Deloitte Touche Tohmatsu CPA LLP

Shanghai, China

Chinese Certified Public Accountant:

Zhu Xiao Lan

Jiang Jian

7 March 2016

*The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. Where the English version does not conform to the Chinese version, the Chinese version prevails.*

WANHUA CHEMICAL GROUP CO., LTD.

AT 31 DECEMBER 2015

Consolidated Balance Sheet

Unit: RMB

Items	Notes	Closing balance	Opening balance	Items	Notes	Closing Balance	Opening Balance
<b>Current Assets:</b>				<b>Current liabilities:</b>			
Cash and bank balance	(V)1	2,066,361,762.97	1,024,674,432.11	Short-term borrowings	(V)19	9,637,861,380.59	4,496,443,321.52
Financial assets at fair value through profit or loss	(V)2	-	7,560,805.90	Financial liabilities at fair value through profit or loss	(V)20	-	4,093,972.33
Notes receivable	(V)3	1,224,034,501.14	2,347,646,327.25	Notes payable	(V)21	2,221,250,502.00	2,044,515,908.77
Accounts receivable	(V)4	1,213,878,016.12	1,341,579,522.35	Accounts payable	(V)22	3,400,457,107.78	2,615,128,907.33
Prepayments	(V)5	370,990,681.75	347,847,267.73	Receipts in advance	(V)23	711,215,589.43	763,746,175.64
Other receivables	(V)6	142,154,888.49	128,461,907.03	Employee benefits payable	(V)24	205,970,794.96	225,411,626.19
Inventories	(V)7	4,193,853,062.94	3,009,992,528.58	Taxes payable	(V)25	232,772,820.35	270,541,464.26
Other current assets	(V)8	1,815,314,119.31	1,548,767,821.41	Interest payable	(V)26	75,252,173.54	76,991,519.66
<b>Total Current Assets</b>		<b>11,026,587,032.72</b>	<b>9,756,530,612.36</b>	Other payables	(V)27	275,697,231.42	225,128,335.92
<b>Non-current Assets:</b>				Non-current liabilities due within one year	(V)28	2,512,795,314.89	2,511,987,627.27
Available-for-sale financial assets	(V)9	20,000,000.00	20,000,000.00	<b>Total Current Liabilities</b>		<b>19,273,272,914.96</b>	<b>13,233,988,858.89</b>
Long-term receivables	(V)10	247,862,406.51	194,405,040.63	<b>Non-current Liabilities:</b>			
Long-term equity investments	(V)11	186,128,063.15	88,740,045.58	Long-term borrowings	(V)29	11,440,236,985.11	12,837,515,833.62
Fixed assets	(V)12	20,046,292,042.67	15,194,706,091.81	Bond payables	(V)30	1,980,000,000.00	2,000,000,000.00
Construction in progress	(V)13	12,409,182,506.28	11,724,952,148.09	Long-term payables	(V)31	4,058,178.00	5,410,906.00
Materials for construction of fixed assets	(V)14	288,918,624.82	1,651,540,601.04			262,906,450.75	206,173,356.00
Intangible assets	(V)15	2,252,000,441.89	1,611,644,411.28	Deferred income	(V)32		
Goodwill	(V)16	277,518,585.35	277,518,585.35	Deferred tax liabilities	(V)17	20,708,157.32	19,508,197.41
Long-term prepaid expenses		-	33,355,660.24	Other non-current liabilities		-	3,812,804.03
Deferred tax assets	(V)17	337,540,615.06	289,562,552.21	<b>Total Non-current Liabilities</b>		<b>13,707,909,771.18</b>	<b>15,072,421,097.06</b>
Other non-current assets	(V)18	712,386,763.47	749,129,880.14	<b>TOTAL LIABILITIES</b>		<b>32,981,182,686.14</b>	<b>28,306,409,955.95</b>
<b>Total Non-current Assets</b>		<b>36,777,830,049.20</b>	<b>31,835,555,016.37</b>	<b>SHAREHOLDER S' EQUITY:</b>			
				Share capital	(V)33	2,162,334,720.00	2,162,334,720.00
				Capital reserve	(V)34	48,344,557.95	48,344,055.18
				Other comprehensive income	(V)35	4,015,139.50	(12,526,257.43)
				Special reserve	(V)36	-	696,629.53
				Surplus reserve	(V)37	1,579,310,659.11	1,579,310,659.11
				Retained earnings	(V)38	7,776,967,780.17	6,815,924,586.58
				Total shareholders' equity attributable to equity holders of the Company		11,570,972,856.73	10,594,084,392.97
				Minority interests		3,252,261,539.05	2,691,591,279.81
				<b>TOTAL SHAREHOLDER S' EQUITY</b>		<b>14,823,234,395.78</b>	<b>13,285,675,672.78</b>
<b>TOTAL ASSETS</b>		<b>47,804,417,081.92</b>	<b>41,592,085,628.73</b>	<b>TOTAL LIABILITIES AND SHAREHOLDER S' EQUITY</b>		<b>47,804,417,081.92</b>	<b>41,592,085,628.73</b>

The Company notes form part of the financial statements.

The financial statements on pages 3 to 100 were signed by the following:

Legal Representative: \_\_\_\_\_ Person in Charge of the Accounting Body: \_\_\_\_\_ Chief Accountant: \_\_\_\_\_

WANHUA CHEMICAL GROUP CO., LTD.

AT 31 DECEMBER 2015

Balance Sheet of the Company

Unit: RMB

Item	Notes	Closing balance	Opening balance	Item	Notes	Closing balance	Opening balance
<b>Current Assets:</b>				<b>Current liabilities:</b>			
Cash and bank balance		1,345,386,565.07	360,594,879.35	Short-term borrowings		4,080,120,000.00	842,380,000.00
Notes receivable		108,391,973.86	293,174,722.07	Notes payable		1,132,500,000.00	1,941,556,695.04
Accounts receivable	(XV)1	1,096,696,260.11	112,652,132.14	Accounts payable		2,247,890,816.30	1,739,357,323.45
Prepayments		142,555,274.78	150,354,771.13	Receipts in advance		7,980,995,326.38	3,051,791,566.10
Other receivables	(XV)2	1,357,248,307.24	28,498,864.45	Employee benefits payable		125,156,071.37	140,042,347.36
Inventories		1,435,455,780.78	1,113,599,397.62	Tax payables		16,078,758.19	12,871,765.32
Other current assets		1,477,651,292.47	1,387,752,323.43	Interest payables		59,269,985.60	63,029,926.93
<b>Total Current Assets</b>		<b>6,963,385,454.31</b>	<b>3,446,627,090.19</b>	Other payables		184,473,540.19	43,957,749.42
<b>Non-current Assets:</b>				Non-current liabilities due within one year		1,839,423,648.22	1,543,516,449.92
Available-for-sale financial assets		20,000,000.00	20,000,000.00	<b>Total Current Liabilities</b>		<b>17,665,908,146.25</b>	<b>9,378,503,823.54</b>
Long-term receivables		466,864,500.00	150,829,578.00	<b>Non-Current Liabilities:</b>			
Long-term equity investments	(XV)3	2,344,736,812.48	2,028,433,254.91	Long-term borrowings		10,108,526,351.78	10,062,972,406.14
Fixed assets		10,372,931,455.93	5,926,720,863.45	Bond payables		1,000,000,000.00	1,000,000,000.00
Construction in progress		11,227,783,913.06	10,888,009,521.32	Long-term payables		4,058,178.00	5,410,906.00
Materials for construction of fixes assets		206,627,366.30	1,582,385,565.87	Deferred income		211,730,000.00	161,173,356.00
Intangible assets		1,842,032,499.36	1,189,356,396.38	<b>Total Non-current Liabilities</b>		<b>11,324,314,529.78</b>	<b>11,229,556,668.14</b>
Deferred tax assets		161,631,579.44	134,257,766.23	<b>TOTAL LIABILITIES</b>		<b>28,990,222,676.03</b>	<b>20,608,060,491.68</b>
Other non-current assets		327,373,270.16	443,508,664.40	<b>SHAREHOLDERS' EQUITY</b>			
<b>Total Non-Current Assets</b>		<b>26,969,981,396.73</b>	<b>22,363,501,610.56</b>	Share capital		2,162,334,720.00	2,162,334,720.00
				Capital reserve		101,434,352.67	101,433,849.90
				Other comprehensive income		-	-
				Special reserve		-	-
				Surplus reserve		1,579,310,659.11	1,579,310,659.11
				Retained profits		1,100,064,443.23	1,358,988,980.06
				<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,943,144,175.01</b>	<b>5,202,068,209.07</b>
<b>TOTAL ASSETS</b>		<b>33,933,366,851.04</b>	<b>25,810,128,700.75</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>33,933,366,851.04</b>	<b>25,810,128,700.75</b>

## Consolidated Income Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Total operating income	(V)39	19,492,382,889.53	22,088,368,488.74
Less: Total operating costs	(V)39	13,619,965,426.60	15,269,639,735.89
Business taxes and levies	(V)40	95,650,234.63	107,719,792.74
Selling expenses	(V)41	847,269,688.95	700,428,306.59
Administrative expenses	(V)42	1,281,515,644.43	1,358,892,533.97
Financial expenses	(V)43	841,242,986.61	434,318,006.64
Impairment losses of assets	(V)44	(8,353,337.27)	74,266,280.05
Add: Gain from changes in fair values (Losses are indicated by "-")	(V)45	(3,466,833.57)	3,466,833.57
Investment income (Loss is indicated by "-")	(V)46	3,387,514.80	(1,257,102.12)
Including: Investment income from investments in associates and joint ventures		(2,612,485.20)	(3,321,122.95)
II. Operating profit		2,815,012,926.81	4,145,313,564.31
Add: Non-operating income	(V)47	302,312,759.66	264,990,235.67
Including: Gains on disposal of non-current assets		199,004.38	149,136.43
Less: Non-operating expenses	(V)48	162,876,927.56	241,776,446.48
Including: Losses from disposal of non-current assets		160,219,100.15	223,004,485.63
III. Total profit		2,954,448,758.91	4,168,527,353.50
Less: Income tax expenses	(V)49	674,887,970.40	950,980,245.09
IV. Net profit		2,279,560,788.51	3,217,547,108.41
Net profit attributable to owners of the Company		1,609,743,609.59	2,419,366,386.55
Net profit attributable to minority interests		669,817,178.92	798,180,721.86
V. Net profit and total other comprehensive income attributable:	(V)35	16,541,396.93	9,723,246.35
attributable to owners of the Company		16,541,396.93	9,723,246.35
1. Items that will not be reclassified subsequently to profit or loss		-	-
2. Items that may be reclassified subsequently to profit or loss		16,541,396.93	9,723,246.35
(1) Gain/loss arising on changes in fair value of financial assets		-	18,282,846.14
(2) Gains or losses arising on reclassification of held-to-maturity investments to available-for-sale financial assets		16,541,396.93	(8,559,599.79)
attributable to minority interests		-	-
VI. Total comprehensive income attributable:		2,296,102,185.44	3,227,270,354.76
Owners of the Company		1,626,285,006.52	2,429,089,632.90
Minority interests		669,817,178.92	798,180,721.86
VII. Earnings per share			
3. Basic earnings per share	(XV)2	0.74	1.12
4. Diluted earnings per share		N/A	N/A

## Income Statement of the Company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Total operating income	(XIII)4	7,977,775,282.56	6,135,832,567.25
Less: Total operating costs	(XIII)4	6,657,622,588.98	4,831,809,284.63
Business taxes and levies		1,789,162.68	1,473,001.61
Selling expenses		88,833,260.92	166,867,242.57
Administrative expenses		764,664,773.66	745,415,943.08
Financial expenses		361,325,454.27	88,928,903.57
Impairment losses of assets		(1,795,065.79)	35,557,683.40
Add: Investment income (Loss is indicated by "-")	(XIII)5	337,452,855.61	870,468,877.05
Including: Investment income from investments in associates and joint ventures		(2,612,485.20)	(3,321,122.95)
II. Operating profit		442,787,963.45	1,136,249,385.44
Add: Non-operating income		57,173,724.53	12,651,039.72
Including: Gains on disposal of non-current assets		175,511.18	0.43
Less: Non-operating expenses		137,559,622.02	207,491,890.47
Including: Losses from disposal of non-current assets		136,134,765.66	191,554,598.02
III. Total profit		362,402,065.96	941,408,534.69
Less: Income tax expenses		(27,373,813.21)	(37,113,179.36)
IV. Net profit		389,775,879.17	978,521,714.05
V. Other comprehensive income (net of income tax)		-	-
VI. Total comprehensive income		389,775,879.17	978,521,714.05



## Consolidated Cash Flow Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash Flows from Operating Activities:</b>			
Cash receipts from the sale of goods and the rendering of services		25,981,900,736.91	29,780,903,077.53
Receipts of tax refunds		509,682,844.44	440,976,297.58
Other cash receipts relating to operating activities	(V)50(1)	397,359,391.30	355,847,515.69
Sub-total of cash inflows from operating activities		26,888,942,972.65	30,577,726,890.80
Cash payments for goods purchased and services received		17,503,058,307.23	22,041,947,070.50
Cash payments to and on behalf of employees		1,278,943,798.37	977,279,891.60
Payments of various types of taxes		1,728,678,452.59	2,083,731,087.79
Other cash payments relating to operating activities	(V)50(2)	1,775,868,688.54	1,454,253,978.08
Sub-total of cash outflows from operating activities		22,286,549,246.73	26,557,212,027.97
Net Cash Flow from Operating Activities	(V)51(1)	4,602,393,725.92	4,020,514,862.83
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investments		-	96,833,251.59
Cash receipts from investment income		6,000,000.00	3,000,000.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		63,436,020.56	634,270.07
Cash receipts from other investment activities	(V)51(2)	4,879,455.16	-
Sub-total of cash flows from investing activities		74,315,475.72	100,467,521.66
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		5,160,464,688.77	9,050,286,746.04
Cash payments to acquire investments		100,000,000.00	-
Net cash payments for acquisitions of subsidiaries and other business units		-	72,979,056.74
Other cash payments relating to investing activities	(V)50(4)	38,456,870.00	3,032,180.90
Sub-total of cash outflows from investing activities		5,298,921,558.77	9,126,297,983.68
Net Cash Flow from Investing Activities		(5,224,606,083.05)	(9,025,830,462.02)
<b>III. Cash Flows from Financing Activities:</b>			
Cash receipts from capital contributions		30,375,000.00	189,125,000.00
Including: cash receipts from capital contributions from minority owners of subsidiaries		30,375,000.00	189,125,000.00
Cash receipts from borrowings		27,662,825,929.04	19,145,781,118.62
Cash receipts from issue of bonds		-	1,000,000,000.00
Sub-total of cash inflows from financing activities		27,693,200,929.04	20,334,906,118.62
Cash repayments of borrowings		24,035,646,968.36	12,439,546,345.82
Cash repayments for distributing of dividends or profits or settlement of interest expenses		1,866,306,502.94	2,851,457,275.65
Including: payments for distribution of dividends or profits to minority owners of subsidiaries		139,057,500.00	399,210,000.00
Cash repayments of bond redemptions		20,000,000.00	-
Other cash payments relating to financing activities	(V)50(5)	14,966,474.95	42,691,270.28
Sub-total of cash outflows from financing activities		25,936,919,946.25	15,333,694,891.75
Net Cash Flow from Financing Activities		1,756,280,982.79	5,001,211,226.87
<b>IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>		(66,406,969.33)	9,812,096.67
<b>V. Net Increase(decrease) in Cash and Cash Equivalents</b>		<b>1,067,661,656.33</b>	<b>5,707,724.35</b>
Add: Opening balance of Cash and Cash Equivalents		994,630,106.64	988,922,382.29
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(V)51(2)	<b>2,062,291,762.97</b>	<b>994,630,106.64</b>

## Cash Flow Statement of the Company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash Flows from Operating Activities:</b>			
Cash receipts from the sale of the goods and the rendering of services		13,582,639,180.58	12,149,293,968.78
Receipts of tax refunds		58,915,367.91	58,418,158.44
Other cash receipts relating to operating activities		111,623,266.08	25,273,918.70
Sub-total of cash inflows from operating activities		13,753,177,814.57	12,232,986,045.92
Cash payments for goods purchased and services received		8,842,972,708.61	8,191,385,887.96
Cash payments to and on behalf of employees		662,610,905.95	480,209,250.64
Payments of various types of taxes		72,180,624.74	35,635,588.51
Other cash payments relating to operating activities		317,959,301.62	531,718,027.17
Sub-total of cash outflows from operating activities		9,895,723,540.92	9,238,948,754.28
Net Cash Flow from Operating Activities	(XIII)6	3,857,454,273.65	2,994,037,291.64
<b>II. Cash Flows for Investing Activities:</b>			
Cash receipts from investment income		136,942,500.00	128,790,000.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		63,412,527.36	3,958.00
Other cash receipts relating to investing activities		23,105,304.89	207,067,782.74
Sub-total of cash inflows from investing activities		223,460,332.25	335,861,740.74
Cash payment to acquire or construct fixed assets, intangible assets and other long-term assets		3,372,190,824.58	7,162,319,003.75
Cash payments to acquire investments		350,322,587.12	228,802,920.00
Other cash payments relating to investing activities		1,507,067,479.48	-
Sub-total of cash outflows from investing activities		5,229,580,891.18	7,391,121,923.75
Net Cash Flow from Investing Activities		(5,006,120,558.93)	(7,055,260,183.01)
<b>III. Cash Flows from Financing Activities:</b>			
Cash receipts from borrowings		13,519,358,957.77	11,027,301,861.40
Sub-total of cash inflows from financing activities		13,519,358,957.77	11,027,301,861.40
Cash repayments of borrowings		10,040,833,122.75	5,189,193,644.74
Cash repayments for distributing of dividends or profits or settlement of interest expenses		1,314,972,639.13	2,070,887,831.22
Other cash payments relating to financing activities		12,926,917.45	12,646,944.81
Sub-total of cash outflows from financing activities		11,368,732,679.33	7,272,728,420.77
Net Cash Flow from Financing Activities		2,150,626,278.44	3,754,573,440.63
<b>IV. Impact of exchange rate changes on cash and cash equivalents</b>		(17,168,307.44)	4,650,052.06
<b>V. Net Increase in Cash and Cash Equivalents</b>		<b>984,791,685.72</b>	<b>(301,999,398.68)</b>
Add: Opening balance of Cash and Cash Equivalents		360,594,879.35	662,594,278.03
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(XIII)6	<b>1,345,386,565.07</b>	<b>360,594,879.35</b>

WANHUA CHEMICAL GROUP CO., LTD.

FOR THE YEAR ENDED 31 DECEMBER 2015

Consolidated Statement of Changes in Owners' Equity

Unit: RMB

Item	Amount for the current period							Minority interests	Total owners' equity
	Attributable to owners of the Company								
	Share Capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Attributable to owners of the Company		
<b>I. Balance at 1<sup>st</sup> January 2015</b>	2,162,334,720.00	48,344,055.18	(12,526,257.43)	696,629.53	1,579,310,659.11	6,815,924,586.58	10,594,084,392.97	2,691,591,279.81	13,285,675,672.78
<b>II. Changes for the year</b>	-	502.77	16,541,396.93	(696,629.53)	-	961,043,193.59	976,888,463.76	560,670,259.24	1,537,558,723.00
(I) Comprehensive income	-	-	16,541,396.93	-	-	1,609,743,609.59	1,626,285,006.52	669,817,178.92	2,296,102,185.44
(II) Owner's contributions and reduction in capital	-	-	-	-	-	-	-	30,375,000.00	30,375,000.00
1. Capital contribution from owners (Note)	-	-	-	-	-	-	-	30,375,000.00	30,375,000.00
(III) Profit Distribution	-	-	-	-	-	(648,700,416.00)	(648,700,416.00)	(139,057,500.00)	(787,757,916.00)
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-	-
2. Distributions to owners	-	-	-	-	-	(648,700,416.00)	(648,700,416.00)	(139,057,500.00)	(787,757,916.00)
(IV) Special reserve	-	-	-	(696,629.53)	-	-	(696,629.53)	(464,419.68)	(1,161,049.21)
1. Provision of special reserve in the period	-	-	-	49,509,572.66	-	-	49,509,572.66	15,231,571.01	64,741,143.67
2. Amount utilized in period	-	-	-	(50,206,202.19)	-	-	(50,206,202.19)	(15,695,990.69)	(65,902,192.88)
(V) Others	-	502.77	-	-	-	-	502.77	-	502.77
<b>III. Balance at 31<sup>st</sup> December 2015</b>	<b>2,162,334,720.00</b>	<b>48,344,557.95</b>	<b>4,015,139.50</b>	<b>-</b>	<b>1,579,310,659.11</b>	<b>7,776,967,780.17</b>	<b>11,570,972,856.73</b>	<b>3,252,261,539.05</b>	<b>14,823,234,395.78</b>

WANHUA CHEMICAL GROUP CO., LTD.

FOR THE YEAR ENDED 31 DECEMBER 2015

Consolidated Statement of Changes in Owners' Equity

Unit: RMB

Item	Amount for the current period							Minority interests	Total owners' equity
	Attributable to owners of the Company								
	Share Capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Attributable to owners of the Company		
<b>I. Balance at 1<sup>st</sup> January 2014</b>	2,162,334,720.00	48,335,935.15	(22,249,503.78)	-	1,579,310,659.11	5,910,192,504.03	9,677,924,314.51	2,103,031,138.27	11,780,955,452.78
<b>II. Changes for the year</b>	-	8,120.03	9,723,246.35	696,629.53	-	905,732,082.55	916,160,078.46	588,560,141.54	1,504,720,220.00
(I) Comprehensive income	-	-	9,723,246.35	-	-	2,419,366,386.55	2,429,089,632.90	798,180,721.86	3,227,270,354.76
(II) Owner's contributions and reduction in capital	-	-	-	-	-	-	-	189,125,000.00	189,125,000.00
1. Capital contribution from owners (Note)	-	-	-	-	-	-	-	189,125,000.00	189,125,000.00
(III) Profit Distribution	-	-	-	-	-	(1,513,634,304.00)	(1,513,634,304.00)	(399,210,000.00)	(1,912,844,304.00)
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-	-
2. Distributions to owners	-	-	-	-	-	(1,513,634,304.00)	(1,513,634,304.00)	(399,210,000.00)	(1,912,844,304.00)
(IV) Special reserve	-	-	-	696,629.53	-	-	696,629.53	464,419.68	1,161,049.21
1. Provision of special reserve in the period	-	-	-	47,514,917.18	-	-	47,514,917.18	12,628,765.27	60,143,682.45
2. Amount utilized in period	-	-	-	(46,818,287.65)	-	-	(46,818,287.65)	(12,164,345.59)	(58,982,633.24)
(V) Others	-	8,120.03	-	-	-	-	8,120.03	-	8,120.03
<b>III. Balance at 31<sup>st</sup> December 2014</b>	<b>2,162,334,720.00</b>	<b>48,344,055.18</b>	<b>(12,526,257.43)</b>	<b>696,629.53</b>	<b>1,579,310,659.11</b>	<b>6,815,924,586.58</b>	<b>10,594,084,392.97</b>	<b>2,691,591,279.81</b>	<b>13,285,675,672.78</b>

## Statement of Changes in Owners' Equity of the Company

Unit: RMB

Item	Amount for the current period						Total owners' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	
I. Balance at 1 <sup>st</sup> January 2015	2,162,334,720.00	101,433,849.90	-	-	1,579,310,659.11	1,358,988,980.06	5,202,068,209.07
II. Changes for the year	-	502.77	-	-	-	(258,924,536.83)	(258,924,034.06)
(I) Comprehensive income	-	-	-	-	-	389,775,879.17	389,775,879.17
(II) Profit Distribution	-	-	-	-	-	(648,700,416.00)	(648,700,416.00)
1. Distribution to owners	-	-	-	-	-	(648,700,416.00)	(648,700,416.00)
(III) Special reserve	-	-	-	-	-	-	-
1. Provision of special reserve in the period	-	-	-	12,968,177.04	-	-	12,968,177.04
2. Amount utilized in the period	-	-	-	(12,968,177.04)	-	-	(12,968,177.04)
(IV) Others	-	502.77	-	-	-	-	502.77
<b>III. Balance at 31<sup>st</sup> December 2015</b>	<b>2,162,334,720.00</b>	<b>101,434,352.67</b>	-	-	<b>1,579,310,659.11</b>	<b>1,100,064,443.23</b>	<b>4,943,144,175.01</b>

## Statement of Changes in Owners' Equity of the Company

Unit: RMB

Item	Amount for the current period						Total owners' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	
I. Balance at 1 <sup>st</sup> January 2014	2,162,334,720.00	101,425,729.87	-	-	1,579,310,659.11	1,894,101,570.01	5,737,172,678.99
II. Changes for the year	-	8,120.03	-	-	-	(535,112,589.95)	(535,104,469.92)
(I) Comprehensive income	-	-	-	-	-	978,521,714.05	978,521,714.05
(II) Profit Distribution	-	-	-	-	-	(1,513,634,304.00)	(1,513,634,304.00)
1. Distribution to owners	-	-	-	-	-	(1,513,634,304.00)	(1,513,634,304.00)
(III) Special reserve	-	-	-	-	-	-	-
1. Provision of special reserve in the period	-	-	-	13,007,379.36	-	-	13,007,379.36
2. Amount utilized in the period	-	-	-	(13,007,379.36)	-	-	(13,007,379.36)
(IV) Others	-	8,120.03	-	-	-	-	8,120.03
<b>III. Balance at 31<sup>st</sup> December 2014</b>	<b>2,162,334,720.00</b>	<b>101,433,849.90</b>	<b>-</b>	<b>-</b>	<b>1,579,310,659.11</b>	<b>1,358,988,980.06</b>	<b>5,202,068,209.07</b>

**(I) BASIC INFORMATION ABOUT THE COMPANY**

Wanhua Chemical Group Co., Ltd. (the "Company" or "Wanhua Chemical"), formally known as Yantai Wanhua Polyurethane Co., Ltd., was established by Yantai Wanhua Synthetic Leather Co., Ltd. with official approval document of No. Lv zheng gu zi[1998] 70 issued by the People's Government of Shandong Province, together with Dongfang Electronics Co., Ltd., Yantai Moon Co., Ltd., Yantai Spandex Group Co., Ltd. and Hongta Industrial Investment Co., Ltd. by means of sponsorship. The Company was incorporated and registered under the approval of Administration Bureau of Industry and Commerce of Shandong Province on 16 December 1998 with the registration number of 370000018020049.

