

WANHUA CHEMICAL GROUP CO., LTD.

2019 ANNUAL REPORT

Company Code : 600309



Important Note

I. Board of directors (the "Board"), board of supervisors, directors, supervisors and senior management of the Company certify that this report does not contain any false or misleading statements or material omissions and are jointly and severally liable for the authenticity, accuracy and integrity of the content.

II. All directors of the Company attended the Board meeting.

III. Deloitte Touche Tohmatsu Certified Public Accountants LLP issued standard unqualified audit report for the Company.

IV. Mr. Liao Zengtai, legal representative, Mr. Li Limin, the chief financial officer, and Mr. Zhang Shoujun, the head of accounting department (the person in charge of accounting), certify the authenticity, accuracy and integrity of the financial statements contained in the annual report of the current year.

V. Plan of profit distribution or capital reserve capitalization approved by the Board.

Profits available to shareholders would be distributed to all shareholders at a cash dividend of RMB 13 (inclusive of tax) for every ten shares based on 3,139,746,626.00 outstanding shares in total which has taken consideration the registration of new shares involved in the merger by absorption of Yantai Wanhua Chemical Co., Ltd. and the cancellation shares held by Yantai Wanhua Chemical Co., Ltd. in February 2019. The profit for distribution totally amounted to RMB 4,081,670,613.80, with undistributed profits of RMB 7,367,415,331.55 carrying forward to subsequent years for distribution.

VI. Risk statement of forward-looking description

Applicable Not Applicable

The forward-looking description on future plan and development strategy in this report does not constitute substantive commitment to investors. Please note the investment risk.

VII. Does the situation exist where the controlling shareholders and their related parties occupy the funds of the Company for non-operational use?

No

VIII. Does the situation exist where the Company provides external guarantee which is not in compliance with the required decision-making procedures?

No

IX. Significant risk alert There are no significant risks which have adverse effects on the Company's future development strategy and operation objects during the reporting period.

X. Others Applicable Not Applicable

I. Financial Indicators of the Company

(I) Major accounting data and financial indicators in recent three years

1. Major accounting data

Unit: RMB

Major accounting data	2019	2018		Year on year (%)	2017	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Operating income	68,050,668,650.78	72,837,108,238.47	60,621,193,436.91	-6.57	64,843,888,389.47	53,123,173,258.81
Net profit attributable to shareholders of the Company	10,129,985,097.55	15,566,255,853.88	10,610,379,859.30	-34.92	15,780,196,382.59	11,134,790,281.66
Net profit excluding non-recurring profit or loss attributable to shareholders of the Company	9,156,342,202.26	10,034,835,805.76	10,034,835,805.76	-8.75	10,710,734,337.04	10,710,734,337.04
Net cash flow from operating activities	25,932,941,200.65	22,877,296,893.61	19,257,494,429.46	13.36	14,288,943,140.70	10,707,798,595.40
	31 December 2019	31 December 2018		Year on year (%)	31 December 2017	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Net assets attributable to shareholders of the Company	42,364,094,555.73	38,048,993,610.30	33,778,735,672.70	11.34	26,599,132,681.93	27,279,539,897.19
Total assets	96,865,322,655.29	87,063,457,480.75	76,912,659,201.52	11.26	78,318,061,936.21	65,827,732,248.24

2. Major financial indicators

Major financial indicators	2019	2018		Year on year (%)	2017	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Basic earnings per share (RMB/Share)	3.23	4.96	3.88	-34.88	5.03	4.09
Diluted earnings per share (RMB/Share)						
Basic earnings per share excluding non-recurring profit or loss (RMB/Share)	2.92	3.67	3.67	-20.44	3.93	3.93
Weighted average return on net assets (%)	25.44	50.83	36.82	Decreased by 25.39 percentage points	85.88	50.66
Weighted average return on net assets excluding non-recurring profit or loss (%)	22.99	34.82	36.82	Decreased by 11.83 percentage points	48.73	48.73

