

WANHUA CHEMICAL GROUP CO., LTD.

Financial Statements and Auditor's Report  
For the year ended 31 December 2016

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## AUDITOR'S REPORT

De Shi Bao (Shen) Zi (17) No.P01818  
[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 2016, 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.

AUDITOR'S REPORT (continued)

De Shi Bao (Shen) Zi (17) No.P01818  
[Translation]

**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 2016, 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 Accountants:

Zhu Xiaolan

Wang Xin

8 April 2017

*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.*

AT 31 DECEMBER 2016

## Consolidated Balance Sheet

RMB

Item	Note	Closing balance	Opening Balance	Item	Note	Closing balance	Opening Balance
<b>Current assets:</b>				<b>Current liabilities:</b>			
Cash and bank balances	(V)1	1,986,803,439.19	2,066,361,762.97	Short-term borrowings	(V)18	8,501,465,901.41	9,637,861,380.59
Notes receivable	(V)2	3,608,297,836.67	1,224,034,501.14	Derivative financial liabilities	(V)19	7,514,019.66	-
Accounts receivable	(V)3	1,714,873,634.39	1,213,878,016.12	Notes payable	(V)20	1,860,820,056.31	2,221,250,502.00
Prepayments	(V)4	239,227,748.59	370,990,681.75	Accounts payable	(V)21	3,467,152,841.25	3,400,457,107.78
Other receivables	(V)5	126,061,504.73	142,154,888.49	Receipts in advance	(V)22	1,496,702,136.79	711,215,589.43
Inventories	(V)6	4,337,350,786.56	4,193,853,062.94	Employee benefits payable	(V)23	362,941,027.16	205,970,794.96
Other current assets	(V)7	1,223,181,558.97	1,815,314,119.31	Taxes payable	(V)24	556,392,301.68	232,772,820.35
<b>Total current assets</b>		<b>13,235,796,509.10</b>	<b>11,026,587,032.72</b>	Interest payable	(V)25	91,712,154.74	75,252,173.54
<b>Non-current assets:</b>				Other payables	(V)26	511,581,101.39	275,697,231.42
Available-for-sale financial assets	(V)8	20,000,000.00	20,000,000.00	Non-current liabilities due within 1 year	(V)27	4,045,125,000.13	2,512,795,314.89
Long-term receivables	(V)9	276,851,198.01	247,862,406.51	Other current liabilities	(V)28	1,700,000,000.00	-
Long-term equity investments	(V)10	363,304,422.54	186,128,063.15	<b>Total current liabilities</b>		<b>22,601,406,540.52</b>	<b>19,273,272,914.96</b>
Fixed assets	(V)11	28,467,944,952.56	20,046,292,042.67	<b>Non-current liabilities:</b>			
Construction in progress	(V)12	4,244,587,397.64	12,409,182,506.28	Long-term borrowings	(V)29	9,333,344,999.74	11,440,236,985.11
Materials for construction of fixed assets	(V)13	454,182,921.75	288,918,624.82	Bonds payable	(V)30	-	1,980,000,000.00
Intangible assets	(V)14	2,611,559,168.74	2,252,000,441.89	Long-term payables	(V)31	2,705,450.00	4,058,178.00
Goodwill	(V)15	277,518,585.35	277,518,585.35	Deferred income	(V)32	475,428,079.03	262,906,450.75
Long-term prepaid expenses		17,564,859.40	-	Deferred tax liabilities	(V)16	18,193,330.19	20,708,157.32
Deferred tax assets	(V)16	447,603,763.74	337,540,615.06	<b>Total non-current liabilities</b>		<b>9,829,671,858.96</b>	<b>13,707,909,771.18</b>
Other non-current assets	(V)17	348,101,676.33	712,386,763.47	<b>Total liabilities</b>		<b>32,431,078,399.48</b>	<b>32,981,182,686.14</b>
<b>Total non-current assets</b>		<b>37,529,218,946.06</b>	<b>36,777,830,049.20</b>	<b>Shareholders' equity:</b>			
				Share capital	(V)33	2,162,334,720.00	2,162,334,720.00
				Capital reserve	(V)34	48,410,490.40	48,344,557.95
				Other comprehensive income	(V)35	7,607,533.24	4,015,139.50
				Special reserve	(V)36	-	-
				Surplus reserve	(V)37	1,579,310,659.11	1,579,310,659.11
				Retained earnings	(V)38	11,023,922,668.07	7,776,967,780.17
				Total owners' equity attributable to equity holders of the Company		14,821,586,070.82	11,570,972,856.73
				Minority interests		3,512,350,984.86	3,252,261,539.05
				<b>Total shareholders' equity</b>		<b>18,333,937,055.68</b>	<b>14,823,234,395.78</b>
<b>TOTAL ASSETS</b>		<b>50,765,015,455.16</b>	<b>47,804,417,081.92</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>50,765,015,455.16</b>	<b>47,804,417,081.92</b>

Notes form part of the financial statements.