The Company's name was officially changed to Wanhua Chemical Group Co. Ltd. in May 2013.

The Company is located in Yantai city of Shandong province Economic and technical development district No. 17 of Tianshan Road. The business scope of the Company and its subsidiaries (hereinafter refer to as the "Group") covers development, sale and manufacture of Polyurethane and its additives as well as Isocyanate and its derivatives; Technology services; Staff training; Import and export business within the scope of permission; Operations of special railway lines under permission; Manufacture and supplies of heat, electricity and pure water as well as construction of heat pipe network; Research & development, manufacture and sale of MDI; Sale of chemical products; Project investments; Research & development, manufacture and sale of TPU and Polyether Polyol; Sale of Chemical material and product; Research & development, manufacture of new chemical materials and technology services; Operation and maintenance of dock and other port facilities and etc..

The parent company of the Company is Wanhua Industrial Group Co., Ltd. and the ultimate controlling shareholder of the Company is Yantai State Owned Assets Supervision and Administration Commission.

The Company and the consolidated financial statements of the Company have been approved by the board of the directors on 5 March 2016.

Details of the capital contributions by the investing parties are disclosed in Note (VI).

**(II) BASIC OF PREPARATION OF FINANCIAL STATEMENTS**

Basis of preparation

The Group has adopted the Accounting Standards for Business Enterprises ("ASBE") (including in revised and newest in 2014) and relevant provisions issued by the Ministry of Finance ("MOF"). In addition, the Group has disclosed relevant financial information in accordance with Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15-General Provisions on Financial Reporting.

Basis of accounting and principle of measurement

The Group adopts the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

In accordance with the historical cost method, the assets' value should be the same with the fair value of cash or cash equivalents paid for those assets. The liabilities should be the same amount with the cash or cash equivalents received, the contract amount or the future payment for the present obligations.

**(II) BASIC OF PREPARATION OF FINANCIAL STATEMENTS - continued**

Basis of accounting and principle of measurement - continued

Fair value is the amount received by selling assets or paid for transferring liabilities in orderly transaction held by market participants on measuring day. Whether fair value is observable or estimated by measurement technology, it was determined on this base in the financial statements for measurement or disclosure.

The fair value was divided into three classes based on observable degree of value inputted and the importance of those inputted value:

Level 1: the inputted value is the same with an unadjusted price of the same assets or liabilities which could be obtained on measuring day;

Level 2: the inputted value is directly or indirectly observable for related assets or liabilities but other than the Level 1 value;

Level 3: the inputted value is unobservable for related assets or liabilities.

Going concern

As at 31 December 2015, the Group's total current liabilities exceeded of total current assets of RMB8.247billion. However, unutilized bank facility is not less than RMB26.2 billion, which can be utilized to satisfy the Group's cash flow demand. Therefore, the financial statements have been prepared on a going concern basis.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT**

The Group determined the specific accounting policies and accounting estimates according to the production and business operation characteristics that mainly reflected in receivables for which bad debt provision (Note: III (11)), Inventory (Note: III(12)), depreciation of fixed assets and amortization of intangible assets (Note: III(14) &(17)), timing for recognized the revenue (Note: III(21)) etc..

**1、Statement of compliance with the ASBE**

The financial statements of the Company and Group have been prepared in accordance with Accounting Standards for Business Enterprises, and present truly and completely, the Company's and the Group's financial position as of 31 December, 2015, and the Company's and the Group's results of operations and cash flows for the year then ended.

**2、Accounting year**

The Group adopts the calendar year as its accounting year, i.e. from 1 January to 31 December.

**3、Operating cycle**

Operating cycle is the period of the purchase of raw material for production and the collection of cash from receivable created by the sale of inventory. The Company's operating cycle is twelve months.

**4、Functional currency**

Renminbi ("RMB") is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company's foreign subsidiaries choose their functional currencies based on the primary economic environment in which they operate. The Group adopts RMB to prepare its financial statements.



**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**5. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control**

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

5.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) is adjusted to the capital premium in capital reserve. If the capital premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

5.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. Costs from the acquiree's that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities, acquired by the acquirer in a business combination, that meet the recognition criteria, shall be measured at fair value at the acquisition date.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognized as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognizes the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**6、Preparation of consolidated financial statements**

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is the power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. If changes of related facts and situations lead to changes of related elements of control, the Group will undertake reassessment.

The combination of subsidiaries begins with controlling the subsidiary by the Group, and ends with the Group's losing control of the subsidiary. For a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For a subsidiary acquired through a business combination not involving enterprises under common control, the operation results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated income statement and consolidated statement of cash flows.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control or the party being absorbed under merger by absorption are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period or from the date when they first came under the common control of the ultimate controlling party are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All significant intra-group balances and transactions are eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within owners' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests are presented as "minority interests" in the consolidated income statement below the "net profit" line item.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amounts are still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess is adjusted against retained earnings.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT – continued**

**7、Classification of joint venture arrangements and accounting treatment for joint operation**

Joint venture arrangements include common management and joint venture, which is decided by rights and obligations agreed in the arrangements based on the structure, legal form and contract terms. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

The Group's investment in the joint venture is accounted by the equity method. Refer to Note (III) "13.3.2.

**8、Recognition criteria of cash and cash equivalents**

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**9、Translation of transactions and financial statements denominated in foreign currencies**

9.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying an exchange rate that approximates the actual spot exchange rate on the date of transaction. The exchange rate that approximates the actual spot exchange rate on the date of transaction is exchange rate of the beginning of the month.

The Group uses spot exchange buying rate and spot exchange selling rate of the Bank of China as the spot exchange rate. As for the subsidiaries which do not use RMB as functional currency, they use the spot exchange buying rate and spot exchange selling rate searched in Bank of China as functional currency. That is, the transaction form foreign currency asset converting by spot exchange buying rate, and the transaction form foreign currency liabilities converting by spot exchange selling rate.

At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognized in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalization are capitalized as part of the cost of the qualifying asset during the capitalization period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortized cost) of available-for-sale monetary items are recognized as other comprehensive income and included in capital reserve.

When the consolidated financial statements include foreign operation(s), if there is foreign currency monetary item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as "exchange differences arising on translation of financial statements denominated in foreign currencies" in owners' equity, and in profit and loss for the period upon disposal of the foreign operation.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate).

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

9、 Translation of transactions and financial statements denominated in foreign currencies - continued

9.2 Translation of financial statements denominated in foreign currencies

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; owners' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at exchange rates that approximate the actual spot exchange rates on the dates of the transactions; the opening balance of retained earnings is the translated closing balance of the previous year's retained earnings; the closing balance of retained earnings is calculated and presented on the basis of each translated income statement and profit distribution item. The difference between the translated assets and the aggregate of liabilities and owners' equity items is separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies under the owners' equity in the balance sheet.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at / an exchange rate which approximates the spot exchange rate on the date of the cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as "effect of exchange rate changes on cash and cash equivalents".

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

**10、 Financial instruments**

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognized amounts.

10.1 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

10.2 Classification, recognition and measurement of financial assets

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10、 Financial instruments - continued**

10.2.1. Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

Financial assets at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

10.2.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include notes receivable, accounts receivable, interest receivable, dividends receivable, and long-term receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

10.2.3. Available-for-sale financial assets

Available-for-sale financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognized in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10、Financial instruments - continued**

10.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

- (1) Significant financial difficulty of the issuer or obligor;
- (2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganizations;
- (5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:
  - Adverse changes in the payment status of borrower in the group of assets;
  - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;
- (7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
- (9) Other objective evidence indicating there is an impairment of a financial asset.

- Impairment of financial assets measured at amortized cost

To the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortized cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10、 Financial instruments - continued**

10.3 Impairment of financial assets

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

**-Impairment of available-for-sale financial assets**

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in capital reserve is reclassified from the capital reserve to profit or loss. The amount of the cumulative loss that is reclassified from capital reserve to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income and included in the capital reserve, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognized in profit or loss.

**-Impairment of financial assets measured at cost**

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

10.4 Transfer of financial assets

The Group derecognizes a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive

income, is recognized in profit or loss.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10、 Financial instruments - continued**

10.5 Classification, recognition and measurement of financial liabilities

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis on the substance of the contractual arrangements and definitions of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

10.5.1 Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognized in profit or loss.

10.5.2 Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

10.5.3 Financial guarantee contracts

A financial guarantee contract is a contract by which the guarantor and the lender agree that the guarantor would settle the debts or bear obligations in accordance with terms of the contract in case the borrower fails to settle the debts. Financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss are initially measured at their fair values less the directly attributable transaction costs. Subsequent to initial recognition, they are measured at the higher of: (i) the amount determined in accordance with Accounting Standard for Business Enterprises No. 13 – Contingencies; and (ii) the amount initially recognized less cumulative amortization recognized in accordance with the principles set out in Accounting Standard for Business Enterprises No. 14 – Revenue.

10.6 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.



(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued

10、Financial instruments – continued

10.7 Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

10.8 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group issues (including refinancing), repurchases, sells, or cancels equity instruments as changes in the rights and interests. The Group does not recognize any changes in the fair value of equity instruments. Transaction costs are associated with equity trading deductions from the rights and interests.

All types of distributions made by the Group to holders of equity instruments are deducted from owners' equity

11、Receivables

11.1 Receivables that are individually significant and for which bad debt provision is individually assessed

Basis or monetary criteria for determining an individually significant receivable	The Group deems a receivable that exceeds RMB 8,000,000 as an individually significant receivable.
Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed	For related party that are individually significant, the Group do not make provision for bad debt. For non-related party that are individually significant, the Group assesses the receivables individually for impairment. For a financial asset that is not impaired individually, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Receivables for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

11.2 Receivables for which bad debt provision is collectively assessed on a credit risk characteristics portfolio basis

The Group makes bad debts provision on receivables, which deducts the receivables of related parties based on credit risk characteristics portfolio basis, by using the following method:

Receivables for which bad debt provision is collectively assessed on a credit risk characteristics portfolio basis	
Receivables due from domestic customers (excluding related parties)	aging analysis
Receivables due from oversea customers (excluding related parties)	proportion of provision

Note: This credit risk characteristics portfolio represents receivables due from domestic customers (excluding related parties).

(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued

11、Receivables

11.2.1 Aging analysis of accounts receivable:

Aging	Provision as a proportion of accounts receivable (%)	Provision as a proportion of other receivables (%)
Within 1 year (inclusive)	5%	Note 1
More than 1 year but not exceeding 2 years	10%	
More than 2 years but not exceeding 3 years	30%	
More than 3 years but not exceeding 4 years	50%	
More than 4 years but not exceeding 5 years	100%	
More than 5 years	100%	

11.2.2 Portfolios that percentage of total receivables outstanding is used for bad debt provision:

Name of portfolio	Provision as a proportion of accounts receivable (%)	Provision as a proportion of other receivables (%)
Accounts receivable-overseas clients	15%	Note 1

Note 1: Provision for bad debts would be individually assessed for those other receivables not individually significant.

11.2.3 Accounts receivable that are not individually significant but for which bad debt provision is individually assessed:

Reasons for making individual bad debt provision	Impairment of objective evidence
Bad debt provision methods	Estimated recoverable amount and the difference between the book value shall be recognized as bad debt provision

12、Inventory

12.1 Categories of inventories

The Group's inventories mainly include materials in transit, raw materials, work in progress, finished goods and goods on hand, etc. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the Inventories to their present location and condition.

12.2 Valuation method of inventories upon delivery

The actual cost of inventories upon delivery is calculated using the weighted-average method.

12.3 Basis for determining net realizable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined based on clear evidence obtained, and takes into consideration of the purposes of holding inventories and effect of post balance sheet events.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**12、 Inventory**

12.3 Basis for determining net realizable value of inventories and provision methods for decline in value of inventories - continued

For large quantity and low value items of inventories, provision for decline in value is made based on categories of inventories. Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realizable value on an item-by-item basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

12.4 Inventory count system

The perpetual inventory system is maintained for stock system.

12.5 Amortization method for low cost and short-lived consumable items and packaging materials

Packaging materials and low cost and short-lived consumable items are amortized using the immediate write-off method.

**13、 Long-term equity investments**

13.1. Determine the control of or significant influence over

Control is defined as power over the investee, exposed or having the rights to variable returns from its involvement with the investee and having the ability to use its power to affect its returns. Joint control is defined as the contractually agreed sharing of control of an arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. When deciding whether the investor can control or exercise influence over the investee company effectively, potential factors for voting rights shall be taken into consideration. The factors are not limited to investee's convertible bonds, stock warrants executable currently possessed by the investors and by other holders.

13.2. Determine the investment cost

For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired is the cost of acquisition. The difference between the initial investment cost and the carrying amount of cash paid, non-cash assets transferred and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. If the consideration of the combination is satisfied by the issue of equity securities, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the owners' equity of the party being absorbed in the consolidated financial statements of the ultimate controlling party at combination date. The aggregate face value of the shares issued shall be accounted for as share capital. The difference between the initial investment cost and the aggregate face value of the shares issued shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings.

For a business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the cost of acquisition.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**13、 Long-term equity investments - continued**

13.2. Determine the investment cost - continued

The audit, legal, valuation and consulting fees, other intermediary fees, and related administrative fees paid by the absorbing party or acquirer for the business combination, shall be recognized in profit or loss as incurred.

The initial investment cost of a long-term equity investment acquired otherwise than through a business combination shall be the actual purchase price. When an investor becomes capable of exercising joint control or significant influence (but not control) over an investee due to additional investment or other reasons, the equity investment shall be determined in accordance with "Accounting Standard for Business Enterprises No.22 – Financial Instruments: Recognition and Measurement", together with additional investment cost, as the initial investment cost under the equity method.

13.3 Subsequent measurement and the method to recognize profit and loss

13.3.1. A long-term equity investment accounted for using the cost method

Investments in subsidiaries are accounted for using cost method by the Group. Subsidiaries refer to the investees over which the investor can exert control.

Under the cost method, a long-term equity investment is measured at initial investment cost. Investment income recognized is limited to the amount distributed to it out of accumulated net profits of the investee arising after the investment was made. Any cash dividends or distributions received in excess of this amount are treated as return of initial investment cost to reduce the carrying amount of the investment.

13.3.2. A long-term equity investment accounted for using the equity method

Investments in associates are accounted for using equity method by the Group. Associates refer to the investees over which the investor can exert significant influence.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, investment income or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group recognizes its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the acquisition date, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. For any changes in owners' equity other than net profits or losses in the investee, the Group adjusts the carrying amount of the long-term equity investment and includes the corresponding adjustment in owners' equity. As to intercompany transactions between SGM and its associates, if the invested or sold assets do not constitute a business, the unrealized profit or loss in such intercompany truncations should be eliminated to the extent of the amount in accordance with the proportion pertaining to SGM, and the investment income or loss are determined accordingly. However, if unrealized losses in intercompany transactions between SGM and its associates are impairment loss of transferred assets, the loss cannot be eliminated.

The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. Otherwise, if the Group should bear extra loss, the loss should be recorded in accrued liabilities and current loss. When the investees realizes profit afterwards, the Group should not recognize the related portion of profit until the extra loss has been recovered.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**13、 Long-term equity investments - continued**

13.4. Disposal of long-term equity investments

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognized in profit or loss for the period. For long-term equity investments accounted for using the equity method if the remaining interest after disposal is still accounted for using the equity method, other comprehensive income previously recognized for using the equity method is accounted for on the same basis as would have been required if the investee had directly disposed of related assets or liabilities, and transferred to profit or loss for the period on a pro rata basis; owners' equity recognized due to changes in other owners' equity of the investee (other than net profit or loss, other comprehensive income and profit distribution) is transferred to profit or loss for the period on a pro rata basis. For long-term equity investments accounted for using the cost method, if the remaining interest after disposal is still accounted for using the cost method, other comprehensive income previously recognized for using the equity method or in accordance with the standards for the recognition and measurement of financial instruments before obtaining the control over the investee, is accounted for on the same basis as would have been required if the investee had directly disposed of related assets or liabilities, and transferred to profit or loss for the period on a pro rata basis; changes in other owners' equity in the investee's net assets recognized under the equity method (other than net profit or loss, other comprehensive income and profit distribution) is transferred to profit or loss for the period on a proportion rata basis.

When the Group loses control of the investee due to partial disposal of equity investments and the remaining interest after disposal has resulted in joint control of or significant influence over the investee, when preparing the individual financial statements, the remaining interest is changed to the equity method and adjusted as if the equity method had been applied from the date of the first acquisition; if the remaining interest after disposal has not resulted in joint control of or significant influence over the investee, the remaining interest is accounted for under relevant requirements of the standards for the recognition and measurement of financial instruments, and the difference between the fair value and carrying amount on the date when control is lost is charged to profit or loss for the period. Upon loss of control over the investee, other comprehensive income previously recognized under the equity method or in accordance with the standards for the recognition and measurement of financial instruments before obtaining the control over the investee, is accounted for on the same basis as would have been required if the investee had directly disposed of related assets or liabilities; upon loss of control, other changes in owners' equity recognized due to changes of the investee's net assets recognized under the equity method (other than net profit or loss, other comprehensive income and profit distribution) are transferred to profit or loss for the period. If the remaining interest after disposal is accounted for using the equity method, other comprehensive income and other owners' equity is transferred on a pro rata basis; if the remaining interest after disposal is changed to be accounted for under the standards for the recognition and measurement of financial instruments, other comprehensive income and other owners' equity are entirely transferred to profit and loss.

When the Group loses joint control or significant influence over the investee due to partial disposal of equity investments, the remaining interest after disposal is changed to be accounted for under the standards for the recognition and measurement of financial instruments, and the difference between the fair value and carrying amount on the date when joint control or significant influence is lost is charged to profit or loss for the period. When the equity method is no longer used, other comprehensive income previously recognized for previously-held equity investments under the equity method is accounted for on the same basis as would have been required if the investee had directly disposed of related assets or liabilities; upon discontinuation of the equity method, owners' equity recognized due to changes in other owners' equity of the investee (other than net profit or loss, other comprehensive income and profit distribution) is entirely transferred to investment income for the period.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**14、 Fixed assets**

14.1 Recognition criteria

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile, the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

14.2 Depreciation

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation period (years)	Residual value rate (%)	Annual depreciation rate (%)
Buildings	20-40 years	4%-5%	4.80-2.38%
Machinery and equipment	10-25 years	4%-5%	9.60-3.80%
Electronic equipment, appliances and furniture	5-8 years	4%-5%	19.20-11.88%
Transportation vehicles	6-12 years	4%-5%	16.00-7.92%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

14.3 Other explanations

If a fixed asset is to be disposed of or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year end, and accounts for any change as a change in an accounting estimate.

**15、 Construction in progress**

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalised before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**16、Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalised when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sales have commenced. Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalised on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

**17、Intangible assets**

17.1 Intangible assets

Intangible assets include land use rights, non-patented technology and software, etc.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. The amortization method, useful life and estimated net residual value rate of each category of intangible assets are as follows:

Category	Amortization period (years)	Annual amortization rate (%)
Land use rights	10-50 years	2-10%
Non-patented technology	10 years	10%
Software	10 years	10%
Others (note)	50 years	2%

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and makes adjustments when necessary.

Note: Others are supply fee of Industrial Park standby power laid by State Grid, and being depreciated by using the term of use of the land used in the Industrial Park.

17.2 Research and development expenditure

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognizes all of them in profit or loss for the period.

**18、Impairment of non-financial assets except goodwill**

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments in subsidiaries, investment properties, fixed assets, construction in progress, and intangible assets with finite useful life may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated. Intangible assets with an indefinite useful life or unavailable for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**18、 Impairment of non-financial assets except goodwill - continued**

If the recoverable amount of an asset is less than its carrying amount, the difference is recognized as an impairment loss and charged to profit or loss for the current period.

Goodwill is tested for impairment at least at the end of each year. For the purpose of impairment testing, goodwill is considered together with the related assets group(s), i.e., goodwill is reasonably allocated to the related assets group(s) or each of assets group(s) expected to benefit from the synergies of the combination. An impairment loss is recognized if the recoverable amount of the assets group or sets of assets groups (including goodwill) are less than its carrying amount. The impairment loss is firstly allocated to reduce the carrying amount of any goodwill allocated to such assets group or sets of assets groups, and then to the other assets of the group on the pro-rata basis of the carrying amount of each asset (other than goodwill) in the group.

Once an impairment loss on assets mentioned above is recognized, it is not reversed in a subsequent period.

**19、 Long-term prepaid expenses**

Long-term prepaid expenses represent expenses incurred that should be borne and amortized over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortized using the straight-line method over the expected periods in which benefits are derived.

**20、 Employee benefits**

20.1 Accounting methods for short-term employee benefits

The Group recognizes the employee benefits payable for those services as a liability. The related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred. The welfare funds are recorded into the profits and losses of the current cost according to the actual amount. The welfare funds for non-monetary benefits are accounted for, in accordance with the value measurement.

Payment made by the Group of social security contributions for employees such as premiums or contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period or the costs of relevant assets in the accounting period in which employees provide services.

20.2 Accounting methods of welfare of dismissal

Accounting methods of welfare of dismissal

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a provision for the compensation payable arising from the termination of employment relationship with employees is recognized with a corresponding charge to the profit or loss for the period.