(II) Quarterly financial data for the year 2019

Unit: RMB

	First Quarter (Jan. to Mar.)	Second Quarter (Apr. to Jun.)	Third Quarter (Jul. to Sept.)	Fourth Quarter (Oct. to Dec.)
Operating income	15,952,006,779.50	15,586,990,991.15	17,000,173,528.87	19,511,497,351.26
Net profit attributable to shareholders of the Company	2,795,804,827.72	2,825,297,820.81	2,278,196,579.30	2,230,685,869.72
Net profit excluding non-recurring profit or loss attributable to shareholders of the Company	2,416,096,643.72	2,625,743,022.92	2,205,614,738.83	1,908,887,796.79
Net cash flow from operating activities	4,505,571,786.10	3,779,365,904.80	4,836,637,693.10	12,811,365,816.65

II. The Company's Business Overview

Principal businesses, operation models and industry profile in the reporting period:

At present, Wanhua has formed three industrial clusters covering PU, petrochemical, fine chemicals and new materials, which are highly integrated in industry chains with high integration of production. By continuing to increase technological innovation, relying on the international layout competitive advantage and excellent operation system, Wanhua has effectively maintained the rapid growth and development of its business.

III. Discussion and Analysis for Operation

(I) Discussion and Analysis for Operation

In 2019, inspired by the new mission of "Advancing chemistry, transforming lives", the company took "focusing on reform, consolidating the foundation, controlling costs, and looking for the future" as its working idea. In the context of slowing global economic growth, the operation of PU, petrochemical and fine chemicals industries still achieved good results. At the same time, the ability of industrial integration, technological innovation, marketing and excellent operation has also been improved.

(II) Operation conditions in the reporting period

In 2019, the Company achieved sales revenue of RMB 68.051 billion, down 6.57% year on year; net profits attributable to shareholders of listed companies of RMB 10.13 billion, down 34.92% year on year, and gained earnings per share of RMB 3.23. At the end of 2019, the Company's accomplished RMB 96.865 billion in total assets, up 11.26% year on year; RMB 42.364 billion in the owners' equity attributable to the parent company, up 11.34% year on year; 25.44% in the weighted average ROE, down 25.39 % year on year; RMB 13.49 in net assets per share, up 11.30% year on year; and 54.65 % in the asset-liability ratio, down 0.11% year on year.

(III) Analysis on principal businesses

1. Analysis on accounts changes in profit statement and cash flow statement

Unit: RMB

	2019	2018	Changes (%)
Operating income	68,050,668,650.78	72,837,108,238.47	-6.57
Operating costs	48,997,610,501.85	46,967,835,737.85	4.32
Selling expenses	2,782,908,073.79	2,460,497,056.42	13.10
Administrative expenses	1,433,850,380.23	1,372,527,454.56	4.47
Research and development expenditures	1,704,767,184.22	1,628,636,347.08	4.67
Financial expenses	1,079,748,165.38	1,048,110,050.12	3.02
Net cash flow from operating activities	25,932,941,200.65	22,877,296,893.61	13.36
Net cash flow from investing activities	-18,366,861,004.11	-10,570,301,924.83	-73.76
Net cash flow from financing activities	-9,233,039,125.85	-9,936,485,753.17	7.08

2. Income and cost analysis

Applicable Not Applicable

During the reporting period, due to the lower market price of PU products than last year, the operating results throughout the year decreased year on year. Prices in all sectors were lower than last year, resulting in a year-on-year drop in operating revenue.

(1) Analysis on principal businesses by industry, product and geographical region