The financial statements on pages 3 to 103 were signed by the following:

Legal Representative:

Person in Charge of the Accounting Body:

Chief Accountant:

AT 31 DECEMBER 2016

## Balance Sheet of the Company

RMB

Item	Note	Closing balance	Opening Balance	Item	Note	Closing balance	Opening Balance
<b>Current assets:</b>				<b>Current liabilities:</b>			
Cash and bank balances		605,649,464.46	1,345,386,565.07	Short-term borrowings		4,342,210,453.14	4,080,120,000.00
Notes receivable		5,300,000.00	108,391,973.86	Notes payable		654,000,000.00	1,132,500,000.00
Accounts receivable	(XIII)1	170,325,974.10	1,096,696,260.11	Accounts payable		3,097,496,626.89	2,247,890,816.30
Prepayments		75,046,969.36	142,555,274.78	Receipts in advance		3,440,112,292.45	7,980,995,326.38
Other receivables	(XIII)2	860,124,111.26	1,357,248,307.24	Employee benefits payable		254,002,074.54	125,156,071.37
Inventories		1,642,207,077.60	1,435,455,780.78	Taxes payable		20,344,904.34	16,078,758.19
Other current assets		916,366,420.77	1,477,651,292.47	Interest payable		75,710,175.27	59,269,985.60
<b>Total current assets</b>		<b>4,275,020,017.55</b>	<b>6,963,385,454.31</b>	Other payables		177,421,812.55	184,473,540.19
<b>Non-current assets:</b>				Non-current liabilities due within 1 year		3,403,333,333.46	1,839,423,648.22
Available-for-sale financial assets		20,000,000.00	20,000,000.00	Other current liabilities		1,700,000,000.00	-
Long-term receivables		485,442,509.40	466,864,500.00	<b>Total current liabilities</b>		<b>17,164,631,672.64</b>	<b>17,665,908,146.25</b>
Long-term equity investments	(XIII)3	2,364,487,389.87	2,344,736,812.48	<b>Non-current liabilities:</b>			
Fixed assets		18,933,436,195.69	10,372,931,455.93	Long-term borrowings		7,282,999,999.75	10,108,526,351.78
Construction in progress		3,040,725,980.80	11,227,783,913.06	Bonds payable		-	1,000,000,000.00
Materials for construction of fixed assets		365,175,790.81	206,627,366.30	Long-term payables		2,705,450.00	4,058,178.00
Intangible assets		2,087,759,719.44	1,842,032,499.36	Deferred income		393,026,669.06	211,730,000.00
Long-term prepaid expenses		17,538,540.02	-	<b>Total non-current liabilities</b>		<b>7,678,732,118.81</b>	<b>11,324,314,529.78</b>
Deferred tax assets		144,686,114.58	161,631,579.44	<b>Total liabilities</b>		<b>24,843,363,791.45</b>	<b>28,990,222,676.03</b>
Other non-current assets		247,733,136.84	327,373,270.16	<b>Shareholders' equity:</b>			
<b>Total non-current assets</b>		<b>27,706,985,377.45</b>	<b>26,969,981,396.73</b>	Share capital		2,162,334,720.00	2,162,334,720.00
				Capital reserve		101,500,285.12	101,434,352.67
				Surplus reserve		1,579,310,659.11	1,579,310,659.11
				Retained earnings		3,295,495,939.32	1,100,064,443.23
				<b>Total shareholders' equity</b>		<b>7,138,641,603.55</b>	<b>4,943,144,175.01</b>
<b>TOTAL ASSETS</b>		<b>31,982,005,395.00</b>	<b>33,933,366,851.04</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>31,982,005,395.00</b>	<b>33,933,366,851.04</b>

FOR THE YEAR ENDED 31 DECEMBER 2016

## Consolidated Income Statement

RMB

Item	Note	Amount for the current period	Amount for the prior period
I. Operating income	(V)39	30,099,861,530.44	19,492,382,889.53
Less: Operating costs	(V)39	20,744,809,250.07	13,619,965,426.60
Taxes and levies	(V)40	203,761,067.86	95,650,234.63
Selling expenses	(V)41	1,165,983,654.89	847,269,688.95
Administrative expenses	(V)42	1,423,283,407.77	1,281,515,644.43
Financial expenses	(V)43	889,951,201.73	841,242,986.61
Impairment losses of assets	(V)44	74,298,764.33	(8,353,337.27)
Add: Gains(losses) from changes in fair values	(V)45	-	(3,466,833.57)
Investment income	(V)46	52,752,991.72	3,387,514.80
Including: Investment income (losses) from investments in associates and joint ventures		22,768,159.90	(2,612,485.20)
II. Operating profit		5,650,527,175.51	2,815,012,926.81
Add: Non-operating income	(V)47	89,748,999.64	302,312,759.66
Including: Gains on disposal of non-current assets		343,218.45	199,004.38
Less: Non-operating expenses	(V)48	87,196,774.33	162,876,927.56
Including: Loss from disposal of non-current assets		85,368,752.99	160,219,100.15
III. Total profit		5,653,079,400.82	2,954,448,758.91
Less: Income tax expenses	(V)49	1,105,009,965.22	674,887,970.40
IV. Net profit		4,548,069,435.60	2,279,560,788.51
Net profit attributable to owners of the Company		3,679,421,831.90	1,609,743,609.59
Net profit attributable to minority interests		868,647,603.70	669,817,178.92
V. Other comprehensive income, net of tax:	(V)35	3,592,393.74	16,541,396.93
Amount attributable to owners of the Company		3,592,393.74	16,541,396.93
(1)Items that will not be reclassified subsequently to profit or loss		-	-
(2)Items that may be reclassified subsequently to profit or loss		3,592,393.74	16,541,396.93
1. Effective portion of profit or loss in cash flow hedges		(7,514,019.66)	-
2. Translation differences of financial statements denominated in foreign currencies		11,106,413.40	16,541,396.93
Amount attributable to minority interests		-	-
VI. Total comprehensive income:		4,551,661,829.34	2,296,102,185.44
attributable to owners of the Company		3,683,014,225.64	1,626,285,006.52
attributable to minority interests		868,647,603.70	669,817,178.92
VII. Earnings per share :			
(1)Basic earnings per share	(XV)2	1.70	0.74
(2)Diluted earnings per share		N/A	N/A