**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**21、 Revenue recognition**

21.1 Revenue from the sale of goods

Revenue from sale of goods is recognized when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

21.2 Revenue from rendering of services - continued

Revenue from rendering of services is recognized when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably. Revenue from rendering of services is recognized using the percentage of completion method at the balance sheet date. The stage of completion of a transaction for rendering for services is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognized as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognized.

21.3 Interest income

The amount of interest revenue is measured and confirmed in accordance with the length of time for which the Group's monetary funds is used by others and the effective interest rates.

**22、 Government grants**

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. Government grants shall not be recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them, and that the grants will be received.

A government grant is recognized only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable.

22.1 Basis for determining government grants related to an asset and accounting treatment

The government subsidies, including the construction of special funds, are related to construction of investment in fixed assets directly, the government subsidies are recognized as government subsidies pertinent to assets. A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset.

22.2 Basis for determining government grants related to an income and accounting treatment

The government subsidies, including high and new technology industry development special funds, due to the cost of compensation for high and new technology development of the Group directly, the government subsidies are recognized as cost of high and new technology industry development compensation. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, the Group will recognize the government grants in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**23、Deferred tax assets/ deferred tax liabilities**

The income tax expenses include current income tax and deferred income tax.

23.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

23.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

Deferred tax is generally recognized for all temporary differences. Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are recognized to the extent that it is probable that there will be taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realized or the liability is settled.

Current and deferred tax expenses or income are recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in other comprehensive income or in shareholders' equity, in which case they are recognized in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilized. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

23.3 Offset of income tax

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

**24、 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

24.1. Operating lease accounting methods

24.1.1 Recording of operating leases by the Group as lessee

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

24.1.2 Recording of operating leases by the Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

**(III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES, AND PRIOR PERIOD ERRORS – continued**

**25、 Changes in significant accounting policies and accounting estimates**

25.1 Changes in accounting estimates

Changes in accounting estimates	Approval procedures	Account affected	Amount affected
As the Group import and export business grows, corporate foreign currency trading volume increase, the differences exist between the middle price of RMB exchange rate published by the People's Bank of China and the actual financial market transaction price. In order to reflect the relevant foreign exchange risks more accurately, and to provide fairer accounting information, the Group decided to account for the foreign currency transactions using the spot exchange rate, instead of intermediate exchange rate rate.	The change in accounting estimates was approved in the 4th Session of the 6th board meeting.	Financial expenses	Increase RMB 6.4 million
		Net profits	Decrease RMB 4.96 million
		Net profits attributable to the parent company	Decrease RMB 4.31 million

**26、 Disclose critical judgements in applying accounting policies and key assumptions and uncertainties in accounting estimates**

In the application of accounting policies as set out Note (III), the Group is required to make judgements, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainties of the operating activities. These judgements, estimates and assumptions are based on historical experience of the Group's management as well as other factors that are considered relevant. Actual results may differ from these estimates.

The aforementioned judgements, estimates and assumptions are reviewed regularly on a going concern basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and uncertainties in accounting estimates

The following are the key assumptions and uncertainties in accounting estimates at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods.

**(III) THE GROUP'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT – continued**

**26、Disclose critical judgements in applying accounting policies and key assumptions and uncertainties in accounting estimates– continued**

26.1 Impairment of accounts receivable

The Group makes bad debt provision for receivables when there is clear evidence that the recovery of receivables is uncertain. As the Group's management needs to consider historical record of debt recovery, debt aging, financial status of debtors and overall economic environment when evaluating the provision, the measurement of bad debt provision is uncertain. Although there is no reason to believe significant change will take place on the assumption on which the measurement of receivables is based, the carrying amount and provision of receivables will change when actual results are different from previous assumptions.

26.2 Fixed assets and accumulated depreciation

After considering estimated net residual value of fixed asset, according to the straight-line method of depreciation, the Group reviews the useful life of a fixed asset and the depreciation method applied at least at each financial year end. Determined estimated useful life and net residual value based on the experience of similar and combined with the expected technical change. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used is accounted for as a change in an accounting estimate.

26.3 Deferred tax assets

The recognition of deferred tax assets is primarily subject to actual profit and actual tax rate employed by deductible temporary differences in the future. The recognized deferred tax assets will be reversed and recognized in profit or loss, when the actual profit is less than the expectation, or the actual tax rate is lower than the expectation. Furthermore, due to the uncertainty of whether there is enough taxable profit in the future for some subsidiaries, carrying forward losses of future years and deductible temporary differences are not fully recognized as deferred tax assets in these subsidiaries.

(IV) TAXES

1、Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Value-added tax	The amount of output tax after deduction of input tax	Except that the output tax of Wanhua Chemical (Ningbo) Thermal Power Co., Ltd. (“Wanhua Thermal Power”) is calculated as 13% of the steam sales, the output tax of Wanhua Chemical (Ningbo) Port Co., Ltd. (“Wanhua Port”) is calculated as 6% of the port service revenue, other output tax is calculated as 17% of the sales according to the relevant provisions of tax laws.
Business tax	Taxable revenue	3%-5%
City maintenance and construction tax	Actual turnover tax	5%-7%
Enterprise income tax	Taxable income	see the table below

The Company and its subsidiaries

Income tax rates

Wanhua Chemical Group Co., Ltd. (Note 1)	15%
Wanhua Chemical (Ningbo) Co., Ltd. (“Wanhua Ningbo”)	25%
Wanhua Port	25%
Wanhua Thermal Power	25%
Wanhua Chemical (Beijing) Co., Ltd. (“Wanhua Beijing”) (Note 2)	15%
Wanhua Chemical (Foshan) Rongwei Polyurethane Co., Ltd. (“Foshan Rongwei”)	25%
Shanghai Wanhua Industrial Development Co., Ltd.	25%
Yantai Wanhua Chemical Design Institute	25%
Wanhua Chemical (Ningbo) Trading Co., Ltd. (“Ningbo Trading”)	25%
Wanhua Chemical (Yantai) Trade Co., Ltd. (“Yantai Trade”)	25%
Wanhua Chemical (Ningbo) Rongwei Polyurethane Co., Ltd. (“Ningbo Rongwei”) (Note 3)	15%
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd. (“Ningbo Chlor-alkali”)	25%
Wanhua Chemical (Yantai) Chlor-alkali Thermal Power Co., Ltd. (“Yantai Chlor-alkali”)	25%
Wanhua Chemical (Guangdong) Co., Ltd. (“Wanhua Guangdong”)	25%
Wanhua Chemical (HongKong) Co., Limited. (“Wanhua HongKong”)	16.5%
Wanhua Chemical Netherlands B.V.	Note 4
Wanhua Chemical (Japan) Co., Ltd.	Note 5
Wanhua Chemical (America) Co., Ltd.	Note 6
Wanhua Chemical US Holding Inc.	Note 6
Wanhua America innovation technology Co., Ltd.	Note 6
Wanhua International (India) Private Limited.	32.445%
Wanhua Chemical (Yantai) Selling Co., Ltd. (“Yantai Selling”)	25%
Wanhua Chemical (Yantai) Rongwei Polyurethane Co., Ltd. (“Yantai Rongwei”)	25%
Xiebei Thermal Power	25%
Shanghai Wanhua Kejv Chemical Technology Development Co., Ltd. (“Shanghai Kejv”)	25%
Wanhua Chemical (Singapore) Co., Ltd. (“Wanhua Singapore”)	17%
Wanhua Shipping (Singapore) Co., Ltd. (“Singapore Shipping”)	17%
Wanhua Chemical International Holding Co., Ltd. (“BVI”)	Note 7
Wanhua Chemical (Yantai) Petrochemical Co., Ltd.	25%
Wanhua Chemical US Real Estate LLC	Note 6
Wanhua chemical (Hungary) Holding Co., Ltd.	Note 8
Zhuhai Wanhua Real Estate Development Co., Ltd.	25%
Ningbo XinDa Mingzhou Trading Co., Ltd.	25%

**(IV) TAXES - continued**

**1、 Major categories of taxes and tax rates - continued**

Note 1: According to Lu Ke Han Zi [2014] No. 136 – "About the public in 2014 in Shandong province high and new technology enterprises notification", issued by Department of Science and Technology of Shandong Province, Department of Finance of Shandong Province, State Administration of Taxation of Shandong Province and Local Taxation Bureau of Shandong Province, the Company qualifies for high and new technology enterprise(Certificate No. GR201437000035) with effective period of three years, and has been subject to the favorable enterprise income tax rate from 1 January 2014 to 31 December 2016. (2014 Income tax rates: 15%)

Note 2: According to Jing Ke Fa [2014] No.551 – "About the public of the list of the high and new technology enterprises in Beijing of 2014", issued by Department of Science and Technology of Beijing, Department of Finance of Beijing, State Administration of Taxation of Beijing and Local Taxation Bureau of Beijing, the subsidiary of the Company, Wanhua Beijing qualifies for the high and new technology enterprise (Certificate No.: GR201411000762) with effective period of three years, and has been subject to the favorable enterprise income tax rate from 1 January 2014 to 31 December 2016. (2014 Income tax rates: 15%)

Note 3: According to Yong Gao Qi Ren Ban[2013] No. 7 – "The Announcement of High and New Technology Enterprises Designation Review list of Year 2013", issued by Department of Science and Technology of Ningbo, Department of Finance of Ningbo, State Administration of Taxation of Ningbo and Local Taxation Bureau of Ningbo, the subsidiary of the Company, Ningbo Rongwei qualifies for the high and new technology enterprise (Certificate No.: GR201333100179) with effective period of three years, and has been subject to the favorable enterprise income tax rate from 1 January 2013 to 31 December 2015. . (2014 Income tax rates: 15%)

Note 4: According to local tax laws in Netherland, the progressive tax rate is applicable with tax rate from 20% to 25%.

Note 5: According to local tax laws in Japan, the enterprise income rate is lowered from 30% to 25.5% starting from 1 April 2013 and fiscal years thereafter.

Note 6: According to local tax laws in the United States, the progressive tax rate is applicable with tax rate from 15% to 39%.

Note 7: According to local tax laws in the British Virgin Islands, the progressive tax rate is 0%.

Note 8: According to local tax laws in Hungary, the progressive tax rate is applicable with tax rate from 10% to 19%.

## (V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

## 1、Cash and bank balances

RMB

Item	Closing balance			Opening balance		
	Foreign currency	-	Amount in RMB	Foreign currency	Exchange rate	Amount in RMB
Cash:	-	-	230,778.84	-	-	126,154.79
RMB	-	-	227,128.49	-	-	116,187.69
USD	1.00	6.4800	6.48	1.00	6.1190	6.12
SGD	1.00	4.5801	4.59	-	-	-
INR	37,075.00	0.0982	3,639.28	101,297.45	0.0983	9,960.98
Bank:	-	-	2,062,043,692.27	-	-	994,484,170.88
RMB	-	-	1,777,582,572.14	-	-	849,647,176.78
USD	37,174,407.21	6.4800	241,035,362.54	21,024,863.89	6.1190	128,651,139.21
JPY	360,441,838.00	0.0538	19,458,790.70	150,770,449.92	0.0514	7,745,228.78
EUR	1,178,065.82	7.0701	8,321,521.00	898,438.42	7.4556	6,698,397.50
INR	28,089,356.23	0.0982	2,757,251.21	16,609,017.96	0.0983	1,633,231.17
RUB	9,167,655.55	0.0875	802,169.86	87,139.33	0.1105	9,628.90
SGD	1,788.47	4.5801	8,204.61	10,199.75	4.6396	47,323.82
KRW	2,185,804,832.00	0.0055	12,060,422.76	9,198,431.00	0.0057	52,044.72
HKD	1,033.71	0.8361	865.99	-	-	-
AED	9,353.02	1.7675	16,531.46	-	-	-
Other currency funds:	-	-	4,087,291.86	-	-	30,064,106.44
RMB	-	-	4,087,291.86	-	-	21,619,780.97
USD	-	-	-	1,379,979.22	6.1190	8,444,325.47
<b>Total</b>	-	-	<b>2,066,361,762.97</b>	-	-	<b>1,024,674,432.11</b>

As at 31 December 2015, bank deposit used for pledge to issue bank acceptance bill monetary funds reaches RMB 4,070,000.00 (31 December 2014: RMB 21,600,000.00). And there is no other monetary fund deposit (31 December 2014: RMB 8,444,325.47)

As at 31 December 2015, money to deposit in overseas totals equivalent RMB 99,650,199.26 (31 December 2014: equivalent RMB 54,083,761.55).

## 2、Financial assets at fair value through profit or loss

RMB

Item	Fair value at 31 December 2015	Fair value at 31 December 2014
Held-for-trading financial assets	-	7,560,805.90
Including: Derivative financial assets	-	7,560,805.90

## 3、Notes receivable

## (1) Categories of notes receivable

RMB

Categories	Closing balance	Opening balance
Bank acceptances	1,224,034,501.14	2,194,628,963.79
Commercial acceptances	-	153,017,363.46
<b>Total</b>	<b>1,224,034,501.14</b>	<b>2,347,646,327.25</b>



(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

3、Notes receivable - continued

(2) Notes receivables have been pledged as security at the end of the period.

RMB

Item	The end has pledged amount
Bank acceptance	41,149,531.35
Commercial acceptance	-
<b>Total</b>	<b>41,149,531.35</b>

Note: Notes receivables were pledged to open letters of credit and to issue bank acceptance.

(3) Undue discounted bills and undue endorsed bills

RMB

Item	Amount of derecognised at the end of the period	Amount of non-derecognized at the end of the period
Bank acceptance	4,514,460,581.47	-
Commercial acceptance	-	-
<b>Total</b>	<b>4,514,460,581.47</b>	<b>-</b>

(4) At the opening and closing of the year, no notes receivables were reclassified to accounts receivable due to the drawers' inability to settle the notes on maturity.

4、Accounts receivable

(1) Categories of accounts receivable

RMB

Category	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Book Value	Carrying amount		Bad debt provision		Book Value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Account receivable that are individually significant and for which bad debt provision has been assessed individually	538,998,596.14	39.25	68,083,944.68	12.63	470,914,651.46	506,033,701.49	33.37	58,753,901.64	11.61	447,279,799.85
Accounts receivable domestic clients	365,374,363.20	26.61	20,815,278.70	5.70	344,559,084.50	370,280,634.20	24.41	20,252,666.39	5.47	350,027,967.81
Accounts receivable overseas clients	468,702,953.32	34.14	70,298,673.16	15.00	398,404,280.16	640,319,711.34	42.22	96,047,956.65	15.00	544,271,754.69
Sub total	834,077,316.52	60.75	91,113,951.86	10.92	742,963,364.66	1,010,600,345.54	66.63	116,300,623.04	11.51	894,299,722.50
<b>Total</b>	<b>1,373,075,912.66</b>	<b>100.00</b>	<b>159,197,896.54</b>	<b>11.59</b>	<b>1,213,878,016.12</b>	<b>1,516,634,047.03</b>	<b>100.00</b>	<b>175,054,524.68</b>	<b>11.54</b>	<b>1,341,579,522.35</b>

Explanation of each category of accounts receivable:

The Group determines that accounts receivable which exceed RMB 8,000,000.00 as individually significant accounts receivable.

## (V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

## 4、Accounts receivable - continued

## (1) Categories of account receivable - continued

Accounts receivable that are individually significant at 31 December 2015:

RMB

Content of accounts receivable	Closing balance			Reasons of provision
	Accounts receivable	Bad debt provision	Proportion of provision (%)	
Company 1	74,643,932.00	11,196,589.80	15	Using the percentage of total receivables outstanding
Company 2	40,197,728.18	2,009,886.41	5	Using aging analysis
Company 3	33,322,174.50	1,666,108.73	5	Using aging analysis
Company 4	23,280,630.20	1,164,031.51	5	Using aging analysis
Company 5	22,090,106.60	3,313,515.96	15	Using the percentage of total receivables outstanding
Others	345,464,024.66	48,733,812.27	14.11	Using aging analysis Using the percentage of total receivables outstanding
<b>Total</b>	<b>538,998,596.14</b>	<b>68,083,944.68</b>		

Note: The Group assessed the bad debt provision of accounts receivable which are individually significant separately. At 31 December 2015, RMB 14,331,169.00 of bad debt provision is accrued for accounts receivable that are individually significant (at 31 December 2014: RMB 14,331,169.00). By reference to the Note III.12, receivables for which bad debt provision is collectively assessed on a portfolio basis, as at 31 December 2015, an amount of RMB 53,752,775.68 is accrued as bad debt provision (at 31 December 2014: RMB 44,422,732.64).

The aging analysis of bad debt provision in portfolio basis:

RMB

Aging	Closing balance		
	Account Balance	Bad debt provision	Proportion of provision (%)
Within 1 year (inclusive)	351,689,891.68	17,548,386.95	5
More than 1 year but not exceeding 2 years	8,078,576.50	807,857.65	10
More than 2 years but not exceeding 3 years	2,170,191.03	651,057.31	30
More than 3 years but not exceeding 4 years	3,255,454.40	1,627,727.20	50
More than 4 years but not exceeding 5 years	71,927.22	71,927.22	100
More than 5 years	108,322.37	108,322.37	100
<b>Total</b>	<b>365,374,363.20</b>	<b>20,815,278.70</b>	

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

4、Accounts receivable - continued

(1) Categories of accounts receivable - continued

The aging analysis of bad debt provision in portfolio basis:

RMB

Aging	Opening balance		
	Account Balance	Bad debt provision	Proportion of provision (%)
Within 1 year (inclusive)	363,580,577.39	18,757,238.90	5
More than 1 year but not exceeding 2 years	3,130,278.04	313,027.80	10
More than 2 years but not exceeding 3 years	3,283,254.40	984,976.32	30
More than 3 years but not exceeding 4 years	178,202.00	89,101.00	50
More than 4 years but not exceeding 5 years	99,761.11	99,761.11	100
More than 5 years	8,561.26	8,561.26	100
<b>Total</b>	<b>370,280,634.20</b>	<b>20,252,666.39</b>	

Accounts receivables portfolios for which bad debt provision have been assessed using the percentage of total receivables outstanding approach:

RMB

Name of portfolio	Closing balance		
	Account Receivable	Bad debt provision	Proportion of provision (%)
Accounts receivable due from overseas customers	468,702,953.32	70,298,673.16	15

RMB

Name of portfolio	Opening balance		
	Account Receivable	Bad debt provision	Proportion of provision (%)
Accounts receivable due from overseas customers	640,319,711.34	96,047,956.65	15

Name of portfolio	
Accounts receivable due from domestic clients	The Group classifies the receivables that are not individually significant and those that are individually significant but are not impaired individually into groups of financial assets according to the similarity and relevance of credit risk characteristics. These credit risks usually reflect the debtors' ability to pay the amounts due at maturity under contractual terms of related assets and are related to the estimation of future cash flows of the assets subject to assessment. This portfolio represents receivables due from domestic customers (excluding related parties).
Accounts receivable due from overseas clients	The Group classifies the receivables that are not individually significant and those that are individually significant but are not impaired individually into groups of financial assets according to the similarity and relevance of credit risk characteristics. These credit risks usually reflect the debtors' ability to pay the amounts due at maturity under contractual terms of related assets and are related to the estimation of future cash flows of the assets subject to assessment. This portfolio represents receivables due from foreign customers. (excluding related parties).

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

4、Accounts receivable - continued

(2) Bad debt provision\reversals and collections during the current period

For the year, the Company recorded a bad debt allowance of RMB 14,638,362.17; Reversed and reduced bad debt allowance of RMB 27,493,034.27.

(3) Accounts receivable write-off

		RMB
Item	Write-off amount	
accounts receivable Write-off		3,001,956.04

(4) Top five customers with the largest balances

For period ended 31 December, 2015, the largest five debtors hold the account receivable balance of RMB 193,534,571.48, which accounts for 14.09% of total amount receivable balance. The bad debt provision is RMB 19,350,132.41.

(5) There are no accounts receivables that have been derecognized in the current period; no accounts receivables should be derecognized due to transfer of financial assets; no transfer of accounts receivable is involved in the amount of assets and liabilities

5、Prepayments

(1) Aging analysis of prepayments is as follows:

		RMB			
Aging	Closing balance		Opening balance		
	Amount	Proportion (%)	Amount	Proportion (%)	
Within 1 year	360,807,597.00	97.25	323,656,896.42	93.05	
More than 1 year but not exceeding 2 years	9,342,760.71	2.52	2,189,056.23	0.63	
More than 2 years but not exceeding 3 years	545,180.41	0.15	5,588,044.40	1.60	
More than 3 years	295,143.63	0.08	16,413,270.68	4.72	
<b>Total</b>	<b>370,990,681.75</b>	<b>100.00</b>	<b>347,847,267.73</b>	<b>100.00</b>	

(2) Top five advanced payment to suppliers:

As of December 31, 2015, top five balances of advanced payment to suppliers amounted to RMB 173,366,387.62, accounting for 46.73% of total advanced payment to suppliers.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

6、Other receivables

(1) Disclosure of other receivables by categories:

RMB

Categories	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Book Value	Carrying amount		Bad debt provision		Book Value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	125,931,611.38	88.59	-	-	125,931,611.38	116,464,483.55	90.66	-	-	116,464,483.55
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	16,223,277.11	11.41	-	-	16,223,277.11	11,997,423.48	9.34	-	-	11,997,423.48
<b>Total</b>	<b>142,154,888.49</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>142,154,888.49</b>	<b>128,461,907.03</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>128,461,907.03</b>

Explanations of categories of other receivables:

The Group determines that other receivable of more than RMB 8,000,000.00 is considered as individually significant other receivable.

(2) According to the payment properties listed in other receivables

RMB

Payment properties	Closing balance	Opening balance
Export tax refund	60,206,557.65	116,464,483.55
Petty cash	2,163,160.43	4,860,970.91
Deposit	76,367,232.16	301,016.12
Others	3,417,938.25	6,835,436.45
<b>Total</b>	<b>142,154,888.49</b>	<b>128,461,907.03</b>

The aging analysis of bad debt provision in portfolio basis:

RMB

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Book Value	Amount	Proportion (%)	Bad debt provision	Book Value
Within 1 year	139,512,659.72	98.13	-	139,512,659.72	125,512,884.37	97.70	-	125,512,884.37
More than 1 year but not exceeding 2 years	1,870,252.89	1.32	-	1,870,252.89	2,170,280.02	1.69	-	2,170,280.02
More than 2 years but not exceeding 3 years	237,980.08	0.17	-	237,980.08	49,447.00	0.04	-	49,447.00
More than 3 years	533,995.80	0.38	-	533,995.80	729,295.64	0.57	-	729,295.64
<b>Total</b>	<b>142,154,888.49</b>	<b>100.00</b>	<b>-</b>	<b>142,154,888.49</b>	<b>128,461,907.03</b>	<b>100.00</b>	<b>-</b>	<b>128,461,907.03</b>

(3) There are no reversals or collection\ write-off of other receivables in the current period.

(4) Top five other receivables:

As of December 31, 2015, top five balances of other receivables amounted to RMB 134,699,448.41, accounting for 94.76% of total other receivables, no bad debt provision is made for other receivables.