Unit: RMB

By industry						
By industry	Operating income	Operating costs	Gross margin ratio (%)	Change of operating Income (%)	Change of operating Costs (%)	Change of gross margin ratio (%)
Chemical engineering	66,512,993,977.66	47,631,357,053.12	28.39	-6.56	4.65	Decreased by 7.67 percentage points
Others	776,487,987.23	652,891,102.51	15.92	4.39	11.36	Decreased by 5.26 percentage points
By product						
By product	Operating income	Operating costs	Gross margin ratio (%)	Change of operating Income (%)	Change of operating Costs (%)	Change of gross margin ratio (%)
PU series	31,858,132,196.96	18,687,947,340.62	41.34	-18.65	-3.45	Decreased by 9.23 percentage points
Petrochemical series	20,102,035,692.32	17,859,813,537.77	11.15	-3.21	-4.16	Increased by 0.88 percentage points
Fine chemicals & new material series	7,087,781,025.56	5,271,263,020.54	25.63	24.38	35.13	Decreased by 5.91 percentage points
Others	8,241,533,050.05	6,465,224,256.70	21.55	30.78	53.58	Decreased by 11.65 percentage points
By product						
By geographical region	Operating income	Operating costs	Gross margin ratio (%)	Change of operating Income (%)	Change of operating Costs (%)	Change of gross margin ratio (%)
Domestic	37,172,317,981.31	24,629,996,091.61	33.74	-5.51	6.31	Decreased by 7.37 percentage points
Oversea	30,117,163,983.58	23,654,252,064.02	21.46	-7.58	3.14	Decreased by 8.17 percentage points

Explanations for principal businesses by industry, product or geographical region:

Applicable Not Applicable

The Company's PU series products experienced decreases in the operating income and cost, and a certain decrease in the gross profit margin compared with the same period of last year, mainly due to decreased prices in all products during the reporting period.

The Company's petrochemical products experienced decreases in the operating income and cost, but basically the gross profit margin this year equals that of the last, mainly due to decreased prices and cost per unit in all products during the reporting period.

The Company's fine chemicals & new material series experienced a certain surge in the operating income and cost, but a slight decrease in the gross profit margin compared with the same period of last year, mainly due to decreased prices in all products despite the rise in sales volume during the reporting period.

(2) Analysis on production and sales

Applicable Not Applicable

Unit: RMB

Enterprises	Production (Volume)	Sales (Volume)	Inventories (Volume)	Change of Production (Volume) (%)	Change of Sales (Volume) (%)	Change in inventories (%)
PU series	2,682,387ton	2,619,603ton	215,053ton	16.37%	12.27%	22.07%
Petrochemical series	1,990,066ton	1,978,362ton	91,695ton	10.99%	9.78%	14.63%
Fine chemicals & new material series	426,902ton	414,670ton	56,260ton	38.07%	37.35%	27.78%