FOR THE YEAR ENDED 31 DECEMBER 2016

## Income Statement of the Company

RMB

Item	Note	Amount for the current period	Amount for the prior period
I. Operating income	(XIII)4	10,863,983,104.57	7,977,775,282.56
Less: Operating costs	(XIII)4	7,545,163,053.83	6,657,622,588.98
Taxes and levies		44,172,786.96	1,789,162.68
Selling expenses		122,259,062.54	88,833,260.92
Administrative expenses		926,445,471.75	764,664,773.66
Financial expenses		509,044,040.98	361,325,454.27
Impairment losses of assets		12,600,691.27	(1,795,065.79)
Add: Investment income	(XIII)5	1,124,206,644.94	337,452,855.61
Including: Investment income (losses) from investments in associates and joint ventures		4,684,644.94	(2,612,485.20)
II. Operating profit		2,828,504,642.18	442,787,963.45
Add: Non-operating income		24,022,716.92	57,173,724.53
Including: Gains on disposal of non-current assets		115.84	175,511.18
Less: Non-operating expenses		38,376,195.43	137,559,622.02
Including: Losses from disposal of non-current assets		37,572,176.26	136,134,765.66
III. Total profit		2,814,151,163.67	362,402,065.96
Less: Income tax expenses		186,252,723.58	(27,373,813.21)
IV. Net profit		2,627,898,440.09	389,775,879.17
V. Other comprehensive income (net of tax)		-	-
VI. Total comprehensive income		2,627,898,440.09	389,775,879.17

FOR THE YEAR ENDED 31 DECEMBER 2016

## Consolidated Cash Flow Statement

RMB

Item	Note	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		37,012,639,797.66	25,981,900,736.91
Receipts of tax refunds		456,361,742.00	509,682,844.44
Other cash receipts relating to operating activities	(V)50(1)	186,759,133.04	397,359,391.30
Sub-total of cash inflows from operating activities		37,655,760,672.70	26,888,942,972.65
Cash payments for goods purchased and services received		24,633,123,207.39	17,503,058,307.23
Cash payments to and on behalf of employees		1,443,746,530.44	1,278,943,798.37
Payments of various types of taxes		2,239,167,671.94	1,728,678,452.59
Other cash payments relating to operating activities	(V)50(2)	1,990,879,384.10	1,775,868,688.54
Sub-total of cash outflows from operating activities		30,306,916,793.87	22,286,549,246.73
Net Cash Flow from Operating Activities	(V)51(1)	7,348,843,878.83	4,602,393,725.92
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from investment income		30,000,000.00	6,000,000.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		1,830,407.09	63,436,020.56
Cash receipts from other investment activities	(V)50(3)	194,000,000.00	4,879,455.16
Sub-total of cash inflows from investing activities		225,830,407.09	74,315,475.72
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		4,113,460,406.99	5,160,464,688.77
Cash payments to acquire investments		15,000,000.00	100,000,000.00
Other cash payments relating to investing activities	(V)50(4)	66,949,009.10	38,456,870.00
Sub-total of cash outflows from investing activities		4,195,409,416.09	5,298,921,558.77
Net Cash Flow from Investing Activities		(3,969,579,009.00)	(5,224,606,083.05)
<b>III. Cash Flows from Financing Activities:</b>			
Cash receipts from capital contributions		-	30,375,000.00
Including: cash receipts from capital contributions from minority owners of subsidiaries		-	30,375,000.00
Cash receipts from borrowings		20,637,077,946.00	27,662,825,929.04
Cash receipts from issue of bonds		1,700,000,000.00	-
Sub-total of cash inflows from financing activities		22,337,077,946.00	27,693,200,929.04
Cash repayments of borrowings		23,210,937,929.86	24,035,646,968.36
Cash repayments for distributing of dividends or profits or settlement of interest expenses		1,948,913,155.60	1,866,306,502.94
Including: payments for distribution of dividends or profits to minority owners of subsidiaries		491,478,000.00	139,057,500.00
Cash repayments of bond redemptions		669,600,000.00	20,000,000.00
Other cash payments relating to financing activities	(V)50(5)	11,897,770.83	14,966,474.95
Sub-total of cash outflows from financing activities		25,841,348,856.29	25,936,919,946.25
Net Cash Flow from Financing Activities		(3,504,270,910.29)	1,756,280,982.79
<b>IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>		25,562,818.50	(66,406,969.33)
<b>V. Net Increase(decrease) in Cash and Cash Equivalents</b>		<b>(99,443,221.96)</b>	<b>1,067,661,656.33</b>
Add: Opening balance of Cash and Cash Equivalents		2,062,291,762.97	994,630,106.64
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(V)51(2)	<b>1,962,848,541.01</b>	<b>2,062,291,762.97</b>