(5) There are no other receivables transfer of financial assets that have been derecognized in the current period.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

7、Inventories

(1) Categories of inventories

RMB

Items	Closing balance			Opening balance		
	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount
Raw materials	1,178,305,064.47	-	1,178,305,064.47	1,350,915,087.88	266,334.81	1,350,648,753.07
Work in-progress	1,055,919,421.38	1,096,825.01	1,054,822,596.37	665,367,685.09	2,565,812.34	662,801,872.75
Finished goods	1,964,129,911.92	3,404,509.82	1,960,725,402.10	996,714,420.56	172,517.80	996,541,902.76
<b>Total</b>	<b>4,198,354,397.77</b>	<b>4,501,334.83</b>	<b>4,193,853,062.94</b>	<b>3,012,997,193.53</b>	<b>3,004,664.95</b>	<b>3,009,992,528.58</b>

(2) Provision for decline in value of inventories

RMB

Items	Opening carrying amount	Increase in the current period		Decrease in the current period		Closing carrying amount
		Accrual	Other	Reversals	Write-off	
Raw material	266,334.81	-	-	266,334.81	-	-
Work-in-progress	2,565,812.34	1,096,825.01	-	2,565,812.34	-	1,096,825.01
Finished goods	172,517.80	3,404,509.82	-	172,517.80	-	3,404,509.82
<b>Total</b>	<b>3,004,664.95</b>	<b>4,501,334.83</b>	<b>-</b>	<b>3,004,664.95</b>	<b>-</b>	<b>4,501,334.83</b>

(3) No inventory was used as a pledge at 31 December 2015, and no interest expense was capitalized in the closing balance of inventory as at 31 December 2015.

8、Other current assets

RMB

Item	Closing balance	Opening balance
Deductible VAT	1,791,422,177.73	1,526,871,353.22
Advance payment of income tax	23,891,941.58	21,895,168.19
Prepayment of other taxes	-	1,300.00
<b>Total</b>	<b>1,815,314,119.31</b>	<b>1,548,767,821.41</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

9、 Available-for-sale-financial assets

(1) Available-for-sale financial assets

RMB

Items	Closing balance			Opening balance		
	Carrying amount	Provision for impairment losses	Book Value	Carrying amount	Provision for impairment losses	Book Value
Available-for-sale equity instruments	-	-	-	-	-	-
Cost	20,000,000.00	-	20,000,000.00	20,000,000.00	-	20,000,000.00
<b>Total</b>	<b>20,000,000.00</b>	<b>-</b>	<b>20,000,000.00</b>	<b>20,000,000.00</b>	<b>-</b>	<b>20,000,000.00</b>

(2) Description of available-for-sale financial assets:

RMB

Name of investee	Carrying amount				Provision for impairment losses				Proportion of ownership interest in the investee (%)	Net profit for the period
	Opening balance	Increase in the current year	Decrease in the current year	Closing balance	Opening balance	Increase in the current year	Decrease in the current year	Closing balance		
Hongta Innovation Investment Co., Ltd.	20,000,000.00	-	-	20,000,000.00	-	-	-	-	5	6,000,000.00

10、 Long-term receivables

(1) Details of Long-term receivables:

RMB

Items	Closing balance			Opening balance		
	Carrying amount	Provision for impairment losses	Book Value	Carrying amount	Provision for impairment losses	Book Value
Staff housing loans (Note)	247,862,406.51	-	247,862,406.51	192,005,040.63	-	192,005,040.63
Others	-	-	-	2,400,000.00	-	2,400,000.00
<b>Total</b>	<b>247,862,406.51</b>	<b>-</b>	<b>247,862,406.51</b>	<b>194,405,040.63</b>	<b>-</b>	<b>194,405,040.63</b>

Note: According to <The Measures of Staff Housing Loans of Wanhua Chemical Group Co., Ltd.>, each employee is granted a housing loan of RMB 100,000 with maturity of five years if certain conditions are met; interest is calculated at the bank loan rate of interest over the same period. The Company is responsible for the interests and withholding individual income tax for the staff.

(2) There are no securitization of assets that have been derecognized in the current period.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

11、Investments in joint ventures and associates

RMB

Name of investee	Opening balance	Movement in current year								Closing balance	Impairment of the balance
		Increase	Decrease	Investment income recognized under equity method	Other comprehensive income	Other equity changes	Dividends declared	Provision for impairment losses	Others		
I. Joint ventures											
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	55,046,235.08	100,000,000.00	-	239,626.77	-	-	-	-	-	155,285,861.85	-
II. Associates											
Linde Gas (Yantai) Co., Ltd. (Note)	33,693,810.50	-	-	(2,852,111.97)	-	502.77	-	-	-	30,842,201.30	-
<b>Total</b>	<b>88,740,045.58</b>	<b>100,000,000.00</b>	<b>-</b>	<b>(2,612,485.20)</b>	<b>-</b>	<b>502.77</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>186,128,063.15</b>	<b>-</b>

Note: Linde Gas (Yantai) Co., Ltd. is a company co-founded by the Company and Linde Gas (Hong Kong) Co., Ltd.; the Company holds 10% of equity interest. According to the Articles of the Company, the Board of Directors consists of five directors, one of which is appointed by the Company, therefore the Company can exert significant influence over the operating policy decisions and thus equity method is adopted.



(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

12、Fixed assets

(1) Fixed assets

RMB

Items	Building	Machinery and equipment	Transportation vehicles	Electronic equipment, appliances and furniture	Total
<b>I. Original carrying amount:</b>					
1. Opening carrying amount	2,347,572,341.06	16,475,494,292.34	114,388,616.57	206,182,564.00	19,143,637,813.97
2. Increase in the current period	870,410,328.74	5,539,671,345.07	11,582,405.04	40,358,295.43	6,462,022,374.28
(1) Acquisitions	18,790,395.05	68,860,893.11	11,165,086.18	36,024,330.10	134,840,704.44
(2) Construction in progress	851,619,933.69	5,470,810,451.96	417,318.86	4,333,965.33	6,327,181,669.84
3. Decrease in the current period	19,564,588.79	184,635,452.55	1,316,217.31	1,952,878.60	207,469,137.25
(1) Disposals	19,564,588.79	184,635,452.55	1,316,217.31	1,952,878.60	207,469,137.25
4. Closing carrying amount	3,198,418,081.01	21,830,530,184.86	124,654,804.30	244,587,980.83	25,398,191,051.00
<b>II. Accumulated depreciation</b>					
1. Opening carrying amount	435,605,965.02	3,347,930,805.38	37,251,598.76	103,424,133.96	3,924,212,503.12
2. Increase in the current year	89,751,598.49	1,359,210,787.98	8,899,642.29	30,737,675.69	1,488,599,704.45
(1) Accrual	89,751,598.49	1,359,210,787.98	8,899,642.29	30,737,675.69	1,488,599,704.45
3. Decrease in the current year	9,912,388.47	73,240,419.92	679,298.96	1,800,310.93	85,632,418.28
(1) Disposal	9,912,388.47	73,240,419.92	679,298.96	1,800,310.93	85,632,418.28
4. Closing carrying amount	515,445,175.04	4,633,901,173.44	45,471,942.09	132,361,498.72	5,327,179,789.29
<b>III. Provision for impairment losses</b>					
1. Opening carrying amount	24,207,249.24	511,969.80	-	-	24,719,219.04
2. Increase in the current year	-	-	-	-	-
(1) Accrual	-	-	-	-	-
3. Decrease in the current year	-	-	-	-	-
(1) Disposal	-	-	-	-	-
4. Closing carrying amount	24,207,249.24	511,969.80	-	-	24,719,219.04
<b>IV. Book Value</b>					
1. Closing balance	2,658,765,656.73	17,196,117,041.62	79,182,862.21	112,226,482.11	20,046,292,042.67
2. Opening balance	1,887,759,126.80	13,127,051,517.16	77,137,017.81	102,758,430.04	15,194,706,091.81

(2) Temporary idle fixed assets

As at 31 December 2015 and at 31 December 2014, the total carrying amount of temporarily idle fixed assets is Nil.

(3) Fixed assets of which certificate of title have not been obtained

RMB

Item	Carrying amount	Reasons why certificates of title have not been obtained
Building	1,263,998,802.45	On the process

Description of fixed assets:

As at 31 December 2015, the mortgage building, machinery and equipment, electronic equipment, appliances and furniture which have been used as pledges, amounted to RMB 311,321,987.65 (2014: RMB 274,492,289.08), RMB 10,136,919,740.63 (2014: RMB 7,132,951,863.86) and RMB of 0.00 (2014: 623,302.12), respectively. For details, please refer to Note (V) 19, (V) 28 and (V) 29.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

13、Construction in progress

(1) Details of construction in progress are as follows:

RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision for impairment losses	Net carrying amount	Carrying amount	Provision for impairment losses	Net carrying amount
Wanhua Yantai Industrial park Project	11,034,683,206.66	-	11,034,683,206.66	10,528,676,168.35	-	10,528,676,168.35
Expansion project of Wanhua Ningbo Thermolectricity project - phase III	310,760,571.08	-	310,760,571.08	36,962,301.38	-	36,962,301.38
Zhuhai special polyurethane project - phase I	246,127,598.33	-	246,127,598.33	51,708,715.43	-	51,708,715.43
Wanhua Ningbo Port Coal yard transformation project	143,523,522.94	-	143,523,522.94	37,986,092.19	-	37,986,092.19
Center project of Shanghai Wanhua Company	112,374,364.25	-	112,374,364.25	667,339.22	-	667,339.22
Polyether project of Yantai Rongwei Company	96,297,689.58	-	96,297,689.58	-	-	-
Technological transformation of Wanhua Ningbo of 2015	93,158,670.72	-	93,158,670.72	-	-	-
Technological transformation of Wanhua Ningbo HDI project	66,936,689.68	-	66,936,689.68	86,529,688.24	-	86,529,688.24
Wanhua Ningbo water-borne project	46,744,700.67	-	46,744,700.67	-	-	-
Wanhua Chemical IP pilot scale project	40,691,352.79	-	40,691,352.79	31,485,543.57	-	31,485,543.57
Chlor-alkali project of Yantai Chlor-alkali and Thermal Power Company - phase I& II	23,445,327.72	-	23,445,327.72	73,722,288.70	-	73,722,288.70
Reorganization and expansion of Wanhua Chemical marketing department and surface material business department	8,565,517.42	-	8,565,517.42	43,741,441.51	-	43,741,441.51
Thermoelectrical project of Yantai Chlor-alkali and Thermal Power Company	6,972,003.13	-	6,972,003.13	188,085,625.15	-	188,085,625.15
Capacity expansion of auxiliary project of Wanhua Ningbo project - phase II	-	-	-	198,425,608.12	-	198,425,608.12
Technological transformation of Wanhua Ningbo of 2014	-	-	-	105,199,555.52	-	105,199,555.52
Other	178,901,291.31	-	178,901,291.31	341,761,780.71	-	341,761,780.71
<b>Total</b>	<b>12,409,182,506.28</b>	<b>-</b>	<b>12,409,182,506.28</b>	<b>11,724,952,148.09</b>	<b>-</b>	<b>11,724,952,148.09</b>

As at 31 December 2015, the construction in progress of Wanhua Yantai industrial park project, amounting to RMB 6,113,253,680.22, has been used as collateral to obtain bank loan (31 December 2014, a carrying amount of RMB 6,836,173,634.04), for details please refer to Note (V) 29.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

13、Construction in progress — continued

(2) Changes in significant construction in progress

The Company decides that construction in progress of more than RMB 20,000,000.00 is considered as significant construction in progress as follows:

RMB

Name of Items	Budget amount	Opening balance	Increase in the current period	Transfer to fixed assets	Transfer to intangible assets	Other Decreases	Closing balance	Amount injected as a proportion of budget amount (%)	Construction progress	Amount of accumulated capitalized financial expenses	Including: capitalized financial expenses for the period	Interest capitalization rate for the period (%)	Source of funds
Wanhua Yantai Industrial park Project	28,000,000.00	10,528,676,168.35	5,987,239,339.40	4,995,171,128.62	422,898,645.11	63,162,527.36 (note)	11,034,683,206.66	78.14	78.14	1,259,550,630.93	546,421,817.67	4.84	Cash from operation and loans
Expansion project of Wanhua Ningbo Thermoelectricity project - phase III	730,180,000.00	36,962,301.38	273,798,269.70	-	-	-	310,760,571.08	42.56	42.56	4,691,114.41	4,691,114.41	4.80	Cash from operation and loans
Zhuhai special polyurethane project – phase I	520,000,000.00	51,708,715.43	194,418,882.90	-	-	-	246,127,598.33	47.33	47.33	-	-	-	Cash from operation
Wanhua Ningbo Port Coal yard transformation project	440,000,000.00	37,986,092.19	105,537,430.75	-	-	-	143,523,522.94	32.62	32.62	474,806.83	-	-	Cash from operation and loans
Center project of Shanghai Wanhua Company	610,000,000.00	667,339.22	111,707,025.03	-	-	-	112,374,364.25	18.42	18.42	-	-	-	Cash from operation
Polyether project of Yantai Rongwei Company	150,000,000.00	-	96,297,689.58	-	-	-	96,297,689.58	64.20	64.20	1,030,712.65	1,030,712.65	4.39	Cash from operation and loans
Technological transformation of Wanhua Ningbo of 2015	200,000,000.00	-	93,158,670.72	-	-	-	93,158,670.72	46.58	46.58	-	-	-	Cash from operation
Technological transformation of Wanhua Ningbo HDI project	190,000,000.00	86,529,688.24	75,280,499.51	94,873,498.07	-	-	66,936,689.68	97.88	97.88	1,191,597.87	-	-	Cash from operation and loans
Wanhua Ningbo water-borne project	195,000,000.00	-	46,744,700.67	-	-	-	46,744,700.67	98.96	98.96	-	-	-	Cash from operation
Wanhua Chemical IP pilot scale project	45,379,000.00	31,485,543.57	9,205,809.22	-	-	-	40,691,352.79	89.67	89.67	-	-	-	Cash from operation
Chlor-alkali project of Yantai Chlor-alkali and Thermal Power Company - phase I& II	1,297,363,000.00	73,722,288.70	112,962,372.04	163,239,333.02	-	-	23,445,327.72	75.48	75.48	30,537,802.03	2,554,187.48	5.45	Cash from operation and loans

WANHUA CHEMICAL GROUP CO., LTD.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

13、Construction in progress – continued

(2) Changes in significant construction in progress- continued

RMB

Name of Items	Budget amount	Opening balance	Increase in the current period	Transfer to fixed assets	Transfer to intangible assets	Other Decreases	Closing balance	Amount injected as a proportion of budget amount (%)	Construction progress	Amount of accumulated capitalized financial expenses	Including: capitalized financial expenses for the period	Interest capitalization rate for the period (%)	Source of funds
Reorganization and expansion of Wanhua Chemical marketing department and surface material business department	70,000,000.00	43,741,441.51	29,401,017.55	64,576,941.64	-	-	8,565,517.42	100.00	100.00	-	-	-	Cash from operation
Thermoelectrical project of Yantai Chlor-alkali and Thermal Power Company	1,133,060,000.00	188,085,625.15	123,236,530.47	304,350,152.49	-	-	6,972,003.13	89.46	89.46	41,948,373.76	10,780,096.65	5.45	Cash from operation and loans
Capacity expansion of auxiliary project of Wanhua Ningbo project - phase II	402,899,200.00	198,425,608.12	105,782,838.02	304,208,446.14	-	-	-	75.50	75.50	2,135,558.08	-	-	Cash from operation and loans
Technological transformation of Wanhua Ningbo of 2014	300,000,000.00	105,199,555.52	116,851,171.56	222,050,727.08	-	-	-	74.02	74.02	992,883.75	-	-	Cash from operation and loans
Others	-	341,761,780.71	15,850,953.38	178,711,442.78	-	-	178,901,291.31	-	-	1,071,894.88	-	-	-
<b>Total</b>	-	<b>11,724,952,148.09</b>	<b>7,497,473,200.50</b>	<b>6,327,181,669.84</b>	422,898,645.11	63,162,527.36	<b>12,409,182,506.28</b>	-	-	<b>1,343,625,375.19</b>	<b>565,477,928.86</b>	-	-

Note : The decrease of other is the book value of unused Hydrogen chloride oxidation technology license that sold to BorsodChem Zrt. the related party of the Company.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

14、Materials for construction of fixed assets

RMB

Item	Closing balance	Opening balance
Equipment	181,932,999.95	604,407,932.77
Materials	106,985,624.87	1,047,132,668.27
<b>Total</b>	<b>288,918,624.82</b>	<b>1,651,540,601.04</b>

15、Intangible assets

(1) Detail of Intangible assets

RMB

Item	Land use right	Non-patent technology	Software	Others	Total
I. Original carrying amount					
Opening carrying amount	1,448,376,951.27	250,020,743.48	105,439,033.50	-	1,803,836,728.25
Increase in the current period	271,414,876.72	419,109,526.95	13,756,798.45	21,402,800.00	725,684,002.12
(1)Acquisitions	271,414,876.72	-	9,967,680.29	21,402,800.00	302,785,357.01
(2) Transferred from CIP	-	419,109,526.95	3,789,118.16	-	422,898,645.11
Decrease in the current period	-	-	-	-	-
(1)Disposals	-	-	-	-	-
Closing carrying amount	1,719,791,827.99	669,130,270.43	119,195,831.95	21,402,800.00	2,529,520,730.37
II. Accumulated amortization					
Opening carrying amount	110,893,842.84	47,962,621.46	33,335,852.67	-	192,192,316.97
Increase in the current period	38,933,025.40	34,345,966.80	11,798,181.33	250,797.98	85,327,971.51
(1)Accrual	38,933,025.40	34,345,966.80	11,798,181.33	250,797.98	85,327,971.51
Decrease in the current period	-	-	-	-	-
(1)Disposals	-	-	-	-	-
Closing carrying amount	149,826,868.24	82,308,588.26	45,134,034.00	250,797.98	277,520,288.48
III. Provision for impairment losses					
Opening balance	-	-	-	-	-
Increase in the current period	-	-	-	-	-
(1)Accrual	-	-	-	-	-
Decrease in the current period	-	-	-	-	-
(1)Disposals	-	-	-	-	-
Closing balance	-	-	-	-	-
IV. Book Value					
At the end of the book value	1,569,964,959.75	586,821,682.17	74,061,797.95	21,152,002.02	2,252,000,441.89
At the beginning of the book value	1,337,483,108.43	202,058,122.02	72,103,180.83	-	1,611,644,411.28

(2) Description of Intangible assets

A carrying amount of RMB 553,742,689.87 (2014: RMB 540,622,527.82) of land use right and a carrying amount of RMB 580,235,986.48 (2014: RMB 196,079,237.85 ) of non-patented technology has been pledged as collateral for acquiring borrowings, for details refer to Note (V)19, Note (V)28 and (V)29.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

16、 Goodwill

(1) The Original value of the goodwill

RMB

Name of the investee	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Ningbo Chlor-alkali	277,518,585.35	-	-	277,518,585.35
<b>Total</b>	<b>277,518,585.35</b>	<b>-</b>	<b>-</b>	<b>277,518,585.35</b>

(2) Provision for impairment of the goodwill

RMB

Name of the investee	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Ningbo Chlor-alkali	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Company determines the recoverable amount of Ningbo Chlor-Alkali based on the present value of expected future cash flows in five years when conducting impairment test on goodwill at the end of the period. The future cash flow projections are based on the past financial performance, existing production capacity and the estimates of market development by the management of Ningbo Chlor-Alkali and are discounted at discount rate of 13.17%.

17、 Deferred tax assets/deferred tax liabilities

(1) Without offset deferred tax assets and deferred tax liabilities

RMB

Item	Opening balance		Closing balance	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment losses of assets	103,496,769.93	20,689,271.33	118,355,559.24	24,438,414.47
Deductible losses	561,572,633.05	95,494,824.73	372,677,348.14	57,325,969.33
Employee benefits payable	151,927,747.00	27,481,936.75	153,040,527.85	28,255,897.23
Unpaid expenses	480,742,330.06	103,396,103.64	445,690,795.52	100,640,373.99
Unrealized profit from inter-group transactions	191,588,132.37	30,900,173.03	141,121,977.51	22,397,094.19
Deferred revenue	260,740,825.75	44,012,206.32	207,614,284.80	35,786,235.60
Differences in depreciation of fixed assets	5,183,255.28	1,295,813.82	2,806,957.60	701,739.40
Deductible of special equipment	153,309,176.40	22,996,376.46	153,309,176.40	22,996,376.46
<b>Total</b>	<b>1,908,560,869.84</b>	<b>346,266,706.08</b>	<b>1,594,616,627.06</b>	<b>292,542,100.67</b>
Item	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Revaluation of fixed assets and intangible assets of subsidiaries acquired through business combination not involving enterprises under common control	76,366,653.36	19,091,663.34	77,646,595.64	18,650,672.47
Differences in depreciation of fixed assets	49,012,510.31	10,342,585.00	17,945,544.07	3,837,073.38
<b>Total</b>	<b>125,379,163.67</b>	<b>29,434,248.34</b>	<b>95,592,139.71</b>	<b>22,487,745.85</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

17、Deferred tax assets/deferred tax liabilities - continued

(2) Deferred tax assets and deferred tax liabilities that are not presented at the net amount after offset

RMB

Item	The amount of the offset at the end of the reporting period	Balance after the offset at the end of the reporting period	The amount of the offset at the beginning of the reporting period	Balance after the offset at the beginning of the reporting period
Deferred tax assets	8,726,091.02	337,540,615.06	2,979,548.44	289,562,552.21
Deferred tax liabilities	8,726,091.02	20,708,157.32	2,979,548.44	19,508,197.41

(3) Details of unrecognized deferred tax assets:

RMB

Item	Closing balance	Opening balance
Deductible loss (Note 1)	66,185,250.09	56,653,111.88
Provision for impairment losses of assets	36,192,430.48	43,918,215.33
Employee benefits payable	-	102,357.89
<b>Total</b>	<b>102,377,680.57</b>	<b>100,673,685.10</b>

Note : Deductible losses including in Wanhua Singapore and Wanhua Shipping amounted to RMB 17,439,577.33 (2014: RMB 18,770,066.69). Its maturity has no limitation according to the local tax law.

Due to the uncertainty whether there will be sufficient taxable profits in the future of certain subsidiaries, the above deductible temporary differences and deductible losses are not recognized as deferred assets.

(4) Deductible losses, for which no deferred tax assets are recognized, will expire in the following years

RMB

Year	Closing balance	Opening balance
2015	-	633,798.99
2016	2,490,635.33	2,490,635.33
2017	2,917,578.63	10,324,287.23
2018	8,915,211.56	9,555,573.80
2019	12,418,062.38	12,418,062.38
2020	21,925,843.00	2,382,345.60
2021	78,341.86	78,341.86
<b>Total</b>	<b>48,745,672.76</b>	<b>37,883,045.19</b>

18、Other non-current assets

RMB

Item	Closing balance	Opening balance
Prepayment for construction	635,193,600.30	745,275,108.96
Prepayment for land use right	77,193,163.17	3,854,771.18
<b>Total</b>	<b>712,386,763.47</b>	<b>749,129,880.14</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

19、Short-term borrowings

(1) Categories of short-term borrowings:

Item	Closing balance	Opening balance
Secured loans with securities under the custody of lenders	-	92,501,192.75
Guaranteed loans (Note 1)	248,241,400.84	300,000,000.00
Unsecured and non-guaranteed loans	9,369,619,979.75	4,103,942,128.77
Secured loans with securities under the Group's custody (Note 2)	20,000,000.00	-
<b>Total</b>	<b>9,637,861,380.59</b>	<b>4,496,443,321.52</b>

RMB

Note 1: Guaranteed by Wanhua Industrial Group Co., Ltd., refer to Note (X)5(4).

Note 2: For land use right and fixed assets that have been pledged to obtain short-term borrowings, refer to Note (V) 12, 15.

(2) All the short-term borrowings are repaid on time.

20、Financial asset measured at fair value and of which the variation is included in the current profits and losses

Item	Closing balance	Opening balance
Tradable financial liability	-	4,093,972.33
Include: derivative financial liability	-	4,093,972.33

RMB

21、Notes payable

Category	Closing balance	Opening balance
Bank acceptances	2,221,250,502.00	2,044,515,908.77

RMB

No overdue note payable outstanding at the end of year 2014.