(3) Cost analysis

Unit: RMB

Divided by Industry							
By industry	Items	2019	Proportion to total costs (%)	2018	Proportion to total costs (%)	Changes (%)	Remark
Chemical Industry	Raw material,	35,367,306,551.21	74.26	34,487,517,219.40	75.77	2.55	
Chemical Industry	Labor salaries	2,192,371,476.38	4.60	1,710,055,647.58	3.76	28.20	
Chemical Industry	Depreciation	3,834,954,122.89	8.05	3,513,308,864.37	7.72	9.16	
Chemical Industry	Energy	4,736,831,511.25	9.94	4,254,507,193.16	9.35	11.34	
Chemical Industry	Others	1,499,893,391.39	3.15	1,549,160,425.45	3.40	-3.18	
	Total	47,631,357,053.12	100.00	45,514,549,349.96	100.00	4.65	
Other Industry	Raw material,	353,607,804.00	54.16	309,692,410.00	52.82	14.18	
Other Industry	Labor salaries	39,371,324.10	6.03	34,310,009.56	5.85	14.75	
Other Industry	Depreciation	58,533,290.32	8.97	54,609,460.94	9.31	7.19	
Other Industry	Energy	129,094,558.20	19.77	122,967,740.28	20.97	4.98	
Other Industry	Others	72,284,125.89	11.07	64,724,739.73	11.05	11.68	
	Total	652,891,102.51	100.00	586,304,360.51	100.00	11.36	
Divided by Product							
By product							
PU series	Items	2019	Proportion to total costs (%)	2018	Proportion to total costs (%)	Changes (%)	Remark
PU series	Raw material,	12,885,103,569.48	68.95	13,534,718,865.72	69.93	-4.80	
PU series	Labor salaries	1,255,272,619.86	6.72	1,026,369,223.20	5.30	22.30	
PU series	Depreciation	2,005,515,243.98	10.73	1,937,503,978.25	10.01	3.51	
PU series	Energy	1,733,000,026.02	9.27	1,822,585,195.37	9.42	-4.92	
PU series	Others	809,055,881.28	4.33	1,033,998,478.24	5.34	-21.75	
	Total	18,687,947,340.62	100.00	19,355,175,740.78	100.00	-3.45	
Petrochemical series	Raw material,	14,747,048,622.81	82.57	15,648,666,891.51	83.97	-5.76	
Petrochemical series	Labor salaries	386,478,083.07	2.16	326,720,602.91	1.75	18.29	
Petrochemical series	Depreciation	1,120,466,388.49	6.27	1,107,002,610.56	5.94	1.22	
Petrochemical series	Energy	1,310,214,153.68	7.34	1,308,626,962.81	7.02	0.12	
Petrochemical series	Others	295,606,289.72	1.66	244,034,305.14	1.32	21.13	
	Total	17,859,813,537.77	100.00	18,635,051,372.93	100.00	-4.16	
Fine chemicals & new material series	Raw material,	3,838,599,057.99	72.82	2,987,382,760.14	76.58	28.49	
Fine chemicals & new material series	Labor salaries	389,627,577.71	7.39	242,155,728.85	6.21	60.90	
Fine chemicals & new material series	Depreciation	346,828,959.06	6.58	206,027,530.63	5.28	68.34	
Fine chemicals & new material series	Energy	404,352,695.76	7.67	280,207,733.98	7.18	44.30	
Fine chemicals & new material series	Others	291,854,730.02	5.54	185,044,695.57	4.75	57.72	
	Total	5,271,263,020.54	100.00	3,900,818,449.17	100.00	35.13	
Others	Raw material,	4,250,163,104.93	65.73	2,626,441,112.03	62.39	61.82	
Others	Labor salaries	200,364,519.84	3.10	149,120,102.18	3.54	34.36	
Others	Depreciation	420,676,821.69	6.51	317,384,205.86	7.54	32.54	
Others	Energy	1,418,359,193.99	21.94	966,055,041.28	22.95	46.82	
Others	Others	175,660,616.25	2.72	150,807,686.24	3.58	16.48	
	Total	6,465,224,256.70	100.00	4,209,808,147.59	100.00	53.58	

Explanations for other information of cost analysis:

✓ Applicable Not Applicable

The fine chemicals & new material series and others series sales volumes increased significantly in the reporting period, which caused the operating cost in 2019 increased comparing with that of the same period of last year.

(4) Research and development expenditures

Research and development ("R&D") expenditures

✓ Applicable Not Applicable

Unit: RMB

R&D investments expensed in the current period	1,704,767,184.22
R&D investments capitalized in the current period	
Total R&D investments	1,704,767,184.22
Proportion of R&D investments to operating income (%)	2.51
Headcounts of R &D personnel	2,348
Proportion of R&D headcount to total employee headcount (%)	15.25
Proportion of capitalization of R&D expenditures (%)	

(5) Cash Flow

Unit: RMB

Item	Amount for the current year	Amount for the prior year	Changes (%)	Year on year (%)	Explanation
Net Cash Flow from Operating Activities	25,932,941,200.65	22,877,296,893.61	3,055,644,307.04	13.36	No significant changes
Net Cash Flow from Investing Activities	-18,366,861,004.11	-10,570,301,924.83	-7,796,559,079.28	-73.76	Mainly due to the increase in the payment for Wanhua Yantai Industrial Park Project comparing with the same period of last year
Net Cash Flow from Financing Activities	-9,233,039,125.85	-9,936,485,753.17	703,446,627.32	7.08	No significant changes