FOR THE YEAR ENDED 31 DECEMBER 2016

## Cash Flow Statement of the Company

RMB

Item	Note	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		9,100,273,960.13	13,582,639,180.58
Receipts of tax refunds		72,042,869.79	58,915,367.91
Other cash receipts relating to operating activities		86,596,786.12	111,623,266.08
Sub-total of cash inflows from operating activities		9,258,913,616.04	13,753,177,814.57
Cash payments for goods purchased and services received		6,356,331,952.70	8,842,972,708.61
Cash payments to and on behalf of employees		793,256,693.86	662,610,905.95
Payments of various types of taxes		263,540,024.65	72,180,624.74
Other cash payments relating to operating activities		408,826,315.55	317,959,301.62
Sub-total of cash outflows from operating activities		7,821,954,986.76	9,895,723,540.92
Net Cash Flow from Operating Activities	(XIII)6	1,436,958,629.28	3,857,454,273.65
<b>II. Cash Flows for Investing Activities:</b>			
Cash receipts from investment income		1,147,810,370.41	136,942,500.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		1,335,863.64	63,412,527.36
Other cash receipts relating to investing activities		1,595,318,514.03	23,105,304.89
Sub-total of cash inflows from investing activities		2,744,464,748.08	223,460,332.25
Cash payment to acquire or construct fixed assets, intangible assets and other long-term assets		2,469,053,319.76	3,372,190,824.58
Cash payments to acquire investments		15,000,000.00	350,322,587.12
Other cash payments relating to investing activities		975,876,989.91	1,507,067,479.48
Sub-total of cash outflows from investing activities		3,459,930,309.67	5,229,580,891.18
Net Cash Flow from Investing Activities		(715,465,561.59)	(5,006,120,558.93)
<b>III. Cash Flows from Financing Activities:</b>			
Cash receipts from borrowings		10,647,690,979.10	13,519,358,957.77
Cash receipts from issue of bonds		1,700,000,000.00	-
Sub-total of cash inflows from financing activities		12,347,690,979.10	13,519,358,957.77
Cash repayments of borrowings		12,733,629,123.67	10,040,833,122.75
Cash repayments for distributing of dividends or profits or settlement of interest expenses		1,065,565,771.36	1,314,972,639.13
Other cash payments relating to financing activities		6,183,299.51	12,926,917.45
Sub-total of cash outflows from financing activities		13,805,378,194.54	11,368,732,679.33
Net Cash Flow from Financing Activities		(1,457,687,215.44)	2,150,626,278.44
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>		(3,542,952.86)	(17,168,307.44)
<b>V. Net Increase (decrease) in Cash and Cash Equivalents</b>		<b>(739,737,100.61)</b>	<b>984,791,685.72</b>
Add: Opening balance of Cash and Cash Equivalents		1,345,386,565.07	360,594,879.35
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(XIII)6	<b>605,649,464.46</b>	<b>1,345,386,565.07</b>

FOR THE YEAR ENDED 31 DECEMBER 2016

## Consolidated Statement of Changes in Owners' Equity

RMB

Item	Amount for the current period								
	Attributable to owners of the Company							Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	Attributable to owners of the Company		
I. Balance at 1st January 2016	2,162,334,720.00	48,344,557.95	4,015,139.50	-	1,579,310,659.11	7,776,967,780.17	11,570,972,856.73	3,252,261,539.05	14,823,234,395.78
II. Changes for the year	-	65,932.45	3,592,393.74	-	-	3,246,954,887.90	3,250,613,214.09	260,089,445.81	3,510,702,659.90
(I) Total comprehensive income	-	-	3,592,393.74	-	-	3,679,421,831.90	3,683,014,225.64	868,647,603.70	4,551,661,829.34
(II) Owners' contributions and reduction in capital	-	-	-	-	-	-	-	-	-
(III) Profit Distribution	-	-	-	-	-	(432,466,944.00)	(432,466,944.00)	(491,478,000.00)	(923,944,944.00)
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-	-
2. Distributions to shareholders	-	-	-	-	-	(432,466,944.00)	(432,466,944.00)	(491,478,000.00)	(923,944,944.00)
(IV) Special reserve	-	-	-	-	-	-	-	-	-
1. Provision of special reserve in the period	-	-	-	48,384,611.40	-	-	48,384,611.40	11,856,679.12	60,241,290.52
2. Amount utilized in period	-	-	-	(48,384,611.40)	-	-	(48,384,611.40)	(11,856,679.12)	(60,241,290.52)
(V) Others	-	65,932.45	-	-	-	-	65,932.45	(117,080,157.89)	(117,014,225.44)
1. Changes in the scope of consolidation (Note)	-	-	-	-	-	-	-	(117,080,157.89)	(117,080,157.89)
2. Others	-	65,932.45	-	-	-	-	65,932.45	-	65,932.45
<b>III. Balance at 31st December 2016</b>	<b>2,162,334,720.00</b>	<b>48,410,490.40</b>	<b>7,607,533.24</b>	<b>-</b>	<b>1,579,310,659.11</b>	<b>11,023,922,668.07</b>	<b>14,821,586,070.82</b>	<b>3,512,350,984.86</b>	<b>18,333,937,055.68</b>

Note: Changes in the scope of consolidation: the subsidiary, Ningbo Xiebei Thermal Power Co., Ltd. (hereinafter referred as "Xiebei Thermal Power") was then changed to a joint venture, refer to Note VI, 2.