22、Accounts payable

(1) Details of accounts payable are as follows:

Item	Closing balance	Opening balance
Accounts payable for raw materials	892,971,829.80	1,074,474,074.79
Accounts payable for construction	2,507,485,277.98	1,540,654,832.54
<b>Total</b>	<b>3,400,457,107.78</b>	<b>2,615,128,907.33</b>

RMB

(2) There is no significant accounts payable aged more than one year.

23、Receipts in advance

(1) Details of receipts in advance are as follows:

Item	Closing balance	Opening balance
Receipts in advance from sale of goods	711,215,589.43	763,746,175.64

RMB

(2) There are no significant receipts in advance aged more than one year.



(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

24、Employee benefits payable

(1) Details of employee benefits payable

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
1. Short-term employee-benefits	224,160,333.95	1,328,332,648.92	1,347,475,808.55	205,017,174.32
2. Post-retirement benefit-defined contribution plan	1,251,292.24	125,996,011.51	126,293,683.11	953,620.64
<b>Total</b>	<b>225,411,626.19</b>	<b>1,454,328,660.43</b>	<b>1,473,769,491.66</b>	<b>205,970,794.96</b>

(2) Details of short-term employee benefit

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
1. Wages or salaries, bonuses, allowances and subsidies	222,483,463.22	1,114,596,978.75	1,132,914,816.29	204,165,625.68
2. Staff welfare	36,454.60	32,295,813.29	32,332,267.89	-
3. Social security contributions	563,015.77	76,684,093.62	76,610,334.79	636,774.60
Including: Medical insurance	523,093.48	58,437,170.68	58,415,659.80	544,604.36
Work injury insurance	(15,412.78)	12,446,121.43	12,383,060.00	47,648.65
Maternity insurance	55,335.07	5,800,801.51	5,811,614.99	44,521.59
4. Housing funds	1,029,758.52	85,633,069.50	86,452,053.98	210,774.04
5. labour union and education fund	47,641.84	19,122,693.76	19,166,335.60	4,000.00
<b>Total</b>	<b>224,160,333.95</b>	<b>1,328,332,648.92</b>	<b>1,347,475,808.55</b>	<b>205,017,174.32</b>

The payroll payable does not include payable in default and nonmonetary benefits. It is expected to be paid in year 2016.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

24、Employee benefits payable - continued

(3) Defined Contribution Plan

Item	RMB			
	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
1. Pension insurance	1,124,653.03	118,003,777.81	118,243,088.69	885,342.15
2. Unemployment insurance	126,639.21	7,992,233.70	8,050,594.42	68,278.49
Total	1,251,292.24	125,996,011.51	126,293,683.11	953,620.64

The Group has set up the pension fund insurance and employment insurance by the government regulation. According to the plan, the Group deposits 18% and 1% of employee's monthly basic salary into the insurance every month. Besides the mentioned expense above, the Group has no longer any further payments. The relevant expenditure will be accounted into Profit and Loss or capitalized.

In this current period, the Group deposited RMB 118,003,777.81 and RMB 7,992,233.70 into pension insurance and unemployment insurance, respectively. (2014: RMB 91,887,892.43 and RMB 6,172,397.10) as at December 31, 2015, the Group has outstanding payments of RMB 885,342.15 and 68,278.49 (2014: RMB 1,124,653.03 and 126,639.21) for pension insurance and unemployment insurance. The relevant subsequent payments will be settled after reporting period.

25、Taxes payable

Item	RMB	
	Closing balance	Opening balance
Value added tax	30,196,307.63	70,877,354.03
Business tax	525,429.15	357,930.24
Enterprise income tax	180,092,325.17	175,622,679.01
Individual income tax	3,648,291.40	3,127,368.84
City construction and maintenance tax	2,050,366.11	5,032,802.96
Others	16,260,100.89	15,523,329.18
Total	<b>232,772,820.35</b>	<b>270,541,464.26</b>

26、Interest payable

Item	RMB	
	Closing balance	Opening balance
Interest payable on short-term borrowings	12,620,663.58	8,866,799.33
Interest payable on long-term borrowings	18,440,003.11	23,461,942.55
Interest payable on medium-term notes	38,996,164.38	39,537,777.78
Interest payable on RMB bond	5,195,342.47	5,125,000.00
Total	<b>75,252,173.54</b>	<b>76,991,519.66</b>

No overdue payment of interest.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

27、 Other payables

(1) Details of other payables are as follows:

RMB

Item	Closing balance	Opening balance
Transportation fees	94,994,784.84	44,926,656.50
Deposit fees	50,841,402.05	57,973,969.81
Current accounts (Note)	50,000,000.00	87,509,755.57
Others	79,861,044.53	34,717,954.04
<b>Total</b>	<b>275,697,231.42</b>	<b>225,128,335.92</b>

Note: refer to Note (IX) 5(5).

(2) There are no significant other payables aging more than one year.

28、 Non-current liabilities due within one year

(1) Details of non-current liabilities due within one year are as follows:

RMB

Item	Closing balance	Opening balance
Long-term borrowings due within one year	2,512,795,314.89	2,511,987,627.27

(2) Long-term borrowings due within one year

(a) Long-term borrowings due within one year

RMB

Item	Closing balance	Opening balance
Unsecured and non-guaranteed loans	1,706,544,726.67	1,656,869,293.94
Guaranteed loans (Note 1)	20,000,000.00	733,333,333.33
Secured loans with securities under the Group's custody (Note 2)	786,250,588.22	121,785,000.00
<b>Total</b>	<b>2,512,795,314.89</b>	<b>2,511,987,627.27</b>

Note 1: Refer to Note (IX)5(4), the guaranteed loans are guaranteed by Wanhua Industrial Group Co., Ltd.

Note 2: The subsidiary pledges its fixed assets and land use right to obtain borrowings, refer to Note (V) 12 and 15.

The above interest rates range from 2.55% to 4.90% per annum in this reporting period.

(b) There are no overdue borrowings of the long-term borrowings within one year.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

29、 Long-term borrowings

(1) Categories of long-term borrowings

Item	Closing balance	Opening balance
Guaranteed loans (Note 1)	2,056,000,000.00	1,166,666,666.67
Secured loans with collateral under the Group's custody (Note 2)	3,108,826,711.78	3,594,993,950.00
Unsecured and non-guaranteed loans	6,275,410,273.33	8,075,855,216.95
<b>Total</b>	<b>11,440,236,985.11</b>	<b>12,837,515,833.62</b>

RMB

Note 1: The guaranteed loans are guaranteed by Wanhua Industrial Group Co., Ltd., for details refer to Note(IX)5(4).

Note 2: Secured loans with collateral under the Group's custody are acquired with fixed assets, construction in progress and land use right as collaterals, for details refer to Note (V) 12, 13 and 15.

The above interest rates range from 1.20% to 4.90% per annum for this reporting period.

30、 Bonds payable

Item	Closing balance	Opening balance
Medium Term Bonds (Note 1)	1,000,000,000.00	1,000,000,000.00
Bond denominated in RMB (Note 2)	980,000,000.00	1,000,000,000.00
<b>Total</b>	<b>1,980,000,000.00</b>	<b>2,000,000,000.00</b>

RMB

Increase and decrease of Bonds payable:

Name of bonds	Par values	Issue date	Term of the bond	Principal	Opening balance	Issue amount in current period	Provision for interest	Discount amortization	Payment in the current year	Closing balance
Medium Term Bonds (Note 1)	1,000,000,000.00	17 April 2012	5 years	1,000,000,000.00	1,000,000,000.00	-	55,058,386.60	-	-	1,000,000,000.00
Bond (Note 2)	1,000,000,000.00	19 November 2014	3 years	1,000,000,000.00	1,000,000,000.00	-	45,166,506.85	-	20,000,000.00	980,000,000.00
<b>Total</b>	<b>2,000,000,000.00</b>			<b>2,000,000,000.00</b>	<b>2,000,000,000.00</b>	<b>-</b>	<b>100,224,893.45</b>	<b>-</b>	<b>20,000,000.00</b>	<b>1,980,000,000.00</b>

RMB

Note1 : In accordance with the<Registration Acceptance Notice> (MTN 37) issued by National Association of Financial Market Institutional Investors on 20 March 2012, the Company was approved to issue medium-term bonds of RMB 1,000,000,000.00 with five-year maturity and a fixed interest rate of 5.56% per annum, the interests should be paid annually.

Note 2: On 19 November 2014, the Company completed issuing of the RMB 1 billion of bonds in Hong Kong. The bond has been listed and traded on the stock exchange of Hong Kong (code: 85703) on 20 November 2014, with maturity of 3 years and the interest rate of 4.5% per annum, interest payments on a semi-annual basis.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

31、 Long-term payables

RMB

Item	Closing balance	Opening balance
For re-lending money from Department of Finance of Yantai	4,058,178.00	5,410,906.00

Increase and decrease of long-term payables:

RMB

Creditor	Period	Principal	Interest rate (% per annum)	Accrued interest	Closing balance	Borrowing terms
Finance Bureau of Yantai	No maturity date	14,880,000.00	3.30	151,783.00	4,058,178.00	Unsecured loans

According to the official documents Lu Jing Mao Tou Zi [2002] No. 592 and Lu Cai Jian Zhi [2002] No. 112 issued by government of Shandong Province, the MDI Project with 80,000 tons annual production is qualified as the special fund for national key technology transformation projects in 2002, thus the local finance bureau granted the loans and the Company pays interests annually.

32、 Deferred income

RMB

Item	Closing balance	Opening balance
Government subsidies	262,906,450.75	206,173,356.00

Details of deferred income:

RMB

Liability item	Opening balance	New grants in the current year	Recognized in non-operating income	Closing balance
Key industries and comprehensive technology transformation projects	100,000,000.00	-	-	100,000,000.00
Environment protection	45,000,000.00	-	-	45,000,000.00
Special fund from Bureau of finance and construction	30,000,000.00	-	-	30,000,000.00
Shandong province special subsidies for innovation	18,000,000.00	-	18,000,000.00	-
Special funds for optimization of industrial structure	-	44,630,000.00	-	44,630,000.00
Subsidized interest for key industry technical transformation project	-	32,730,000.00	-	32,730,000.00
Others	13,173,356.00	10,912,804.03	13,539,709.28	10,546,450.75
<b>Total</b>	<b>206,173,356.00</b>	<b>88,272,804.03</b>	<b>31,539,709.28</b>	<b>262,906,450.75</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

33、Share capital

RMB

	Opening balance	Changes in current years					Closing balance
		New issue	Bonus issue	Capitalization of surplus reserve	Others	Subtotal	
<b>2015:</b>							
I.Tradable shares							
Ordinary shares denominated in RMB	2,162,334,720.00	-	-	-	-	-	2,162,334,720.00
II. Total shares	2,162,334,720.00	-	-	-	-	-	2,162,334,720.00
<b>2014:</b>							
I.Tradable shares							
Ordinary shares denominated in RMB	2,162,334,720.00	-	-	-	-	-	2,162,334,720.00
II.Total shares	2,162,334,720.00	-	-	-	-	-	2,162,334,720.00

Wanhua Industrial Group Co., Ltd., the holding shareholder of the Company, has pledged its 112,600,000 shares to Bank of China, Yantai Branch, 150,000,000 shares to China Development Bank, Hongkong Branch and 155,000,000 shares to Export-Import Bank of China as collateral to acquire bank facilities, which totally accounts for 19.31% of total outstanding shares.

34、Capital reserve

RMB

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
<b>2015:</b>				
Capital premium	28,010,338.91	-	-	28,010,338.91
Other comprehensive income	20,333,716.27	502.77	-	20,334,219.04
<b>Total</b>	<b>48,344,055.18</b>	<b>502.77</b>	<b>-</b>	<b>48,344,557.95</b>
<b>2014:</b>				
Capital premium	28,010,338.91	-	-	28,010,338.91
Other comprehensive income	20,325,596.24	8,120.03	-	20,333,716.27
<b>Total</b>	<b>48,335,935.15</b>	<b>8,120.03</b>	<b>-</b>	<b>48,344,055.18</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

35、 Other comprehensive income

Item	Opening balance	Amount for the current period					Closing balance
		Before income tax amount	Less: transferred to other comprehensive income gains and losses	Less: income tax expense	Attributable to the owner of the Company (after tax)	Attributable to Minority interest (after tax)	
I. Items that will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-
II. Items that may be reclassified subsequently to profit or loss	(12,526,257.43)	16,541,396.93	-	-	16,541,396.93	-	4,015,139.50
Translation differences arising on translation of financial statements denominated in foreign currencies	(12,526,257.43)	16,541,396.93	-	-	16,541,396.93	-	4,015,139.50
Other comprehensive income	<b>(12,526,257.43)</b>	<b>16,541,396.93</b>	-	-	<b>16,541,396.93</b>	-	<b>4,015,139.50</b>

RMB

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

35、 Other comprehensive income - continued

Item	Opening balance	Amount for the prior period					Attributable to Minority interest (after tax)	Closing balance
		Before income tax amount	Less: transferred to other comprehensive income gains and losses	Less: income tax expense	Attributable to the owner of the Company (after tax)			
I. Items that will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-	-
II. Items that may be reclassified subsequently to profit or loss	(22,249,503.78)	(8,559,599.79)	(21,509,230.76)	3,226,384.62	9,723,246.35	-	(12,526,257.43)	
Include: fair value gain/loss on available-for-sale financial assets	(18,282,846.14)	-	(21,509,230.76)	3,226,384.62	18,282,846.14	-	-	
Translation differences arising on translation of financial statements denominated in foreign currencies	(3,966,657.64)	(8,559,599.79)	-	-	(8,559,599.79)	-	(12,526,257.43)	
Other comprehensive income	<b>(22,249,503.78)</b>	<b>(8,559,599.79)</b>	<b>(21,509,230.76)</b>	<b>3,226,384.62</b>	<b>9,723,246.35</b>	-	<b>(12,526,257.43)</b>	

RMB



## (V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

## 36、Special reserve

RMB

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
<b>2015:</b>				
Production safety fee	696,629.53	49,509,572.66	50,206,202.19	-
<b>2014:</b>				
Production safety fee	-	47,514,917.18	46,818,287.65	696,629.53

## 37、Surplus reserves

RMB

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
<b>2015:</b>				
Statutory surplus reserve	1,107,603,692.98	-	-	1,107,603,692.98
Discretionary surplus reserve	471,706,966.13	-	-	471,706,966.13
Total	<b>1,579,310,659.11</b>	-	-	<b>1,579,310,659.11</b>
<b>2014:</b>				
Statutory surplus reserve	1,107,603,692.98	-	-	1,107,603,692.98
Discretionary surplus reserve	471,706,966.13	-	-	471,706,966.13
Total	<b>1,579,310,659.11</b>	-	-	<b>1,579,310,659.11</b>

The statutory surplus reserve is used for increasing the registered share capital, making up losses, or expanding the Company's operations.

## 38、Retained earnings

RMB

Item	Amount	Proportion (%)
<b>2015:</b>		
Before adjustment: Retained earnings at the end of prior year	6,815,924,586.58	-
Add: Net profit attributable to owners of the Company for the period	1,609,743,609.59	-
Less: Appropriation to statutory surplus reserve	-	-
Appropriation to discretionary surplus reserve	-	-
Declaration of dividends on ordinary shares	648,700,416.00	-
Retained earnings at the end of the period	7,776,967,780.17	-
<b>2014:</b>		
Before adjustment: Retained earnings at the end of prior year	5,910,192,504.03	-
Add: Net profit attributable to owners of the Company for the period	2,419,366,386.55	-
Less: Appropriation to statutory surplus reserve	-	-
Appropriation to discretionary surplus reserve	-	-
Declaration of dividends on ordinary shares	1,513,634,304.00	-
Retained earnings at the end of the period	6,815,924,586.58	-

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

**38、 Retained earnings - continued**

(1) Appropriation to statutory surplus reserve

According to the Articles of corporation, the Company is required to transfer 10% of its net profit to the statutory surplus reserve. The transfer may be ceased if the balance of the statutory surplus reserve has reached 50% of the Company's registered capital. The Company appropriates 5% of net income into discretionary surplus reserve. This year, the company decided not to propose discretionary surplus reserve.

(2) Cash dividends and stock dividends approved by shareholders during the year

The Board of Directors proposed and approved, based on 2,162,334,720.00 outstanding shares at the end of Year 2014, a cash dividend of RMB 3.00 (pre-tax) per share for every ten shares with a total amount of RMB 648,700,416.00.

(3) Profit distribution declared after the balance sheet date

The Board of Directors proposed and approved, based on 2,162,334,720.00 outstanding shares at the end of Year 2015, a cash dividend of RMB 2.00 (pre-tax) per share for every ten shares. The proposal has been submitted to the General Shareholders' Meeting for the final approval.

(4) Appropriation to surplus reserve by subsidiaries

As at 31 December 2015, the balance of the Group's unappropriated profits include appropriation to surplus reserve by subsidiaries amounts to RMB 742,708,618.10 (2014: RMB 720,577,184.32).

**39、 Operating income and operating costs**

RMB

Item	Amount incurred in current year		Amount incurred in prior year	
	Revenue	Cost	Revenue	Cost
Principal operation	19,209,280,032.70	13,339,364,927.69	21,985,237,734.83	15,189,027,896.72
Other operation	283,102,856.83	280,600,498.91	103,130,753.91	80,611,839.17
<b>Total</b>	<b>19,492,382,889.53</b>	<b>13,619,965,426.60</b>	<b>22,088,368,488.74</b>	<b>15,269,639,735.89</b>

**40、 Business taxes and levies**

RMB

Item	Amount incurred in current year	Amount incurred in prior year
Business tax	2,720,153.80	2,579,964.07
City construction and maintenance tax	54,078,845.48	60,049,548.81
Education surcharges	38,851,235.35	45,090,279.86
<b>Total</b>	<b>95,650,234.63</b>	<b>107,719,792.74</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

41. Selling expenses

RMB

Item	Amount incurred in the current period	Amount incurred in the prior period
Logistics expenses	614,935,468.84	460,664,787.04
Staff cost	95,100,399.78	88,939,614.25
Sales commission and consulting fees	31,267,339.08	33,722,563.47
Travelling expenses	30,808,218.57	25,905,286.61
Others	75,158,262.68	91,196,055.22
<b>Total</b>	<b>847,269,688.95</b>	<b>700,428,306.59</b>

42. Administrative expenses

RMB

Item	Amount incurred in the current period	Amount incurred in the prior period
Staff cost	433,229,676.12	449,487,216.22
Material consumption	314,276,274.82	334,015,973.09
Depreciations	88,192,756.67	94,804,882.11
Tax fee	104,759,320.47	81,739,399.58
Consulting fee	31,278,995.43	37,328,796.03
Information cost	38,556,614.14	48,977,681.02
Rent and property management fee	35,134,934.55	35,254,021.28
Labour costs	30,674,792.31	24,796,388.61
Water, electricity & gas charges	25,209,812.22	26,223,832.20
Travelling expenses	28,092,651.99	35,272,633.46
Entertainment cost	13,264,680.42	13,238,119.45
Amortization of intangible assets	19,652,472.47	19,010,692.75
Insurance fee	10,509,464.93	6,692,357.10
Others	108,683,197.89	152,050,541.07
<b>Total</b>	<b>1,281,515,644.43</b>	<b>1,358,892,533.97</b>

43. Financial expenses

RMB

Item	Amount incurred in the current period	Amount incurred in the prior period
Interest expenses	1,075,455,285.26	951,072,385.88
Less: Capitalized interest expenses	463,578,813.76	556,291,993.06
Less: Interest income	12,281,019.83	30,384,408.38
Exchange losses	288,777,536.95	31,096,222.16
Less: Capitalized exchange losses	101,899,115.10	3,744,552.15
Others	54,769,113.09	42,570,352.19
Less: Capitalized financial charges	-	-
<b>Total</b>	<b>841,242,986.61</b>	<b>434,318,006.64</b>

44. Impairment losses on assets

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
I. Bad debt allowance/( reversal)	(12,854,672.10)	48,632,053.99
II. Provison for inventories	4,501,334.83	915,007.02
III. Impairment on fixed assets	-	24,719,219.04
<b>Total</b>	<b>(8,353,337.27)</b>	<b>74,266,280.05</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

45、Gains on change of fair value

Nature of gain of change in fair value	RMB	
	Amount incurred in current year	Amount incurred in prior year
Measure in fair value and the change are accounted into financial asset	(7,560,805.90)	7,560,805.90
Measure in fair value and the change are accounted into financial liability	4,093,972.33	(4,093,972.33)
<b>Total</b>	<b>(3,466,833.57)</b>	<b>3,466,833.57</b>

46、Investment loss

(1) Detail of loss on investment

	RMB	
	Amount incurred in current period	Amount incurred in prior period
Loss from long-term equity investments under cost method	(2,612,485.20)	(3,321,122.95)
Investment (losses) income from disposal of derivative financial instruments	-	(1,329,781.66)
Investment income from held-for-sale financial assets	6,000,000.00	3,000,000.00
Gain or loss from disposal	-	393,802.49
<b>Total</b>	<b>3,387,514.80</b>	<b>(1,257,102.12)</b>

47、Non-operating income

(1) Details of non-operating income are as follows:

Item	RMB		
	Amount recognized in the current period	Amount recognized in the prior period	Amount included in non-recurring profit or loss for the period
Total gains on disposal of non-current assets	199,004.38	149,136.43	199,004.38
Including: Gains on disposal of fixed assets	199,004.38	149,136.43	199,004.38
Government grants	292,818,821.21	255,792,104.81	292,818,821.21
Others	9,294,934.07	9,048,994.43	9,294,934.07
<b>Total</b>	<b>302,312,759.66</b>	<b>264,990,235.67</b>	<b>302,312,759.66</b>

(2) Details of government grants

Item	RMB		
	Amount recognized in the current period	Amount recognized in the prior period	Assets related/Income related
Special fund for high and new technology industry development (Note)	177,727,003.14	181,812,900.00	Income related
Special fund for key industries support	71,993,716.85	35,570,000.00	Income related
Special fund for the optimization of industry infrastructure	6,503,500.00	23,985,300.00	Income related
Interest subsidy	3,833,000.00	469,756.37	Income related
Technology development subsidies	1,805,000.00	4,277,500.00	Income related
Subsidy for energy saving	3,921,600.00	6,682,498.44	Income related
Others	27,035,001.22	2,994,150.00	Income related
<b>Total</b>	<b>292,818,821.21</b>	<b>255,792,104.81</b>	

Note: It mainly consists of special fund for high and new technology industry development received by Wanhua Ningbo, subsidiary of the Company, from the Finance Bureau of Ningbo Daxie District.