(IV) Analysis of assets and liabilities

Unit: RMB

Items	31 December 2019	Proportion to total assets (%)	31 December 2018	Proportion to total assets (%)	Changes (%)	Explanations
Cash and bank balances	4,566,327,060.34	4.71	7,229,283,196.61	8.30	-36.84	Mainly due to the repayment of interest-bearing debts
Held-for-trading financial assets.	30,367,333.35	0.03				Due to the increase of entrusted financing
Derivative financial assets	58,694,405.00	0.06	108,787,119.90	0.12	-46.05	Due to settlement of derivative financial assets and change of fair value
Notes receivable			9,539,066,246.73	10.96	-100	This is because that notes receivable measured by fair value is presented as financing receivables according to New Standards for Financial Instruments
Financing receivables	3,946,731,006.53	4.07				This is because that notes receivable measured by fair value is presented as financing receivables according to New Standards for Financial Instruments and notes receivable discounted increases
Other accounts receivable	574,999,455.98	0.59	356,888,080.70	0.41	61.11	Mainly due to the increase in export rebates receivable and VAT refund
Other current asset	848,717,543.91	0.88	430,797,378.67	0.49	97.01	Mainly due to the increase in Retained VAT for the current year
Available-for-sale financial assets			20,000,000.00	0.02	-100.00	This is because that Available-for-sale financial assets measured by fair value is presented as investments in other equity instruments according to New Standards for Financial Instruments
Long-term receivables	617,232,763.67	0.64	473,787,983.82	0.54	30.28	Mainly due to the increase in employee' s borrowings for housing purchase
Investments in other equity instruments	174,669,108.67	0.18				This is because that Available-for-sale financial assets measured by fair value is presented as investments in other equity instruments according to New Standards for Financial Instruments
Construction in progress	24,066,265,300.30	24.85	11,340,469,807.98	13.03	112.22	Mainly due to the increase in the investment of Yantai Industrial Park Project in the current year
Intangible assets	5,336,636,534.70	5.51	3,314,338,657.52	3.81	61.02	Mainly due to the increase of non-patent technology for acquisition of Chematur Technologies AB, and BOT project transferred to intangible assets
Deferred Tax Assets	604,307,441.69	0.62	931,332,302.25	1.07	-35.11	It is mainly caused by one-off pre tax deduction of fixed assets under 5 million yuan in accordance with tax preferential policies, and hedging deductible temporary differences
Derivative financial liabilities	40,280,488.36	0.04	12,811,022.70	0.01	214.42	Due to settlement of derivative financial liabilities and change of fair value

Unit: RMB

Items	31 December 2019	Proportion to total assets (%)	31 December 2018	Proportion to total assets (%)	Changes (%)	Explanations
Notes Payable	8,386,383,385.20	8.66	4,146,809,415.90	4.76	102.24	Mainly due to the increase in payment via new notes for project and purchase of raw materials
Accounts Payable	8,024,420,861.29	8.28	4,662,140,608.35	5.35	72.12	Mainly due to the increase in the payment for project in Wanhua Yantai Industrial Park
Taxes Payable	494,096,118.95	0.51	1,610,920,720.78	1.85	-69.33	Mainly due to the decrease in enterprise income tax
Non-Current Liabilities Due within One Year	3,324,127,445.00	3.43	5,263,434,317.35	6.05	-36.84	Mainly due to the repayment of non-current liabilities
Deferred Tax Liabilities	398,740,487.40	0.41	122,016,465.49	0.14	226.79	Mainly due to value added of assets appraisal for acquisition of Chematur Technologies AB
Capital reserve	2,161,531,637.83	2.23	3,703,082,102.70	4.25	-41.63	Mainly due to issuing shares for merging Wanhua Chemical Industry
Treasury shares			1,310,256,380.00	1.50	-100.00	After the merger of Wanhua Chemical Industry, cancelling the shares of the Company held by Wanhua Chemical Industry
Other comprehensive income	-81,325,055.23	-0.08	-165,102,891.30	-0.19	50.74	Mainly due to the change of hedging instrument and investments in other equity instruments

Assets with restrictions at the end of December 31, 2019:

Unit: RMB

Items	Closing balance of book value	Reasons to be restricted
Cash and bank balances	35,381,373.68	Deposits for letter of credit, LPG OTC transaction deposits, Deposits for purchase
Cash and bank balances	12,238,678.87	Deposits for product registration, Deposits for tax authority and railway authority
Financing receivables	2,501,568,388.38	Pledged for receiving bank loans, opening acceptance bills, letter of credit
Inventories	106,494,003.00	Used for receiving loans
Fixed assets	5,958,142,550.56	Used for receiving loans
Intangible assets	500,192.00	Used for receiving loans
TOTAL	8,614,325,186.49	



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