FOR THE YEAR ENDED 31 DECEMBER 2016

## Consolidated Statement of Changes in Owners' Equity

RMB

Item	Amount for the prior period								
	Attributable to owners of the Company							Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	Attributable to owners of the Company		
I. Balance at 1st January 2015	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
II. Changes for the year	-	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) Total 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) Owners' contributions and reduction in capital	-	-	-	-	-	-	-	30,375,000.00	30,375,000.00
1. Capital contribution from owners	-	-	-	-	-	-	-	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 shareholders	-	-	-	-	-	(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 31st 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>

FOR THE YEAR ENDED 31 DECEMBER 2016

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

RMB

Item	Amount for the current period						
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	Total owners' equity
I. Balance at 1st January 2016	2,162,334,720.00	101,434,352.67	-	-	1,579,310,659.11	1,100,064,443.23	4,943,144,175.01
II. Changes for the year	-	65,932.45	-	-	-	2,195,431,496.09	2,195,497,428.54
(I) Total comprehensive income	-	-	-	-	-	2,627,898,440.09	2,627,898,440.09
(II) Profit Distribution	-	-	-	-	-	(432,466,944.00)	(432,466,944.00)
1. Distribution to owners	-	-	-	-	-	(432,466,944.00)	(432,466,944.00)
(III) Special reserve	-	-	-	-	-	-	-
1. Provision of special reserve in the period	-	-	-	17,654,200.20	-	-	17,654,200.20
2. Amount utilized in period	-	-	-	(17,654,200.20)	-	-	(17,654,200.20)
(IV) Others	-	65,932.45	-	-	-	-	65,932.45
<b>III. Balance at 31st December 2016</b>	<b>2,162,334,720.00</b>	<b>101,500,285.12</b>	<b>-</b>	<b>-</b>	<b>1,579,310,659.11</b>	<b>3,295,495,939.32</b>	<b>7,138,641,603.55</b>

FOR THE YEAR ENDED 31 DECEMBER 2016

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

RMB

Item	Amount for the prior period						
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	Total owners' equity
I. Balance at 1st 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) Total 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 period	-	-	-	(12,968,177.04)	-	-	(12,968,177.04)
(IV) Others	-	502.77	-	-	-	-	502.77
<b>III. Balance at 31st December 2015</b>	<b>2,162,334,720.00</b>	<b>101,434,352.67</b>	<b>-</b>	<b>-</b>	<b>1,579,310,659.11</b>	<b>1,100,064,443.23</b>	<b>4,943,144,175.01</b>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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**(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. Lu 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 Uniform Social Credit Code of 91370000163044841F.

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; sales of liquefied petroleum gas, propylene, acrylic and other petrochemical products; Technical 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 and Technical training and etc.; 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 8 April 2017.

The scope of and changes in consolidated financial statements for the year 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") 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.

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.

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

Basis of accounting and principle of measurement - continued

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 2016, the Group's total current liabilities exceeded of total current assets of RMB 9.366 billion. However, as at 31 December 2016, unutilized bank facility was no less than RMB 34.2 billion, and unutilized corporate bonds facility for issuance was RMB5.8 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) 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 recognizing the revenue (Note: III(21)) etc..

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

The financial statements of the Company have been prepared in accordance with Accounting Standards for Business Enterprises, and present truly and completely, the Company's and consolidated financial position as of 31 December, 2016, and the Company's and consolidated results of operations and cash flows for the year then ended.

**2. Accounting period**

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 Group's operating cycle is 140days. The Group adopts 12 months as time division for liquidity of assets and liabilities.

**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, including USD, JPY, INR, SGD etc.. The Group adopts RMB to prepare its financial statements.

**(III) 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. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when 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) 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) 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 joint venture arrangements of the Group are joint ventures.

The Group's investment in the joint venture is accounted by the equity method. Refer to Note (III) "Long-term equity investments measured at equity method" for details.

**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 Company and subsidiaries employing RMB as functional currency adopt 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 Bloomberg 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 changes in the carrying amounts (other than the amortized cost) of available-for-sale monetary items are recognized as other comprehensive income.

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 "other comprehensive income" in shareholders' 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) 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; shareholders' 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 difference between the translated assets and the aggregate of liabilities and shareholders' equity items is separately presented as other comprehensive income under the shareholders' equity.

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.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation attributable to the owners' equity of the Company and presented under owners' equity, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to minority interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

**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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10. Financial instruments - continued**

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. The Group's financial assets comprise of loans and receivables and available-for-sale financial assets.

10.2.1. 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, other receivables, 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.

10.2.2. Available-for-sale financial assets

Available-for-sale financial assets include 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 recognised as other comprehensive income, except that impairment losses and exchange differences related to amortised cost of monetary financial assets denominated in foreign currencies are recognised in profit or loss, until the financial assets are derecognised, at which time the gains or losses are released and recognised 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 recognised in investment income.

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.

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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10. Financial instruments - continued**

10.3 Impairment of financial assets - continued

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.

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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10. Financial instruments - continued**

10.3 Impairment of financial assets - continued

- 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 recognised directly in other comprehensive income is reclassified from the in other comprehensive income to profit or loss. The amount of the cumulative loss that is reclassified from in other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised 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 recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognised 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 recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

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) 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 instruments on the basis of the substance of the contractual arrangements and definitions of financial liability and equity instrument, other than in legal ways only.

Financial liabilities of the Group are other financial liabilities.

10.5.1 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. Financial liabilities other than liabilities from financial guarantee contracts 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.

10.5.2 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 recognised less cumulative amortisation recognised 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.

10.7 Derivatives and embedded derivatives

Derivative financial instruments include forward exchange contracts and interest rate swaps, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and highly effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if 1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**10. Financial instruments - continued**

10.8 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.

10.9 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 associated with equity are deducted from the rights and interests.

All types of distributions made by the Group to holders of equity instruments are treated as profit distribution and shall not change the total shareholders' 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 does 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.  If there is objective evidence that the Group is unable to recover relevant debts under the original terms of other receivables, the Group has made provision for bad debts of other receivables.