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

48、 Non-operating expenses

Item	RMB		
	Amount recognized in the current period	Amount recognized in the prior period	Amount included in non-recurring profit or loss for the period
Total losses on disposal of non-current assets	160,219,100.15	223,004,485.63	160,219,100.15
Including: Losses on disposal of fixed assets	160,219,100.15	201,636,429.44	160,219,100.15
Losses on disposal of construction in progress	-	21,368,056.19	-
Donations to third parties	970,100.00	1,682,427.00	970,100.00
Others	1,687,727.41	17,089,533.85	1,687,727.41
<b>Total</b>	<b>162,876,927.56</b>	<b>241,776,446.48</b>	<b>162,876,927.56</b>

49、 Income tax expense

Item	RMB	
	Amount recognized in the current period	Amount recognized in the prior period
Current tax expense calculated according to tax laws and relevant requirements	721,666,073.34	1,097,421,198.45
Adjustments to deferred tax	(46,778,102.94)	(146,440,953.36)
<b>Total</b>	<b>674,887,970.40</b>	<b>950,980,245.09</b>

Reconciliation of income tax expenses to the accounting profit is as follows:

Item	RMB	
	Amount recognized in the current period	Amount recognized in the prior period
Accounting profit	2,954,448,758.91	4,168,527,353.50
Income tax expenses calculated at 15% (prior year: 15%)	443,167,313.84	625,279,103.03
Effect of expenses that are not deductible for tax purposes	3,064,811.48	1,762,170.63
Effect of tax-free income	(2,555,821.79)	(790,572.75)
Effect of unrecognized deductible losses and deductible temporary differences	2,931,524.62	7,690,559.65
Effect of deferred taxes changes from different tax rates	-	(6,782,729.47)
Tax credit from purchase of environment-friendly equipment	(5,924,230.67)	(22,996,376.46)
Effect of using previously unrecognized deductible losses and deductible temporary differences	(2,226,863.23)	(1,673,021.36)
50% deduction of research & development expenses	(47,358,861.36)	(45,604,385.56)
Effect of different tax rates of subsidiaries operating in other jurisdictions	283,407,800.70	395,130,037.90
Others	382,296.81	(1,034,540.52)
<b>Total</b>	<b>674,887,970.40</b>	<b>950,980,245.09</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

50、Notes to items in the cash flow statement

(1) Other cash receipts relating to operating activities

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Government grants	345,739,111.93	306,165,460.81
Others	51,620,279.37	49,682,054.88
<b>Total</b>	<b>397,359,391.30</b>	<b>355,847,515.69</b>

(2) Other cash receipts relating to investing activities

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Deposit of construction project	4,879,455.16	-

(3) Other cash payments relating to operating activities

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Total expenses	1,775,868,688.54	1,454,253,978.08

(4) Other cash payments relating to investing activities

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Fixed assets scrap cleaning costs	38,456,870.00	-
Deposit of construction project	-	3,032,180.90

(5) Other cash payments relating to financing activities

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Financing charges paid	14,966,474.95	12,646,944.81
Deposit	-	30,044,325.47
<b>Total</b>	<b>14,966,474.95</b>	<b>42,691,270.28</b>

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

51、Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

	RMB	
Supplementary information	Current period	Prior period
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
Net profit	2,279,560,788.51	3,217,547,108.41
Add: Provision for impairment losses of assets	(8,353,337.27)	74,266,280.05
Depreciation of fixed assets	1,472,835,738.37	934,105,052.57
Amortization of intangible assets	73,177,887.93	44,525,724.49
Amortization of long-term prepaid expenses	-	10,132,085.16
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are indicated by "—")	160,020,095.77	222,802,522.16
Losses on changes in fair values (gains are indicated by "—")	3,466,833.57	(3,466,833.57)
Financial expenses (income is indicated by "—")	694,307,407.11	598,112,155.33
Losses arising from investments (gains are indicated by "—")	(3,387,514.80)	1,257,102.12
Decrease in deferred tax assets (increase is indicated by "—")	(47,978,062.85)	(143,538,922.99)
Increase in deferred tax liabilities (decrease is indicated by "—")	1,199,959.91	(2,902,030.37)
Decrease in inventories (increase is indicated by "—")	(1,188,361,869.19)	(745,905,658.18)
Decrease in receivables from operating activities (increase is indicated by "—")	1,227,061,982.57	531,164,543.25
Increase in payables from operating activities (decrease is indicated by "—")	(61,156,183.71)	(717,584,265.60)
Net cash flow from operating activities	4,602,393,725.92	4,020,514,862.83
<b>2. Significant investing and financing activities that do not involve cash receipts and payments:</b>		
Conversion of debt into capital	2,507,485,277.98	2,184,861,459.14
<b>3. Net changes in cash and cash equivalents:</b>		
Closing balance of cash	2,062,291,762.97	994,630,106.64
Less: Closing balance of restricted cash	994,630,106.64	988,922,382.29
Net increase in cash and cash equivalents	1,067,661,656.33	5,707,724.35

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

51、Supplementary information to the cash flow statement- continued

(2) Composition of cash and cash equivalents

	RMB	
Item	Closing balance	Opening balance
I. Cash	2,062,291,762.97	994,630,106.64
Including: Cash on hand	230,778.84	126,154.79
Bank deposits	2,062,043,692.27	994,484,170.88
Other monetary funds	17,291.86	19,780.97
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	2,062,291,762.97	994,630,106.64

Cash and cash equivalents exclude restricted cash and cash equivalents of the Company and subsidiaries within the Group. As at December 31, 2015, the restricted cash and cash equivalent amounted to RMB 4,070,000.00 (December 31, 2014: RMB 30,044,325.47)

52、Restricted ownership of asset and right of use

	RMB	
Item	Closing balance of book value	Reasons to be restricted
Cash	4,070,000.00	Granted deposit
Notes receivable	41,149,531.35	Bill pledged
Fixed assets	10,448,241,728.28	Mortgage loan
Intangible assets	1,133,978,676.35	Mortgage loan
Construction in progress	6,113,253,680.22	Mortgage loan
<b>Total</b>	<b>17,740,693,616.20</b>	



(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS – continued

53、 Foreign currency item

Item	Closing balance (O.C)	Rate	Closing balance (RMB)
RMB			
Cash			
include: USD	26,499,420.04	6.4800	171,716,265.84
EUR	1,178,065.82	7.0701	8,321,521.00
JPY	335,222,981.00	0.0538	18,100,124.78
RUB	9,167,655.55	0.0875	802,169.86
KRW	2,185,804,832.00	0.0055	12,060,422.76
HKD	1,033.71	0.8361	865.99
AED	9,353.02	1.7675	16,531.46
Subtotal			211,017,901.69
Accounts receivable			
Include: USD	24,745,273.54	6.4800	160,365,426.55
EUR	10,919,905.42	7.0701	77,078,438.42
KRW	3,073,040,300.00	0.0055	16,955,843.77
Subtotal			254,399,708.74
Other receivables			
Include: EUR	151,513.68	7.0701	1,068,580.39
KRW	59,225,000.00	0.0055	326,780.55
Subtotal			1,395,360.94
Short-term borrowings			
Include: USD	45,000,000.00	6.5060	292,770,000.00
EUR	34,140,000.00	7.1197	243,066,558.00
Subtotal			535,836,558.00
Accounts payable			
Include: USD	3,092,445.36	6.5060	20,119,449.51
EUR	1,941,306.99	7.1197	13,821,523.38
JPY	14,720,000.00	0.0541	796,940.80
Subtotal			34,737,913.69
Interest payables			
Include: USD	1,113,186.86	6.5060	7,242,393.72
EUR	426,361.79	7.1197	3,035,568.04
Subtotal			10,277,961.76
Long-term borrowings due within one year			
Include: USD	78,010,000.00	6.5060	507,533,060.00
Long-term borrowings			
Include: USD	234,040,000.00	6.5060	1,522,664,240.00

Note: Foreign currency project does not include the overseas subsidiaries whereas those overseas subsidiaries use foreign currency as its functional currency monetary

(VI)、 EQUITY IN OTHER ENTITIES

1、 Equity in subsidiaries

(1) Composition of the Group

Name of subsidiary	Main location	Registration location	Operation nature	Proportion (%)		Means of establishment
				Direct	Indirect	
Wanhua Chemical Ningbo Co., Ltd	China	Ningbo	Manufacturing	74.5	-	By setting up
Wanhua Chemical (Ningbo) Port Co., Ltd.	China	Ningbo	Service	55	45	By setting up
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd. (Note 1)	China	Ningbo	Manufacturing	51	-	By setting up
Wanhua Chemical (Beijing) Co., Ltd.	China	Beijing	Manufacturing	100	-	By setting up
Shanghai Wanhua Industrial Development Co., Ltd.	China	Shanghai	Service	100	-	By setting up
Wanhua Chemical (Ningbo) Trading Co., Ltd. (Note 2)	China	Ningbo	Service	-	74.5	By setting up
Wanhua Chemical (Ningbo) Rong Wei Polyurethane Co., Ltd. (Note 3)	China	Ningbo	Manufacturing	-	80	By setting up
Wanhua Chemical (Yantai) Trading Co., Ltd.	China	Yantai	Service	100	-	By setting up
Wanhua Chemical (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Service	100	-	By setting up
Wanhua Chemical Netherlands B.V. (Note 11)	Netherlands	Netherlands	Service	100	-	By setting up
Wanhua Chemical (Japan) Co., Ltd.	Japan	Japan	Service	100	-	By setting up
Wanhua Chemical (America) Co., Ltd.	America	America	Service	100	-	By setting up
Wanhua International (India) Private Limited	India	India	Service	-	100	By setting up
Wanhua Chemical (Yantai) Chlor-Alkali Thermal Power Co., Ltd	China	Yantai	Manufacturing	60	-	By setting up
Wanhua Chemical (Guangdong) Co., Ltd.	China	Zhuhai	Manufacturing	100	-	By setting up
Wanhua Chemical (Foshan) Rongwei Polyurethane Co., Ltd. (Note 4)	China	Foshan	Manufacturing	80	-	Subsidiary acquired not under common control
Yantai Wanhua Chemical Design Institute	China	Yantai	Service	100	-	Subsidiary acquired not under common control
Wanhua Chemical (Ningbo) Chlor-Alkali Co., Ltd.	China	Ningbo	Manufacturing	25.36875	25	Subsidiary acquired not under common control
Wanhua Chemical (Yantai) Sales Co., Ltd. (Note5)	China	Yantai	Service	95	5	By setting up
Wanhua Chemical (Yantai) Rongwei Polyurethane Co., Ltd.	China	Yantai	Manufacturing	80	-	By spinning off
Ningbo Xiebei Thermal Power Co., Ltd. (Note 6)	China	Ningbo	Manufacturing	-	55	By setting up
Shanghai Wanhua Industrial Development Co., Ltd.	China	Shanghai	Service	100	-	Subsidiary acquired not under common control
Wanhua Chemical US Holding Inc.	America	America	Service	-	100	By setting up
Wanhua Chemical (Singapore) Co., Ltd.	Singapore	Singapore	Service	100	-	By setting up
Wanhua Shipping (Singapore) Co., Ltd.	Singapore	Singapore	Service	-	100	By setting up
Wanhua Chemical International Holdings Co., Ltd.	Britain	Virgin Island	Service	-	100	By setting up
Wanhua America Innovation Technology Co., Ltd.	America	America	Service	-	100	By setting up
Wanhua Chemical (Yantai) Petrochemical Co. Ltd. (Note 7)	China	Yantai	Service	100	-	By setting up

(VI)、 EQUITY IN OTHER ENTITIES

1、 Equity in subsidiaries - continued

Composition of the Group - continued

Name of subsidiary	Main location	Registration location	Operation nature	Proportion (%)		Means of acquisition
Wanhua Chemical US Real Estate LLC (Note 8)	America	America	Service	-	100	By setting up
Wanhua chemical (Hungary) Holding Co., Ltd. (Note 8)	Hungary	Hungary	Service	-	100	By setting up
Zhuhai Wanhua Real Estate Development Co., Ltd. (Note 9)	China	Zhuhai	Service	-	100	By setting up
Ningbo XinDa Mingzhou Trading Co. Ltd. (Note 10)	China	Ningbo	Service	-	50.36875	By setting up

Note 1: Newly set up by Wanhua chemical Group, Ningbo Electric Power Development Company and Ningbo Daxie Development Zone Klc Holdings Ltd., the Group holds 51% of its total equity interests.

Note 2: A subsidiary invested by Wanhua Ningbo, who was a wholly owned subsidiary of the Group. The Group holds 74.5% of voting rights over Wanhua Ningbo.

Note 3: It is used to be wholly-owned subsidiary set up by Foshan Rongwei Investment who was held by the Company with capital proportion of 80%. According to the agreement signed between the Company and the minority shareholders of Foshan Rongwei in current period, Foshan Rongwei has divided into Yantai Rongwei and Foshan Rongwei. It is now a wholly-owned subsidiary of Yantai Rongwei after the split-off based on the agreement.

Note 4: According to the agreement signed between the Group and the subsidiary Foshan Rongwei, the Group holds 65% of the total voting rights. Based on the capital injection agreement, the Group promises to distribute the profits to shareholders based on the proportion of the registered capital with the rate of return of 10% disregarding profit or loss Foshan Rongwei made before IPO. When annual gross profit is below RMB 10,000,000, the Group guarantees the shareholders that the return of equity will be RMB 1,977,150, the distribution will be accumulated. While, the annual gross profit is more than RMB 10,000,000, the distribution will based on the capital proportion.

Note 5: Newly set up by the Company and Wanhua Beijing who is the subsidiary of the Company, the Company holds 95% of total equity interests and Wanhua Beijing holds 5% of total equity interests.

Note 6: Xiebei Thermal Power is a joint venture set up by the subsidiary Wanhua Thermal and minority shareholder Union King Holdings Limited. Wanhua Thermal holds 55% of its total share and has paid the remaining capital contribution RMB 37,125,000.00 this period and the investment reached RMB 148,500,000.00. While Union King Holdings Limited holds 45% of the total shares and has paid the remaining capital contribution of RMB 30,375,000.00 this period and the investment reached RMB 121,500,000. According to the articles of incorporation of Xiebei Thermal Power, the decision made by the board will not be effective unless approved by two thirds of the directors. However, based on the Agreements of Shareholders' Voting Rights signed between our Company and Union King Holdings Limited. Union King Holdings Limited, as a shareholder of Xiebei Thermal Power, promises to act in concert with our Company when exercising the proposal rights on operating plans, financial budget preparation, financial policies, investments and portfolio management, management on cash and assets, and other operating and financial policies. Otherwise, the appointed director will act in concert with the director appointed by our Company when exercise the proposal rights. Therefore, Hong Kong Wanli will be consolidated in the financial statements as the subsidiary of Wanhua Ningbo.

Note 7: A wholly-owned subsidiaries set up by the Company this year.

**(VI)、 EQUITY IN OTHER ENTITIES**

**1、 Equity in subsidiaries - continued**

(1) Composition of the Group - continued

Note 8: They are wholly-owned subsidiaries set up by Wanhua Hong Kong, who is the subsidiary of the Company.

Note 9: They are wholly-owned subsidiaries set up by Wanhua Guangdong, who is the subsidiary of the Company.

Note 10: They are wholly-owned subsidiaries set up by Wanhua Ningbo Chlor-Alkali, who is the subsidiary of the Company.

Note 11: Wanhua Chemical Netherlands B.V., who is the wholly-owned subsidiary of the Company has finished liquidation in December 2015, and not in the consolidation scope at the end of this year.

**(VI)、 EQUITY IN OTHER ENTITIES**

**1、 Equity in subsidiaries - continued**

(2) Significant not-wholly-owned subsidiaries

The Group regards not-wholly-owned subsidiaries whose minority interest is more than RMB 300,000,000 as significant ones:

RMB

Name of subsidiary	Proportion of minority interest	Profit and loss attributable to minority interest	Dividend declared	Closing balance of minority interest
Wanhua Chemical Ningbo Co., Ltd	25.5%	480,053,788.31	-	2,223,524,931.40
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd.	49%	80,016,327.20	73,500,000.00	450,334,169.74
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd.	49.63125%	79,110,747.63	59,557,500.00	348,001,074.93

WANHUA CHEMICAL GROUP CO., LTD.

(VI)、 EQUITY IN OTHER ENTITIES

1、 Equity in subsidiaries - continued

(2) Financial information in significant not-wholly-owned subsidiaries

RMB

Name of subsidiary	Closing balance						Opening balance					
	Current asset	Non-current asset	Total asset	Current liability	Non-current liability	Total liability	Current asset	Non-current asset	Total asset	Current liability	Non-current liability	Total liability
Wanhua Chemical Ningbo Co., Ltd.	8,376,666,121.08	6,437,440,672.06	14,814,106,793.14	5,531,360,384.99	448,697,300.00	5,980,057,684.99	6,691,299,802.20	6,598,791,428.22	13,290,091,230.42	4,893,171,008.68	1,445,434,989.32	6,338,605,998.00
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd.	137,320,918.03	1,321,332,738.29	1,458,653,656.32	488,651,675.19	173,782,118.98	662,433,794.17	209,713,123.34	1,058,154,768.88	1,267,867,892.22	458,358,283.90	59,229,399.94	517,587,683.84
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd.	199,605,763.69	810,364,992.74	1,009,970,756.43	281,933,794.50	14,132,059.56	296,065,854.06	293,659,062.54	858,412,022.72	1,152,071,085.26	463,198,118.25	14,365,113.13	477,563,231.38

RMB

Name of subsidiary	Amount incurred in this current period				Amount incurred in prior period			
	Revenue	Net income	Comprehensive income	Operation cash flow	Revenue	Net income	Comprehensive income	Operation cash flow
Wanhua Chemical Ningbo Co., Ltd.	12,102,577,240.47	1,882,563,875.73	1,882,563,875.73	294,350,359.69	13,751,010,179.72	2,529,548,172.58	2,529,548,172.58	809,816,600.34
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd.	909,269,737.70	165,564,653.77	165,564,653.77	250,204,832.54	941,165,283.72	146,846,093.17	146,846,093.17	276,740,778.58
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd.	1,283,811,948.43	159,397,048.49	159,397,048.49	324,341,509.21	1,246,495,354.48	148,309,871.53	148,309,871.53	326,672,575.77

There are not significant restricted in term of assets and liabilities of the Company by subsidiaries using as above.

**(VI)、 EQUITY IN OTHER ENTITIES - continued**

**2、 Change of scope in current year**

Subsidiaries that are newly included:

In current year, Wanhua Chemical (Yantai) Petrochemical Co., Ltd. were newly set up.

Wanhua Chemical (Guangdong) Co., Ltd., in the current year, set up a subsidiary, named Zhuhai Wanhua Real Estate Development Co., Ltd.

Wanhua Chemical (Hong Kong) Co., Ltd., in the current year, set up two subsidiaries, named Wanhua Chemical US Real Estate LLC and Wanhua chemical (Hungary) Holding Co., Ltd.

Wanhua Chemical (Ningbo) Chlor-Alkali Co., Ltd., in the current year, set up a subsidiary, named Ningbo XinDa Mingzhou Trading Co., Ltd.

**3、 Equity in associate or joint venture**

(1) Important associate or joint venture

Name of associate and joint venture	Main location	Registration location	Nature	Proportion (%)		Accounting method
				Direct	Indirect	
I. Joint Ventures						
Yantai Harbor Wanhua Industrial Park Port Co., Ltd. (Note 1)	China	Yantai	Service	50	-	Equity method
II. Associates						
Linde Gas (Yantai) Co., Ltd. (Note 2)	China	Yantai	manufacturing	10	-	Equity method

Note 1: The registration capital was RMB 120,000,000.00, Yantai Harbor Wanhua Industrial Park Port Co., Ltd. made resolutions to increase capital to RMB320,000,000.00. The Company added investments by RMB100,000,000.00 in cash.

Note 2: According to the articles of association, the board of director is composed of five directors, among which of the Company has one director. As such, the Company can exert significant influence over Linde Gas, and equity method of accounting is adopted.

(VI)、 EQUITY IN OTHER ENTITIES - continued

3、 Equity in associate or joint venture - continued

(2) Important accounting information in joint venture

	RMB	
	Closing balance/ amount incurred	Closing balance/ amount incurred
	Yantai Harbor Wanhua Industrial Park Port Co.,	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.
Current assets	179,083,104.13	31,863,425.68
include: cash and cash equivalent	148,268,403.31	13,418,568.84
Non-current assets	901,923,826.71	354,728,828.78
Total assets	1,081,006,930.84	386,592,254.46
Current liabilities	482,606,661.71	76,499,784.29
Non-current liabilities	287,828,545.42	200,000,000.00
Total liabilities	770,435,207.13	276,499,784.29
Total equity	310,571,723.71	110,092,470.17
Net asset calculated by proportion	155,285,861.85	55,046,235.08
Book value of equity investment of joint venture	155,285,861.85	55,046,235.08
Fair value of joint venture equity	不适用	不适用
Revenue	85,852,922.93	8,834,894.40
Finance expense	11,820,101.10	1,952,884.03
Income tax expense	-	-
Income	479,253.54	(5,967,231.75)
Other comprehensive income	-	-
Total income	479,253.54	(5,967,231.75)
Dividend from joint venture	-	-

(VI)、 EQUITY IN OTHER ENTITIES - continued

3、 Equity in associate or joint venture - continued

(3) Important accounting information in associate

	RMB	
	Closing balance/ amount incurred Linde Gas (Yantai) Co., Ltd.	Closing balance/ amount incurred Linde Gas (Yantai) Co., Ltd.
Current assets	262,015,269.03	398,600,950.24
Non-current assets	787,846,617.26	581,282,642.22
Total assets	1,049,861,886.29	979,883,592.46
Current liabilities	259,528,801.23	191,458,854.28
Non-current liabilities	481,911,072.13	451,486,633.20
Total liabilities	741,439,873.36	642,945,487.48
Total equity	308,422,012.93	336,938,104.98
Net assets calculated by proportion	30,842,201.30	33,693,810.50
Book value of equity investment of joint venture	30,842,201.30	33,693,810.50
Fair value of joint venture equity	不适用	不适用
Revenue	307,308,712.60	76,208,325.74
Income	(29,317,410.94)	(3,375,070.70)
Other comprehensive income	-	-
Total income	(29,317,410.94)	(3,375,070.70)
Dividend from joint venture	-	-

When measured by equity method, the accounting policy between the Group and its all joint venture and associate is unnoticeable. In addition, the investment of such long-term investment and income does not exist significant limitation.

Commitment and liability is not recognized among the Group and associate and joint venture.



**(VII)、 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Group's major financial instruments include cash and bank balances, notes receivable, available-for-sale financial assets, equity and debt investments, borrowings, accounts receivables, accounts payable, etc. Details of these financial instruments are disclosed in Note (V). The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure the risks are monitored at a certain level.

The sensitivity analysis technique has been adopted by the Group to analyze the possible effect of risk variables on current profits and losses and stockholders' equity. Since any risk variable rarely change individually, the relevance among these risk variables could lead to significant impact on the total amount. Therefore, the following content is under the assumption that each risk variable incurs in condition of independence.

1. Risk management objectives and policies

The Group's risk management objectives are to achieve a proper balance between risks and yield, minimize the adverse impacts of risks on the Group's operation performance, and maximize the benefits of the shareholders and other stakeholders. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyse the Group's exposure to various risks, establish an appropriate maximum tolerance to risk, and implement risk management, and monitor regularly and effectively these exposures to ensure the risks are monitored at a certain level.

1.1 Market risk

1.1.1. Currency risk

Currency risk is the risk that losses will occur because of changes in foreign exchange rates. The Group's exposure to the currency risk is primarily associated with USD, EUR, JPY, INR, SGD, KRW, HKD, AED and RUB. Several of the Group's subsidiaries have purchases and sales denominated in USD, EUR, JPY, KRW, INR, HKD and RUR while the Group's other principal activities are denominated and settled in RMB. As at 31 December 2015, the balance of the Group's assets and liabilities are both denominated in RMB except that the assets and liabilities set out below are denominated in USD, EUR, JPY, INR, SGD, KRW, HKD, AED and RUB. Currency risk arising from the assets and liabilities denominated in foreign currencies may have impact on the Group's performance.

Item	Closing balance	Opening balance
Cash and cash equivalents	211,017,901.69	85,174,241.08
Accounts receivable	254,399,708.74	294,792,411.75
Other receivables	1,395,360.94	-
Short-term borrowings	535,836,558.00	1,404,403,940.61
Accounts payable	34,737,913.69	142,048,002.68
Interest payables	10,277,961.76	932,304,293.94
Long-term borrowings due within one year	507,533,060.00	3,840,863,912.05
Long-term borrowings	1,522,664,240.00	85,174,241.08

The Group closely monitors the effects of changes in the foreign exchange rates on the Group's currency risk exposures. The Group currently does not take any measures to hedge currency risk exposures.

(VII)、 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.1 Market risk - continued

*Foreign exchange rate sensitivity analysis:*

Holding other factors constant, listed is fluctuation of profit and loss, and equity due to exchange rate change:  
RMB 000'

Item	Exchange rate change	Current year		Prior year	
		Impact on profit and loss	Impact on equity	Impact on profit and loss	Impact on equity
USD	Appreciate 1% against RMB	(16,431)	(16,431)	(47,062)	(47,062)
USD	Depreciate 1% against RMB	16,431	16,431	47,062	47,062
EUR	Appreciate 1% against RMB	(1,253)	(1,253)	(91)	(91)
EUR	Depreciate 1% against RMB	1,253	1,253	91	91
JPY	Appreciate 1% against RMB	148	148	(188)	(188)
JPY	Depreciate 1% against RMB	(148)	(148)	188	188
KRW	Appreciate 1% against RMB	245	245	-	-
KRW	Depreciate 1% against RMB	(245)	(245)	-	-
RUB	Appreciate 1% against RMB	6	6	-	-
RUB	Depreciate 1% against RMB	(6)	(6)	-	-
Others	Appreciate 1% against RMB	(17,285)	(17,285)	(47,341)	(47,341)
Others	Depreciate 1% against RMB	17,285	17,285	47,341	47,341

*1.1.2 Interest rate risk – risk of changes in cash flows*

The Group's cash flow interest rate risk of financial instruments relates primarily to variable-rate bank borrowings. At the end of December 31, 2015, floating-rate loan amounted to RMB 18,055,494,264.01. It is the Group's policy to keep its borrowings at floating rate of interests to eliminate the fair value interest rate risk.

*Interest rate sensitivity analysis*

Interest rate sensitivity analysis is based on the below assumptions.

The change of interest rate is accounted into interest income and expense.

Holding other factors constant, listed is fluctuation of net profit and loss, and equity due to interest rate change.  
RMB 000'

Item	Change of interest rate	Current year		Prior year	
		Impact on equity	Impact on profit and loss	Impact on equity	Impact on profit and loss
Floating rate financial instruments	Increase 1%	(130,965)	(130,965)	(50,052)	(50,052)
Floating rate financial instruments	Decrease 1%	130,965	130,965	50,052	50,052

(VII)、 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

1.Risk management objectives and policies – continued

1.1.3. Other price risk

Other price risk is the risk of negative fluctuations in financial derivatives which lead to loss. The proportion of the Group's financial assets and liabilities is very small compared with the whole assets and liabilities. Therefore, the Group is not exposed to the significant risk of fluctuations in the security prices.

1.2. Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from:

The carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet. For financial instruments measured at fair value, the carrying amount reflects the exposure to risks but not the maximum exposure to risks. The maximum exposure to risks would vary according to the future changes in fair value.

The amount of financial guarantees contract disclosed in Note (X) 2.

In order to minimize the credit risk, the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because they are deposited with banks with high credit ratings.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

At the end of December 31, 2015, impairment of account receivable RMB 14,331,169.00 of Guangzhou Yuancheng petrochemical Co., Ltd. has been recognized. As the Company has collapsed, the allowance for the accounts receivable has been fully provided.

1.3. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2015, the Group has available unutilized bank loan facilities of at least RMB 26.2billion.

The following is the maturity analysis for financial assets and financial liabilities held by the Group, which is based on undiscounted remaining contractual obligations:

	No maturity date	Within 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
Non-derivative financial liability						
Short-term borrowings	-	9,826,359,298.51	-	-	-	9,826,359,298.51
Notes payables	-	2,221,250,502.00	-	-	-	2,221,250,502.00
Accounts payables	-	3,400,457,107.78	-	-	-	3,400,457,107.78
Other payables	-	275,697,231.42	-	-	-	275,697,231.42
Non current liabilities due within one year	-	2,572,427,865.42	-	-	-	2,572,427,865.42
Long-term borrowings	-	455,397,648.74	2,563,710,687.14	2,472,616,363.59	7,575,192,921.65	13,066,917,621.13

RMB

**(VII)、FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued**

**1. Risk management objectives and policies – continued**

1.3. Liquidity risk - continued

	No maturity date	Within 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
Bonds payable	-	99,700,000.00	2,035,051,506.85	-	-	2,134,751,506.85
Long-term payables		154,210.76	1,506,938.76	1,455,535.10	1,404,125.44	4,520,810.06
Derivative financial liability						
Derivative financial liability	-	-	-	-	-	-

**2. Transfer of financial assets**

(1) Has overall non-recognition but continued involvement has been the transfer of financial assets

The Group has discounted the bank acceptance and third party endorsement bank acceptance to banks and third parties in the current year. As the relevant interest risk, credit risk, and other risks and rewards of those bank acceptance had been transferred to banks and third parties, our group had derecognized those undue acceptance bills, which had been discounted or endorsed already. Based on the agreement, if the bank acceptance cannot be accepted on the due date, our group has the responsibility to pay off the outstanding balance of those bills; based on the regulation of bills, the bill holder has the right of recourse if the bills were declined. Therefore, our group had continually involved those undue bills that had been discounted or endorsed. As December 31, 2015, the balance of those undue but discounted bills, undue but endorsed bills were RMB 3,383,323,809.64, RMB 1,131,136,771.83, respectively.

**(IX)、FAIR VALUE**

**1. Disclosure of fair value of asset and liability, but not assessing based on fair value method**

The group's financial asset and liability, measured by amortized cost, mainly include: notes receivable, accounts receivable, other receivables, long-term receivables, short-term borrowings, notes payable, accounts payable, other payables, non-current liability due within a year, long-term borrowings, bonds payable and long-term payables.

Other than financial asset and liability mentioned below, the difference between book value and fair value of financial asset and liability, not measured by fair measure method, is not noticeable.

RMB

	Closing balance			Opening balance	
	Book value	Fair value		Book value	Fair value
Financial asset					
- long-term account receivables	247,862,406.51	217,982,904.95		194,405,040.63	189,385,959.29
Financial liability					
- long-term borrowings	11,440,236,985.11	10,968,345,457.59		12,837,515,833.62	11,883,772,974.69
- bonds payable	1,980,000,000.00	1,936,072,681.32		2,000,000,000.00	1,962,973,311.26

**(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

**1. Parents of the Company**

RMB 0000'

Name of Company	Related party relationship	Nature of business	Registered capital RMB	Proportion of the Company's ownership interest held by the parent (%)	Proportion of the Company's voting power held by the parent (%)
Wanhua Industrial Group Co., Ltd.	Parent Company	Polyurethane, TPU as well as manufacture, processing and sale of product, industrial gas, Sodium Hydroxide and Chlorine products etc.	147,893.04	50.5	50.5

Wanhua Industrial Group Co., Ltd. is the parent company of the Company, Yantai State Owned Assets Supervision and Administration Commission is the ultimate holding of the Company.

**2. Subsidiaries of the Company**

For details of subsidiaries of the Company, refer to Note (VI).

**3. Associates and joint ventures of the entity**

For details of associates and joint ventures of the Company, refer to Note (VI).

**4. Other related parties of the Company**

Other related parties	Relationship between other related parties and the Company
Wanhua EnergySav Science & Technology Co., Ltd.	Fellow subsidiary
Wanhua EnergySav (Yantai) Engineering Co., Ltd.	Fellow subsidiary
Wanhua EnergySav Science Technology (Yantai) Co., Ltd.	Fellow subsidiary
Wanhua EnergySav Science & Construction Materials (Yantai) Concrete Co., Ltd.	Fellow subsidiary
BorsodChem Zrt.	Fellow subsidiary
BorsodChem (Yantai) Co., Ltd.	Fellow subsidiary
Shanxi Wanhua Clean Energy Co., Ltd.	Fellow subsidiary
Wanhua Integrated Housing (Yantai) Co., Ltd.	Fellow subsidiary
Yantai Wanhua Chlor-Alkali Co., Ltd.	Associate of parent Company
Wanhua Ecoboard(Jingzhou) Co., Ltd.	Wholly-owned subsidiary that is owned by the associate of parent company
Wanhua Ecoboard(Xinyang) Co., Ltd.	Wholly-owned subsidiary that is owned by the associate of parent company
Wanhua Ecoboard Co., Ltd.	Associate of parent Company
Wanhua Ecological Technology (Yantai) Co., Ltd.	Wholly-owned subsidiary that is owned by the associate of parent company
Yantai Huali Thermal Power supply Co., Ltd.	Wholly-owned subsidiary that is owned by the associate of parent company

(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

5. Related party transactions

(1) Sales and purchase of goods, provision and receipt of services

Purchase of goods/receipt of services

RMB

Related Party	Types of related party transaction	Amount for the current period	Amount for the prior period
Wanhua EnergySav Science & Technology Group Co., Ltd.	Receipt of services	389,958.66	256,058.68
Yantai Wanhua Synthetic leather Group Co., Ltd.	Receipt of services	-	5,021,147.40
Yantai Wanhua Chlor-Alkali Co., Ltd.	Purchase of materials/ Receipt of services	46,060,569.94	278,342,929.73
BorsodChem (Yantai) Co., Ltd.	Purchase of goods	33,234,529.93	51,526,923.00
BorsodChem Zrt.	Purchase of goods	212,555,276.65	87,310,328.05
Wanhua EnergySav (Yantai) Engineering Co., Ltd.	Receipt of services	3,680,694.24	-
Shanxi Wanhua Clean Energy Co., Ltd.	Purchase of materials	-	614,759.00
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	Receipt of services	48,291,294.19	2,237,493.46
Yantai Huali Thermal Power Co., Ltd.	Purchase of materials/ Receipt of services	77,755,294.37	215,529,906.29
Linde Gas (Yantai) Co., Ltd.	Purchase of materials	266,635,195.72	40,839,393.56
Wanhua EnergySav Building Materials (Yantai) Concrete Co., Ltd.	Purchase of materials for construction in progress	2,345,854.00	-
Wanhua Industrial Group Co., Ltd.	Receipt of services	3,006,743.15	-
Wanhua Integrated Housing (Yantai) Co., Ltd.	Receipt of services	8,374,602.40	-

Sales and purchase of goods, provision and receipt of services

Sales of goods/ provision of services:

Unit: RMB

Related Party	Types of related party transaction	Amount for the current period	Amount for the prior period
Wanhua EnergySav Science & Technology Group Co., Ltd.	Sales of goods	243,436,437.07	352,515,451.94
Wanhua Ecoboard (Jingzhou) Co., Ltd.	Sales of goods	17,866,266.74	21,960,329.92
Wanhua Ecoboard (Xinyang) Co., Ltd.	Sales of goods	11,277,103.26	10,979,121.71
Wanhua Ecoboard (Qixia) Co., Ltd.(Note)	Sales of goods	981,617.09	5,627,262.75
Wanhua Ecoboard Co., Ltd.	Sales of goods	828,547.02	363,247.86
Wanhua Ecological Technology (Yantai) Co., Ltd.	Sales of goods	3,824,706.20	-
Wanhua Industrial Group Co., Ltd.	Sales of goods	201,709.39	50,427.35
Yantai Wanhua Chlor-Alkali Co., Ltd.	Sales of goods	135,147,744.14	1,966,730.78
BorsodChem Zrt.	Sales of goods	270,211,391.86	32,725,880.25
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	Sales of goods/provision of services	2,920,501.85	1,462,268.51
Linde Gas (Yantai) Co., Ltd.	provision of goods	238,953,499.72	58,714,165.26
Shanxi Wanhua Clean Energy Co., Ltd.	receipt of services	237,735.84	-
Wanhua EnergySav Science Technology (Yantai) Co., Ltd.	Sales of goods	80,350.67	-
Yantai Huali Thermal Power Co., Ltd.	Sales of goods	11,525.13	-

**(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued**

**5.Related party transactions - continued**

- 1) Sales and purchase of goods, provision and receipt of services - continued

Note: The associates of the Company's parent company sold all equity interests of Wanhua Ecoboard (Qixia) Co., Ltd. in July 2015. Amount for the current period is for the transactions happened from January to July 2015.

The pricing of the transactions is in accordance with the general service agreements, product purchase and sales contracts and other supplementary agreement signed between the Company and the related companies. The Company enters into arm's length transactions with the related parties based on the principles of equality, voluntariness, equivalence.

- (2) Trust / contracting with related parties

Description of trust/contracting with related parties

						RMB
Name of trustor / main contractor	Name of trustee/ subcontractor	Type of assets under trust/ subcontracting	Inception date of the trust/ subcontracting	Expiration date of the trust/ subcontracting	Basis of pricing of trust/ subcontracting expenses	Trust/ subcontracting expenses recognized in the current year
Wanhua Industrial Group Co., Ltd.	Wanhua Chemical	Other assets under trust	1 February 2014	1 February 2017	Lease agreement	10,000,000.00

On 1 February 2014, the Company signed agreement with Wanhua Industrial Group Co., Ltd. entrusting Yantai Wanhua Co., Ltd. for operation management of BorsodChem Company by Wanhua Industrial Group Co., Ltd. and reached agreement on the operation management of BorsodChem Zrt. ("BC Company"), the terms are as follows:

- 1) After the acquisition, Wanhua Industrial Group Co., Ltd. entrusts the Company to manage the operations of BC Company;
- 2) The Company is not responsible for the profits or losses of BC Company during the entrusted period;
- 3) To ensure the right of operation management, Wanhua Industrial Group Co., Ltd. is agreed that management personnel are appointed by the Company;
- 4) Wanhua Industrial Group Co., Ltd. will pay a trust fee of RMB 10,000,000 to the Company annually;
- 5) Within 18 months after the improvement of operations of BC Company (including but not limited to recurring operating loss will not occur in the following 12 months, BC Company has the conditions of sustainable operations), the Company has the right to require Wanhua Industrial Group Co., Ltd. to come up with appropriate proposal on business consolidation of the Company and BC Company, Meanwhile Wanhua Industrial Group Co., Ltd. will promise to come up with appropriate proposal on business consolidation of the Company and BC Company within 18 months after the improvement of operations of BC Company and should avoid voting when the proposal is submitted to the shareholders' meeting for final approval;
- 6) The effective period of the agreement is three years. The terms are to be negotiated at the expiration.

(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

5. Related party transactions - continued

(3) Leases with related parties

Leases where a group entity is the lessee

RMB

Name of lessor	Name of lessee	Type of leased assets	Commencement date of leases	Expiration date of leases	Basis of determining the lease payment	Lease payment recognized in the current year
Wanhua Industrial Group Co., Ltd.	Wanhua Chemical	Land and buildings	1 January 2015	31 December 2015	Lease agreement	14,571,355.18
Wanhua Chemical	Linde Gas (Yantai) Co., Ltd.	Land use right	1 January 2015	31 December 2015	Lease agreement	2,588,521.77

(4) Guarantees by related parties

RMB

Guarantor	Guaranteed party	Guaranteed amount	Guaranteed amount used	Inception date of guarantee	Expiration date of guarantee	Whether execution of guarantee has been completed
Wanhua Industrial Group Co., Ltd.	Wanhua Chemical	3,726,000,000.00	2,376,000,000.00	18 May 2012	23 November 2031	N
Wanhua Industrial Group Co., Ltd.	Wanhua Ningbo	67,620,900.00	48,241,400.84	16 March 2015	15 March 2018	N
Wanhua Chemical (Note)	Yantai Harbor Wanhua Industrial Park Port Co., Ltd	75,000,000.00	75,000,000.00	23 January 2014	21 January 2017	N
Wanhua Chemical (Note)	Yantai Harbor Wanhua Industrial Park Port Co., Ltd	25,000,000.00	25,000,000.00	24 April 2014	22 April 2020	N
Wanhua Chemical (Note)	Yantai Harbor Wanhua Industrial Park Port Co., Ltd	50,000,000.00	50,000,000.00	8 May 2015	7 May 2020	N

Note: Concerning Yantai Harbor Wanhua Industrial Park Port Co., Ltd., all with its subsidiaries, provide counter-guarantee for Wanhua Chemical, undertaking relevant responsibility. This counter-guarantee amounted to RMB 75,000,000.00, RMB 25,000,000.00 and RMB 50,000,000.00. Expiration date is from 23 January 2014 to 21 January 2017, from 24 April 2014 to 22 April 2020, and from 8 May 2015 to 7 May 2020, respectively.

(5) Borrowings/loans with related parties

RMB

Related party	Amount of borrowing/loan	Inception date	Maturity date	Amount at the end of the current period
Lend to:				
Nil				
Borrow from				
Yantai Wanhua Synthetic leather Group Co., Ltd. (Note)	150,000,000.00	23 July 2015	22 July 2016	50,000,000.00

Note: In November 2015, Yantai Wanhua Synthetic leather Group Co., Ltd. transferred 39.497% equity of Wanhua Industrial Group Co., Ltd., which is state-owned equity, to State Owned Assets Supervision and Administration Commission of Yantai Municipal People's Government for free. Therefore, there is no Association relation between the company and Yantai Wanhua Synthetic leather Group Co., Ltd.



**(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued**

**5. Related party transactions - continued**

(6) Asset transfer with related parties

RMB

Related parties	Contents of related transactions	Amount incurred in the current period	Amount incurred in the prior period
BorsodChem Zrt.	Technology transfer	63,162,527.36	-

(7) Compensation for key management personnel

RMB

Item	Amount incurred in the current period	Amount incurred in the prior period
Compensation for key management personnel	22,402,598.54	22,599,231.66

(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

6. Assets transfer/debt restructuring with related parties

(1) Accounts receivable from related party

RMB

Item	Related party	Closing balance		Opening balance	
		Carrying value	Bad debt provision	Carrying value	Bad debt provision
Accounts receivable	Linde Gas (Yantai) Co., Ltd.	7,696,434.49	384,821.72	38,112,482.88	1,905,624.14
Accounts receivable	BorsodChem Zrt.	470,152.68	-	19,970,947.73	2,995,642.16
Accounts receivable	Shanxi Wanhua Clean Energy Co., Ltd.	252,000.00	-	-	-
Accounts receivable	Wanhua Ecoboard Co., Ltd.	809,400.00	40,470.00	-	-
Prepayments	Yantai Wanhua Chlor-Alkali Co., Ltd.	-	-	1,211,215.19	-
Prepayments	Wanhua EnergySav (Yantai) Engineering Co., Ltd.	819,143.66	-	-	-
Prepayments	BorsodChem (Yantai) Co., Ltd.	546,000.00	-	1,507.50	-

(2) Accounts payable from related party

RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Yantai Wanhua Chlor-Alkali Co., Ltd.	899,488.74	-
Accounts payable	BorsodChem Zrt.	-	15,556,020.10
Accounts payable	Wanhua Integrated Housing (Yantai) Co., Ltd.	2,175,766.42	-
Accounts payable	Wanhua EnergySav (Yantai) Engineering Co., Ltd.	-	304,430.00
Accounts payable	Wanhua EnergySav Science & Technology Group Co., Ltd.	215,295.77	105,833.98
Accounts payable	BorsodChem (Yantai) Co., Ltd.	-	620,512.82
Accounts payable	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	-	458,306.28
Accounts payable	Yantai Thermal Power Co., Ltd.	6,021,624.81	217,632.00
Receipts in advance	Wanhua EnergySav Science & Technology Group Co., Ltd.	1,819,348.61	2,403,071.74
Other payables	Yantai Wanhua Chlor-Alkali Co., Ltd.	1,640.00	1,640.00
Other payables	Linde Gas (Yantai) Co., Ltd.	6,150.00	3,300.00
Other payables	Yantai Wanhua Synthetic leather Group Co., Ltd. (Note)	50,000,000.00	87,509,755.57
Other payables	Wanhua EnergySav (Yantai) Engineering Co., Ltd.	-	13,300.00
Other payables	Wanhua Integrated Housing (Yantai) Co., Ltd.	40,306.00	-
Other payables	Wanhua EnergySav Science & Construction Materials (Yantai) Concrete Co., Ltd.	-	6,600.00

Note: The closing balance includes the fund that Yantai sales borrowed from Yantai Wanhua Synthetic leather Group Co., Ltd, more details refer to (IX) 5 (5).

(X) COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

RMB 000'

	Closing balance	Opening balance
Capital commitments that have been entered into but have not been recognized in the financial statements:		
- Commitment for acquisition and construction of long-term assets	3,643,726	4,612,543
<b>Total</b>	<b>3,643,726</b>	<b>4,612,543</b>

(2) Operating lease commitments

At the balance sheet date, the Group had the following commitments in respect of non-cancellable operating leases:

RMB 000'

	Closing balance	Opening balance
Minimum lease payments under non-cancellable operating leases:		
1st year subsequent to the balance sheet date	18,285	7,583
2nd year subsequent to the balance sheet date	15,632	6,079
3rd year subsequent to the balance sheet date	13,529	1,874
4th year subsequent to the balance sheet date	7,395	928
<b>Total</b>	<b>54,841</b>	<b>16,464</b>

(3) There is no need to disclose other commitments of the Group at the 31 December 2015.

2. Contingencies

Contingent liabilities arise from providing guarantees to other entities and the related financial effects.

The Company provides guarantee to the State-owned Assets Management Company of Yantai Development Zone for a corporate bond of RMB 800,000,000 and bears joint liability for repayment. The maturity date of the bond is 10 April 2020, the period covers the term of the bond and two years from the maturity date. Meanwhile the State-owned Assets Management Company of Yantai Development Zone provides counter-guarantee to the Company. As at 31 December 2015, there is no liability to the guarantee.

The Company provides guarantee to Yantai Hasbor Wanhua Industrial Park Port Co., Ltd. for RMB 75 Million, RMB 25 Million and RMB 50 Million borrowings and bears joint liability for repayment, the maturity date of the borrowing is 21 January 2017, 22 April 2020 and 7 May 2020, respectively. Meanwhile, these guarantees are offered counter guarantee by Yantai Harbor Wanhua Industrial Park Port Co., Ltd. At 31 December 2015, there is no liability to the guarantee, refer to Note(IX)5(4).

For guarantees provided by the Company for loans to its subsidiaries, refer to Note (XIV) 7(b).

(XI) EVENTS AFTER THE BALANCE SHEET DATE

1. Profit appropriation after the balance sheet date

The Board of Directors proposed and approved, based on 2,162,334,720.00 outstanding shares, a cash dividend of RMB 2.00 (pre-tax) per share for every ten shares. The proposal has been submitted to the General Shareholders' Meeting for final approval.

(XII) OTHER SIGNIFICANT EVENT

1. Segment reporting

Based on the Group's internal organization structure, management requirements and internal reporting system, the operations of the Group are under the same reporting segment.

Segment information is disclosed in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to management.

(1) For segment revenue arising from external transactions by product or business

(2) Principle business (industry)

RMB

Industry	Amount in current year		Amount in prior year	
	Operating Revenue	Operating Cost	Operating Revenue	Operating Cost
Chemical industry	18,775,965,242.37	13,044,482,231.04	21,525,615,102.47	14,853,365,488.31
Others	433,314,790.33	294,882,696.65	459,622,632.36	335,662,408.41
<b>Total</b>	<b>19,209,280,032.70</b>	<b>13,339,364,927.69</b>	<b>21,985,237,734.83</b>	<b>15,189,027,896.72</b>

(3) Principle business (product)

RMB

Product	Amount in current year		Amount in prior year	
	Operating Revenue	Operating Cost	Operating Revenue	Operating Cost
Isocyanic Acid	11,994,856,251.13	7,828,817,301.15	15,013,757,376.12	9,556,822,873.37
Others	7,214,423,781.57	5,510,547,626.54	6,971,480,358.71	5,632,205,023.35
<b>Total</b>	<b>19,209,280,032.70</b>	<b>13,339,364,927.69</b>	<b>21,985,237,734.83</b>	<b>15,189,027,896.72</b>

(4) Principle business (geography)

RMB

	Amount in current year		Amount in prior year	
	Operating Revenue	Operating Cost	Operating Revenue	Operating Cost
Domestic	13,766,072,080.45	9,335,846,126.65	16,124,399,262.29	10,679,021,677.71
Overseas	5,443,207,952.25	4,003,518,801.04	5,860,838,472.54	4,510,006,219.01
<b>Total</b>	<b>19,209,280,032.70</b>	<b>13,339,364,927.69</b>	<b>21,985,237,734.83</b>	<b>15,189,027,896.72</b>

(5) Non-current assets of the Group are all located domestically.