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 overseas customers (excluding related parties)	percentage of balance

Note: This credit risk characteristics portfolio represents receivables due from related parties.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**11. Receivables - continued**

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

*11.2.1 Aging analysis of accounts receivable:*

Aging	Provision as a proportion of accounts receivable (%)
Within 1 year (inclusive)	5%
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 (%)
Accounts receivable-overseas clients	15%

*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	The difference between estimated recoverable amount and the book value shall be recognized as bad debt provision

**12. Inventories**

12.1 Categories of inventories

The Group's inventories mainly include raw materials, work in progress 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) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**12. Inventories - continued**

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

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 determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

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

13.2 Determine the investment cost - continued

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.

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 Long-term equity investments accounted for using the cost method

Investments in subsidiaries are accounted for using cost method in the Company's separate financial statements. Subsidiaries refer to the investees over which the Group 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 Long-term equity investments accounted for using the equity method

The Group accounts for investment in associates and joint ventures using the equity method. An associate is an entity over which the Group has significant influence and a joint venture refer to joint arrangements in which the Group exert rights over the net assets.

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

Under the equity method, the Group recognizes its share of the net profit or loss and other comprehensive income of the investee for the period as investment income and other comprehensive income for the period. Meanwhile, carrying amount of long-term equity investment is adjusted: the carrying amount of long-term equity investment is decreased in accordance with its share of the investee's declared profit or cash dividends; Other changes in owners' equity of the investee other than net profit or loss and other comprehensive income are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized in the capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's individual identifiable assets, etc. at the acquisition date after making appropriate adjustments. When the investors' accounting policies and accounting period are inconsistent with those of the Company, the Company recognises investment income and other comprehensive income after making appropriate adjustments to conform to the Company's accounting policies and accounting period. However, unrealized gains or losses resulting from the Group's transactions with its associates and joint ventures, which does not constitute a business, are eliminated based on the proportion attributable to the Group and then investment gains or losses or is recognised. However, unrealised losses resulting from the Group's transactions with its associates and joint ventures which represent impairment losses on the transferred assets are not eliminated.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

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

13.3 Subsequent measurement and the method to recognize profit and loss - continued

13.3.2 Long-term equity investments accounted for using the equity method - continued

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.

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.

**(III) 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	4-5	2.38-4.80
Machinery and equipment	10-25	4-5	3.80-9.60
Electronic equipment, appliances and furniture	5-8	4-5	11.88-19.20
Transportation vehicles	6-12	4-5	7.92-16.00

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) 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. During the capitalisation period, exchange differences related to a specific-purpose borrowing denominated in foreign currency are all capitalised. Exchange differences in connection with general-purpose borrowings are recognised in profit or loss in the period in which they are incurred.

**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	2-10
Non-patented technology	10	10
Software	10	10
Others –use right of back-up power(Note 1)	50	2
Others -Pollutant discharge right (Note 2)	5	20

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 1: Others are supply fee of Industrial Park back-up power laid by State Grid Shandong Electric Power Company, and being depreciated by using the term of use of the land used in the Wanhua Yantai Industrial Park.

Note 2: Ningbo environmental protection agency granted the pollutant discharge right to Xiebei Thermal Power, which is amortised over the agreed period under the grant contract using the straight-line method.

17.2 Research and development expenditure

Expenditure during the research phase is recognized in profit or loss 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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**18. Impairment of long-term assets**

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments, fixed assets, construction in progress, and intangible assets with finite useful life may be impaired. If there is any indication that such assets may be impaired, the recoverable amount is estimated. Intangible assets 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.

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), including leasehold improvement expenses etc.. Long-term prepaid expenses are amortized using the straight-line method over 3 to 5 years of 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 fair 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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**20. Employee benefits - continued**

20.2 Accounting methods of welfare of dismissal

Post-employment benefits are all included in defined contribution plan.

In an accounting period in which an employee has rendered service to the Group, the Group recognises the contributions payable as a liability, and the related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred.

**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

Revenue from rendering of services is recognised when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the Group; (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 recognised 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 recognised only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognised as expenses for the period. When it is not probable that the services rendered will be compensated, revenue is not recognised.

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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**22. Government grants - continued**

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

The government subsidies, including special supporting funds to key and competitive industries and environmental protection etc., due to the cost of compensation for related expenses of the Group directly, the government subsidies are recognized as government grants related to an income. 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.

For repayment of a government grant already recognised, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognised in profit or loss for the period. If there is no related deferred income, the repayment is recognised immediately in profit or loss for the period.

**23. Deferred tax assets/Deferred tax liabilities**

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 recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. 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 recognised.

Deferred tax liabilities are recognised 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 only recognised to the extent that it is probable that there will be taxable profits against which to utilise 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 realised 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.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**23. Deferred tax assets/Deferred tax liabilities - continued**

23.2 Deferred tax assets and deferred tax liabilities - continued

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.

23.3 Offsetting 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 The Group as lessee under operating leases

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 The Group as lessor under operating leases

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.

**25. Hedge accounting**

25.1 Hedge accounting

Some financial instruments are used as hedging instruments by the Group for the purpose of avoiding certain risks. The Group applies hedging accounting for a hedge that satisfies the prescribed conditions. Hedging activities of the Group is cash flow hedges.

At the inception of a hedge, the Group records the relationship between the hedging instrument and hedged item, risk management objective and strategy for undertaking various hedging transactions. At the inception and in subsequent periods, the hedge is assessed for effectiveness by the Group on an ongoing basis so as to determine whether the hedge is highly effective throughout the accounting periods for which the hedging relationship was designated.