(6) None of a single customer's revenue accounts for more than 10% of the total revenue.

(XIII) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

(1) Disclosure of accounts receivable by categories

RMB

Category	Closing balance					Opening balance				
	Carrying amount		Bad debts provision		Book Value	Carrying amount		Bad debts provision		Book Value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	1,058,147,704.15	94.91	14,331,169.00	1.35	1,043,816,535.15	96,294,418.16	71.64	19,425,443.31	20.17	76,868,974.85
Accounts receivables due from domestic customers	46,766,227.61	4.19	2,376,671.92	5.08	44,389,555.69	33,984,631.96	25.28	1,723,037.39	5.07	32,261,594.57
Accounts receivables due from foreign customers	9,988,434.43	0.90	1,498,265.16	15.00	8,490,169.27	4,143,014.96	3.08	621,452.24	15.00	3,521,562.72
Subtotal of portfolios	56,754,662.04	5.09	3,874,937.08	6.83	52,879,724.96	38,127,646.92	28.36	2,344,489.63	6.15	35,783,157.29
Total	1,114,902,366.19	100.00	18,206,106.08	1.63	1,096,696,260.11	134,422,065.08	100.00	21,769,932.94	16.20	112,652,132.14

Explanations of categories of accounts receivable:

The Company determines that account receivable exceed RMB 8,000,000.00 is considered as individually significant accounts receivable

Accounts receivable that are individually significant but for which bad debts has been assessed individually as at 31 December 2015.

RMB

Accounts receivable (by Company)	Closing balance			
	Accounts receivable	Bad debt provision	Proportion of provision (%)	Reason
Wanhua Chemical (Yantai) Petrochemical Co. Ltd.	1,043,816,535.15	-	-	related party, don't reserve for bad debts
Company 6	14,331,169.00	14,331,169.00	100.00	Expected cannot collected

Note: The Company did impairment test for significant amount of accounts receivable. As at 2015 December 31, individual provision impairment amounts to RMB 14,331,169.00 (2014: RMB 14,331,169.00). For individual test, which impairment is not detected, bad debt is accrued, according to Note (III), 11, in portfolio basis, no bad debt provision was made on 31 December 2015 (2014: RMB 5,094,274.31).

(XIII) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

1. Accounts receivable - continued

(1) Disclosure of accounts receivable by categories - continued

Aging analysis of accounts receivable is as follows:

Aging	Closing Balance		
	Accounts receivable	Bad debt provision	Proportion (%)
Within one year	45,969,747.57	2,293,407.35	5
More than one year but not exceeding two years	778,397.24	77,839.73	10
More than two year but not exceeding three years	18,082.80	5,424.84	30
<b>Total</b>	<b>46,766,227.61</b>	<b>2,376,671.92</b>	

RMB

Aging	Opening balance		
	Accounts receivable	Bad debt provision	Proportion (%)
Within one year	33,554,716.24	1,680,045.82	5
More than one year but not exceeding two years	429,915.72	42,991.57	10
<b>Total</b>	<b>33,984,631.96</b>	<b>1,723,037.39</b>	

RMB

Accounts receivable portfolios for which bad debt provision has been assessed using the percentage of total receivables outstanding approach:

Name of portfolio	Closing Balance		
	Accounts receivable	Bad debt provision	Proportion (%)
Accounts receivables due from overseas customers	9,988,434.43	1,498,265.16	15

RMB

Name of portfolio	Opening Balance		
	Accounts receivable	Bad debt provision	Proportion (%)
Accounts receivables due from overseas customers	4,143,014.96	621,452.24	15

RMB

(2) Bad debt provision\Reversals and collections during the current period

Accounts receivable portfolios for which bad debt provision is RMB0.00 for this year, reversal and collection amount RMB 1,795,065.79.

(3) Accounts receivable write-off in the report period

Items	Write-off amount
Write-off accounts receivable	1,768,761.07

RMB

(4) Top five entities with the largest balances of accounts receivables

Top five largest balances of accounts receivables amount to RMB 1,071,726,479.64, 96, 13% of the total accounts receivables, the provision for bad debt is RMB 15,010,107.78.

(5) There are no accounts receivables that have been derecognized in the current period; there are no securitization of assets where accounts receivable are the underlying assets in the current period.

(XIII) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

2. Other receivables

(1) Disclosure of other receivables by categories:

RMB

Categories	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Book Value	Carrying amount		Bad debt provision		Book Value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	1,354,007,035.56	99.76	-	-	1,354,007,035.56	18,218,186.25	63.93	-	-	18,218,186.25
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	3,241,271.68	0.24	-	-	3,241,271.68	10,280,678.20	36.07	-	-	10,280,678.20
<b>Total</b>	<b>1,357,248,307.24</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>1,357,248,307.24</b>	<b>28,498,864.45</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>28,498,864.45</b>

Explanations of categories of other receivables:

The Company determines that other receivables of more than RMB 8,000,000.00 are considered as individually significant other receivables.

(2) According to the payment properties listed in other receivables

RMB

Payment properties	Closing balance	Opening balance
Other receivable of related party	1,304,574,439.51	20,014,907.68
Petty cash	685,205.48	3,739,704.73
The Deposit	51,736,390.30	301,016.12
Others	252,271.95	4,443,235.92
<b>Total</b>	<b>1,357,248,307.24</b>	<b>28,498,864.45</b>

Aging analysis of other receivables is as follows:

RMB

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Book Value	Amount	Proportion (%)	Bad debt provision	Book Value
Within 1 year	1,355,127,775.87	99.84	-	1,355,127,775.87	26,091,860.12	91.55	-	26,091,860.12
More than 1 year but not exceeding 2 years	1,634,452.89	0.12	-	1,634,452.89	2,039,877.39	7.16	-	2,039,877.39
More than 2 years but not exceeding 3 years	227,743.83	0.02	-	227,743.83	31,000.00	0.11	-	31,000.00
More than 3 years	258,334.65	0.02	-	258,334.65	336,126.94	1.18	-	336,126.94
<b>Total</b>	<b>1,357,248,307.24</b>	<b>100.00</b>	<b>-</b>	<b>1,357,248,307.24</b>	<b>28,498,864.45</b>	<b>100.00</b>	<b>-</b>	<b>28,498,864.45</b>

(3) There are no reversals or collections\ write-off of other receivables in the current period.

(4) Top five entities with the largest balances of other receivables:

Top five entities with the largest balances of other receivables RMB 1,213,096,537.22, 89.38% of the amount to the total other receivables, no bad debt provision in the current year.

(5) There are no other receivables transfer of financial assets that has been derecognized in the current period.

XIII) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

3. Long-term equity investments

Investee	Opening balance	Movement of the current year								Closing balance	Closing balance for impairment
		Increase	Decrease	Profit or loss recognized using equity method	Other comprehensive income under equity methods	Other equity movement	Cash dividend	Provision for impairment loss	Others		
RMB											
<b>Subsidiaries</b>											
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd.	229,500,000.00	-	-	-	-	-	76,500,000.00	-	-	229,500,000.00	-
Wanhua Chemical (Beijing) Co., Ltd.	61,410,000.00	-	-	-	-	-	-	-	-	61,410,000.00	-
Wanhua Chemical (Ningbo) Port Co., Ltd.	66,000,000.00	-	-	-	-	-	-	-	-	66,000,000.00	-
Wanhua Chemical (Ningbo) Co., Ltd.	607,920,000.00	-	-	-	-	-	-	-	-	607,920,000.00	-
Wanhua Chemical (HongKong) Co., Limited.	56,215,720.00	-	-	-	-	-	-	-	-	56,215,720.00	-
Wanhua Chemical Netherlands B.V.	66,084,460.00	-	(66,084,460.00)	-	-	-	-	-	-	-	-
Wanhua Chemical (Japan) Co., Ltd.	538,192.00	-	-	-	-	-	-	-	-	538,192.00	-
Shanghai Wanhua Industrial Development Co., Ltd.	120,000,000.00	-	-	-	-	-	-	-	-	120,000,000.00	-
Wanhua Chemical (America) Co., Ltd.	1,575,840.00	-	-	-	-	-	-	-	-	1,575,840.00	-
Yantai Wanhua Chemical Design Institute Co., Ltd.	2,005,359.72	-	-	-	-	-	-	-	-	2,005,359.72	-
Wanhua Chemical (Foshan) Rongwei Polyurethane Co., Ltd.	30,060,461.41	-	-	-	-	-	24,000,000.00	-	-	30,060,461.41	-
Wanhua Chemical (Yantai) Rongwei Polyurethane Co., Ltd.	72,918,038.59	-	-	-	-	-	-	-	-	72,918,038.59	-
Wanhua Chemical (Ningbo) Chlor-Alkali Co., Ltd.	190,028,517.61	-	-	-	-	-	30,442,500.00	-	-	190,028,517.61	-



WANHUA CHEMICAL GROUP CO., LTD.

(XIII) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

3. Long-term equity investments - continued

Unit: RMB

Investee	Opening balance	Movement of the current year								Closing balance	Closing balance for impairment
		Increase	Decrease	Profit or loss recognized using equity method	Other comprehensive income under equity methods	Other equity movement	Cash dividend	Provision for impairment loss	Others		
Wanhua Chemical (Yantai) Trading Co., Ltd.	20,000,000.00	-	-	-	-	-	-	-	-	20,000,000.00	-
Wanhua Chemical (Yantai) Chlor-Alkali Thermal Power Co., Ltd.	240,000,000.00	-	-	-	-	-	-	-	-	240,000,000.00	-
Wanhua Chemical (Guangdong) Co., Ltd.	55,000,000.00	145,000,000.00	-	-	-	-	-	-	-	200,000,000.00	-
Wanhua Chemical (Yantai) Selling Co., Ltd.	20,900,000.00	-	-	-	-	-	201,252,688.61	-	-	20,900,000.00	-
Shanghai Wanhua Industrial Development Co., Ltd.	93,369,120.00	90,000,000.00	-	-	-	-	-	-	-	183,369,120.00	-
Wanhua Chemical (Singapore) Co., Ltd.	6,167,500.00	-	-	-	-	-	-	-	-	6,167,500.00	-
Wanhua Chemical (Yantai) Petrochemical Co. Ltd.	-	50,000,000.00	-	-	-	-	-	-	-	50,000,000.00	-
Subtotal	1,939,693,209.33	285,000,000.00	(66,084,460.00)	-	-	-	332,195,188.61	-	-	2,158,608,749.33	-
II. Joint Venture											
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	55,046,235.08	100,000,000.00	-	239,626.77	-	-	-	-	-	155,285,861.85	-
III. Associate											
Linde Gas (Yantai) Co., Ltd	33,693,810.50	-	-	(2,852,111.97)	-	502.77	-	-	-	30,842,201.30	-
<b>Total</b>	<b>2,028,433,254.91</b>	<b>385,000,000.00</b>	<b>(66,084,460.00)</b>	<b>(2,612,485.20)</b>	<b>-</b>	<b>502.77</b>	<b>332,195,188.61</b>	<b>-</b>	<b>-</b>	<b>2,344,736,812.48</b>	<b>-</b>

(XIII) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS – continued

4. Operating income and operating costs

RMB

Item	Amount in current period		Amount in prior period	
	Revenue	Cost	Revenue	Cost
Principal operating income	7,870,702,968.33	6,545,870,450.91	6,063,748,129.89	4,771,224,193.57
Other operating income	107,072,314.23	111,752,138.07	72,084,437.36	60,585,091.06
<b>Total</b>	<b>7,977,775,282.56</b>	<b>6,657,622,588.98</b>	<b>6,135,832,567.25</b>	<b>4,831,809,284.63</b>

5. Investment income

(1) Detail of investment income

RMB

	Amount recognized in the current period	Amount recognized in the prior period
Income from long-term equity investments under cost method	332,195,188.61	870,790,000.00
Income from tradable financial assets in holding period	6,000,000.00	3,000,000.00
Income from disposal of long-term equity investment	1,870,152.20	-
Investment loss from disposal of equity investment	(2,612,485.20)	(3,321,122.95)
<b>Total</b>	<b>337,452,855.61</b>	<b>870,468,877.05</b>

(2) Income from long-term equity investments under cost method

RMB

Investee	Amount recognized in the current period	Amount recognized in the prior period	Reasons for increase or decrease in the current period compared to the prior period
Wanhua Ningbo	-	745,000,000.00	Change in dividend distribution of the investee
Wanhua Yantai Selling	201,252,688.61	-	Change in dividend distribution of the investee
Ningbo Chlor-Alkali	30,442,500.00	40,590,000.00	Change in dividend distribution of the investee
Wanhua Thermal Power	76,500,000.00	61,200,000.00	Change in dividend distribution of the investee
Foshan Rongwei	24,000,000.00	24,000,000.00	Change in dividend distribution of the investee
<b>Total</b>	<b>332,195,188.61</b>	<b>870,790,000.00</b>	

(3) Income from long-term equity investments under equity method

RMB

Investee	Amount recognized in the current period	Amount recognized in the prior period	Reasons for movement compared to the prior period
Yantai Port Wanhua Industrial Terminals Co., Ltd.	239,626.77	(2,983,615.88)	Profit/loss of Joint Venture
Linde Gas (Yantai) Co., Ltd.	(2,852,111.97)	(337,507.07)	Loss of Associate
<b>Total</b>	<b>(2,612,485.20)</b>	<b>(3,321,122.95)</b>	

(XIII) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS – continued

6. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

RMB

Supplementary information	Current period	Prior period
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
Net profit	389,775,879.17	978,521,714.05
Add: Provision for impairment losses of assets	(1,795,065.79)	35,557,683.40
Depreciation of fixed assets	499,366,958.54	128,914,554.23
Amortization of intangible assets	41,982,478.74	12,338,876.12
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are indicated by "—")	135,959,254.48	191,554,597.59
Financial expenses (income is indicated by "—")	320,393,645.21	75,354,218.90
Losses arising from investments (gains are indicated by "—")	(337,452,855.61)	(870,468,877.05)
Decrease in deferred tax assets (increase is indicated by "—")	(27,373,813.21)	(36,593,001.27)
Decrease in inventories (increase is indicated by "—")	(321,856,383.16)	(507,678,536.50)
Decrease in receivables from operating activities (increase is indicated by "—")	(837,004,381.21)	2,570,540,184.26
Increase in payables from operating activities (decrease is indicated by "—")	3,995,458,556.49	415,995,877.91
Net cash flow from operating activities	3,857,454,273.65	2,994,037,291.64
<b>2. Significant investing and financing activities that do not involve cash receipts and payments:</b>		
Conversion of debt into capital	2,042,218,414.38	1,644,832,107.79
Convertible bonds due within one year	201,252,688.61	745,000,000.00
<b>3. Net changes in cash and cash equivalents:</b>		
Closing balance of cash	1,345,386,565.07	360,594,879.35
Less: Opening balance of cash	360,594,879.35	662,594,278.03
Net increase in cash and cash equivalents	984,791,685.72	(301,999,398.68)

(2) Composition of cash and cash equivalents

RMB

Item	Closing balance	Opening balance
I. Cash	1,345,386,565.07	360,594,879.35
Including: Cash on hand	15,851.61	18,243.55
Bank deposits	1,345,353,421.60	360,559,393.80
Other monetary funds	17,291.86	17,242.00
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	1,345,386,565.07	360,594,879.35

(XIV) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

7. Besides the related party relationship and transactions mentioned in Note (IX), the Company and subsidiaries have significant transactions, listed below:

(a) Purchase of goods and sales

Purchase of goods/receipt of services

Related Party	Transaction type	RMB	
		Amount for the current period	Restated amount for the prior period
Yantai Trading	Purchase of raw materials	-	30,086,536.41
Wanhua Beijing	Purchase of raw materials	12,406,853.36	21,765,972.67
Wanhua Ningbo	Purchase of goods	995,560,177.23	1,113,180,117.22
Ningbo Trading	Purchase of raw materials	-	90,441,884.06
Wanhua Hongkong	Purchase of raw materials	1,724,092,100.01	-
Ningbo Rongwei	Purchase of raw materials/ Receipt of services	463,014.82	10,909,782.09
Yantai Chlor-Alkali Thermal Power	Purchase of raw materials	711,543,157.79	103,320,616.61
Yantai Selling	Purchase of goods	95,893,949.81	29,253,673.01
Yantai Wanhua Chemical Design Institute	Design services	29,493,463.03	19,911,366.06

Sales of goods, provision and receipt of services

Related Party	Transaction type	RMB	
		Amount for the current period	Restated amount for the prior period
		Amount	Amount
Wanhua Beijing	Sales of materials /provision of services	14,367,711.63	61,075,140.64
Wanhua Ningbo	Sales of goods	828,971,422.90	181,238,717.08
Ningbo Trading	Sales of goods	856,044,852.27	46,892,873.08
Wanhua HongKong	Sales of goods	657,974,887.86	466,005,808.61
Foshan Rongwei	Sales of materials /provision of services	3,300,000.00	2,602,905.98
Ningbo Rongwei	Sales of materials /provision of services	3,453,038.55	3,504,970.09
Yantai Rongwei	Sales of materials	118,427.88	-
Yantai Chlor-Alkali Thermal Power	Sales of materials /provision of services	342,547,403.04	65,330,490.29
Wanhua Guangdong	Sales of materials	1,948,895.93	463,705.38
Yantai Selling	Sales of goods	3,459,527,907.50	2,045,267,001.01
Yantai Petrochemical	Sales of goods	1,820,997,053.52	-

Note: The pricing of the transactions is in accordance with the general service agreements, product purchase and sales contracts and other supplementary agreement signed between the Company and the related parties. All the agreements are signed according to the principles of equality, voluntariness and fairness.

(XIV) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

1. Besides the related party relationship and transactions mentioned in Note (X), the Company and subsidiaries have significant transactions, listed below: - continued

(b) Guarantees with related parties

RMB

Guaranteed party	Guaranteed amount	Guaranteed amount used	Inception date of guarantee	Expiration date of guarantee	Whether execution of guarantee has been completed
Wanhua Ningbo	1,601,136,400.00	1,514,517,863.23	28 December 2011	28 February 2020	N
Yantai Thermal Power	1,261,130,000.00	1,211,130,000.00	9 August 2013	27 March 2019	N
Wanhua HongKong	2,913,726,000.00	570,545,150.18	10 May 2014	10 August 2020	N
BVI	1,068,200,000.00	1,068,200,000.00	19 November 2014	19 November 2017	N
Yantai Selling	2,081,540,000.00	1,696,000,000.00	17 April 2015	25 November 2016	N
Ningbo Rongwei	350,000,000.00	200,000,000.00	28 February 2015	28 February 2020	N
Ningbo Chlor-Alkali	150,000,000.00	149,710,000.00	28 February 2015	28 February 2020	N
Foshan Rongwei	140,927,300.00	-	24 March 2013	28 February 2020	N
Yantai Rongwei	130,000,000.00	60,015,000.00	23 July 2015	21 July 2020	N
Wanhua Beijing	10,000,000.00	-	28 September 2015	13 August 2016	N

(c) Borrowings/loans with related parties

RMB

Related Party	Amount of borrowing/loan		Related Party	Amount of borrowing/loan
Lent to:				
Yantai Selling	480,000,000.00	17 April 2015	30 August 2016	480,000,000.00
Yantai Thermal Power	440,000,000.00	10 August 2015	30 August 2016	440,000,000.00
Yantai Thermal Power	277,000,000.00	21 October 2015	21 October 2030	277,000,000.00
Wanhua Ningbo	185,000,000.00	31 August 2015	29 July 2016	185,000,000.00
Foshan Rongwei	99,100,000.00	5 January 2015	undecided	-
Foshan Rongwei	55,000,000.00	10 August 2015	16 April 2016	55,000,000.00
Wanhua Guangdong	51,720,000.00	9 February 2015	undecided	51,720,000.00
Yantai Rongwei	25,120,000.00	31 July 2017	undecided	25,120,000.00
Ningbo Trading	25,000,000.00	31 August 2015	29 July 2016	25,000,000.00
Borrowed from:				
Nil				

(XIV) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

1. Besides the related party relationship and transactions mentioned in Note (X), the Company and subsidiaries have significant transactions, listed below: - continued

(d) Amounts due from / to related parties

Amounts due from / to related parties

RMB

Item	Related Party	Closing balance		Opening balance	
		Carrying balance	Provision	Carrying balance	Provision
Accounts Receivable	Yantai Rongwei	138,560.62	-	-	-
Accounts Receivable	Yantai Petrochemical	1,043,816,535.15	-	-	-
Accounts Receivable	Wanhua Guangdong	-	-	542,535.29	-
prepayment	Wanhua Ningbo	-	-	476,582.77	-
Other receivables	Foshan Rongwei	55,058,993.06	-	-	-
Other receivables	Yantai Wanhua Chemical Design Institute	15,881,606.40	-	18,218,186.25	-
Other receivables	Wanhua Guangdong	51,720,000.00	-	-	-
Other receivables	Yantai Rongwei	25,181,287.71	-	-	-
Other receivables	Wanhua HongKong	-	-	96,721.43	-
Other receivables	Shanghai Kejv	25,383,816.40	-	1,700,000.00	-
Other receivables	Yantai Selling	480,511,125.00	-	-	-
Other receivables	Wanhua Ningbo	185,230,819.18	-	-	-
Other receivables	Ningbo Trading	25,031,191.78	-	-	-
Other receivables	Yantai Thermal Power	440,575,599.98	-	-	-
Long-term receivables	Yantai Thermal Power	277,000,000.00	-	-	-

Amounts due to related parties

RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Wanhua Beijing	20,239.21	90,796.38
Accounts payable	Yantai Trading	-	19,784,237.35
Accounts payable	Wanhua Ningbo	1,234,651.10	5,692,544.81
Accounts payable	Ningbo Rongwei	219,598.77	136,783.40
Accounts payable	Foshan Rongwei	-	936,920.10
Accounts payable	Yantai Wanhua Chemical Design Institute	9,564,900.73	1,893,097.90
Accounts payable	Yantai Chlor-Alkali	3,026,412.41	5,006,922.40
Receipts in advance	Wanhua HongKong	-	49,341,889.51
Receipts in advance	Wanhua Beijing	-	69,719,665.84
Receipts in advance	Ningbo Trading	-	118.48
Receipts in advance	Yantai Selling	7,970,723,441.86	2,799,644,789.55
Other payables	Yantai Thermal Power	23,300.00	23,400.00
Other payables	Wanhua HongKong	73,326,987.65	-
Other payables	Yantai Trading	19,784,237.35	-

(XV) SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

RMB

Items	Amount
Profit or (loss) on disposal of non-current assets	(160,020,095.77)
Government grants recognized in profit or loss (other than grants which are closely related to the Company's business and are either in fixed amounts or determined under quantitative methods in accordance with the national standard)	292,818,821.21
Income from the changes in fair values of held-for-trading financial assets and liabilities and investment income from the disposal of held-for-trading financial assets and liabilities and available-for-sale assets other than those effective hedging business relating to the normal operations of the Company	(3,466,833.57)
Trust fee from entrusted operation management	10,000,000.00
Other non-operating income or expenses other than the above	6,637,106.66
Other non-recurring profit or loss	-
Tax effects	(43,935,138.99)
Effects attributable to minority interests (after tax)	(46,919,622.68)
Total	55,114,236.86

2. Return on net assets and earnings per share ("EPS")

The return on net assets and EPS have been prepared by Wanhua Chemical Group Co., Ltd. in accordance with Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 - Calculation and Disclosure of Return on Net Assets and Earnings Per Share (Revised 2010) issued by China Securities Regulatory Commission.

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic EPS RMB	Diluted EPS RMB
Net profit attributable to ordinary shareholders of the Company	14.67	0.74	N/A
Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company	14.17	0.72	N/A