**(III) SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENT - continued**

**25. Hedge accounting - continued**

25.1 Hedge accounting - continued

25.1.1 Cash flow hedges

The effective portion of a change in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognised in other comprehensive income, and the gain or loss relating to the ineffective portion is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the amounts previously recognised in other comprehensive income are reclassified to profit or loss in the same periods during which the financial asset or financial liability affects profit or loss. If the Group expects that all or a portion of a net loss previously recognised in other comprehensive income will not be recovered in future accounting periods, the net loss that is not expected to be recovered is immediately recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the amounts previously recognised in other comprehensive income are reclassified to profit or loss in the same periods during which the non-financial asset or non-financial liability affects profit or loss. If the Group expects that all or a portion of a net loss previously recognised in other comprehensive income will not be recovered in future accounting periods, the net loss that is not expected to be recovered is immediately recognised in profit or loss.

Except as stated above, the amounts previously recognised in other comprehensive income are reclassified to profit or loss in the same periods during which the hedged forecast transaction affects profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in other comprehensive income at that time is reclassified to profit or loss when the forecast transaction occurs and is recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in other comprehensive income is reclassified immediately to profit or loss.

**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) 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**

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 Provision for decline in value of inventories

As stated in Note III, 12, inventories are measured at the lower of cost and net realisable value. Net realisable 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.

A specific operating procedure has been developed by the Group to control the risk as there is a considerable proportion of operating capital of the Group being used for inventories. The Group will conduct a comprehensive review of the inventory on a regular basis to determine if there is an outdated or obsolete inventory and to review its impairment. The review procedures include the compare of the carrying amount of the outdated or obsolete inventory with its corresponding net realizable value so as to determine if provision for any outdated or obsolete inventory shall be made in the financial statements. Appropriate accounting estimates shall be made in the selling price of inventories, the costs of completion, selling expenses and relevant taxes that being adopted by the net realizable value. The management has taken into consideration historical experience and current production costs as well as selling expenses based on the best estimate to ensure the reasonableness of its accounting estimates. The management of the Group believes that adequate bad debt provisions for decline in value of these outdated or obsolete inventories have been made based on above procedures.

26.3 Impairment of goodwill

For the purpose of impairment testing, goodwill is considered together with the present value of the future cash flows expected to be derived from the related assets group(s), and the present value of expected future cash flows of such assets group(s) shall be determined as well as the determination of the pre-tax interest rate which reflects the time value of money in the present market and the specific risk of the assets.

26.4 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.

26.5 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") and Wanhua Chemical (Yantai) Chlor-alkali Thermal Power Co.,Ltd. ("Yantai Chlor-alkali") are 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 (Note)	Taxable revenue	3%-5%
City maintenance and construction tax	Actual turnover tax	5%-7%
Enterprise income tax	Taxable income	See the table below

Note: In March 2016, the full implementation of the transition from business tax to valued-added tax was approved in the Fourth Session of the Twelfth National People's Congress, which has extend this pilot program to cover construction industry, real estate industry, financial industry and life service industry are included in the pilot scope since 1 May 2016. Meanwhile, *Notice on Preparation for Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax* (Cai Shui [2016] No. 32) which jointly issued by Ministry of Finance and State Administration of Taxation. From 1 May 2016, VAT will be levied on interest income and lease income, etc. of the Group instead of business tax with the applicable VAT rate of 6%, 11% and 17%.

The Company and its subsidiaries

Income tax rates

Wanhua Chemical (Note1)	15%
Wanhua Chemical (Ningbo) Co., Ltd. ("Wanhua Ningbo")	25%
Wanhua Port	25%
Wanhua Thermal Power	25%
Wanhua Chemical (Beijing) Co., Ltd. ("Wanhua Beijing") (Note2)	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") (Note3)	15%
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd. ("Ningbo Chlor-alkali")	25%
Yantai Chlor-alkali	25%
Xiebei Thermal Power (Note (VI) 2)	25%
Wanhua Chemical (Guangdong) Co., Ltd. ("Wanhua Guangdong")	25%
Wanhua Chemical (Hong Kong) Co., Limited. ("Wanhua Hong Kong")	16.5%
Wanhua Chemical (Japan) Co., Ltd.	Note 4
Wanhua Chemical (America) Co., Ltd.	Note 5
Wanhua Chemical US Holding Inc.	Note 5
Wanhua America Innovation Technology Co., Ltd.	Note 5
Wanhua International (India) Private Limited.	32.445%
Wanhua Chemical (Yantai) Selling Co., Ltd. ("Yantai Selling")	25%

(IV) TAXES - continued

1. Major categories of taxes and tax rates - continued

<u>The Company and its subsidiaries</u>	<u>Income tax rates</u>
Wanhua Chemical (Yantai) Rongwei Polyurethane Co., Ltd. (“Yantai Rongwei”)	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 6
Wanhua Chemical (Yantai) Petrochemical Co., Ltd. (“Yantai Petrochemical”)	25%
Wanhua Chemical US Real Estate LLC	Note 5
Wanhua Chemical (Hungary) Holding Co., Ltd.	Note 7
Zhuhai Wanhua Real Estate Development Co., Ltd.	25%
Ningbo XinDa Mingzhou Trading Co., Ltd.	25%

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. (2015 Income tax rates: 15%). At present, the Company is under review of high and new technology enterprise qualification for tax purpose, which is expected to be completed in 2017.

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. (2015 Income tax rates: 15%). At present, Wanhua Beijing is under review of high and new technology enterprise qualification for tax purpose, which is expected to be completed in 2017.

Note 3: According to Yong Gao Qi Ren Ling [2016] No. 2 – “The Announcement of High and New Technology Enterprises Designation Review list of Year 2016”, issued by Department of Science and Technology of Ningbo, the subsidiary of the Company, Ningbo Rongwei qualifies for the high and new technology enterprise (Certificate No.: GR201633100167) with effective period of three years, and has been subject to the favorable enterprise income tax rate from 1 January 2016 to 31 December 2018. (2015 Income tax rates: 15%)

Note 4: According to local tax laws in Japan, the enterprise income rate is lowered from 25.5% to 23.9% starting from 1 April 2015 and fiscal years thereafter.

Note 5: According to local tax laws in the United States, the progressive tax rate is applicable with tax rate from 15% to 39%.

Note 6: According to local tax laws in the British Virgin Islands, the progressive tax rate is 0%.

Note 7: 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

RMBRMB

Item	Closing balance			Opening balance		
	Foreign currency	Exchange rate	Amount in RMB	Foreign currency	Exchange rate	Amount in RMB
<b>Cash on hand:</b>	-	-	<b>149,905.42</b>	-	-	<b>230,778.84</b>
RMB	-	-	145,191.00	-	-	227,128.49
USD	1.00	6.9394	6.94	1.00	6.4800	6.48
SGD	1.00	4.7845	4.80	1.00	4.5801	4.59
INR	45,992.00	0.1022	4,702.68	37,075.00	0.0982	3,639.28
<b>Bank balances:</b>	-	-	<b>1,962,681,300.94</b>	-	-	<b>2,062,043,692.27</b>
RMB	-	-	1,326,163,389.60	-	-	1,777,582,572.14
USD	85,769,579.63	6.9394	595,123,997.03	37,174,407.21	6.4800	241,035,362.54
JPY	236,690,594.00	0.0593	14,033,826.32	360,441,838.00	0.0538	19,458,790.70
EUR	1,455,531.40	7.2878	10,608,309.36	1,178,065.82	7.0701	8,321,521.00
INR	39,547,041.34	0.1022	4,043,684.98	28,089,356.23	0.0982	2,757,251.21
RUB	80,162.19	0.1130	9,058.33	9,167,655.55	0.0875	802,169.86
SGD	-	-	-	1,788.47	4.5801	8,204.61
KRW	2,203,062,693.00	0.0057	12,649,446.01	2,185,804,832.00	0.0055	12,060,422.76
HKD	10,825.89	0.8947	9,681.79	1,033.71	0.8361	865.99
AED	21,097.23	1.8916	39,907.52	9,353.02	1.7675	16,531.46
<b>Other Currency:</b>	-	-	<b>23,972,232.83</b>	-	-	<b>4,087,291.86</b>
RMB	-	-	23,972,232.83	-	-	4,087,291.86
<b>Total</b>	-	-	<b>1,986,803,439.19</b>	-	-	<b>2,066,361,762.97</b>

As at 31 December 2016, bank deposit used for pledge to issue bank acceptance bill reached RMB 23,954,898.18 (31 December 2015: RMB 4,070,000.00), please refer to Note (V) 20.

As at 31 December 2016, money deposited overseas totaled equivalent RMB 223,549,635.19 (31 December 2015: equivalent RMB 99,650,199.26).

2. Notes receivable

(1) Categories of notes receivable

RMB

Category	Closing balance	Opening Balance
Bank acceptances	3,608,297,836.67	1,224,034,501.14
<b>Total</b>	<b>3,608,297,836.67</b>	<b>1,224,034,501.14</b>

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

RMB

Item	Pledged amount at the end of the period
Bank acceptances	652,974,346.93
<b>Total</b>	<b>652,974,346.93</b>

Note: Notes receivable used for pledge to issue bank acceptances, refer to Note (V), 20.

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

2. Notes receivable - continued

(3) Undue endorsed or discounted notes receivables at balance sheet date

RMB

Item	Amount of derecognised at the end of the period	Amount of non-derecognised at the end of the period
Bank acceptances	4,251,212,119.06	-
<b>Total</b>	<b>4,251,212,119.06</b>	<b>-</b>

Note: Refer to Note (VII) 2.

(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.

3. 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	963,391,162.06	50.07	103,779,050.79	10.77	859,612,111.27	538,998,596.14	39.25	68,083,944.68	12.63	470,914,651.46
Accounts receivable domestic clients	446,287,991.69	23.20	28,229,219.16	6.33	418,058,772.53	365,374,363.20	26.61	20,815,278.70	5.70	344,559,084.50
Accounts receivable oversea clients	514,356,177.70	26.73	77,153,427.11	15.00	437,202,750.59	468,702,953.32	34.14	70,298,673.16	15.00	398,404,280.16
Subtotal of portfolios	960,644,169.39	49.93	105,382,646.27	10.97	855,261,523.12	834,077,316.52	60.75	91,113,951.86	10.92	742,963,364.66
<b>Total</b>	<b>1,924,035,331.45</b>	<b>100.00</b>	<b>209,161,697.06</b>	<b>10.87</b>	<b>1,714,873,634.39</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>

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

## 3. Accounts receivable - continued

## (1) Categories of accounts receivable - continued

Accounts receivable that are individually significant at 31 December 2016:

RMB

Accounts receivable (by company)	Closing balance			
	Accounts receivable	Bad debt provision	Proportion of provision (%)	Reasons of provision
BorsodChem Zrt.	66,942,580.61	-	-	Related party does not reserve for bad debt
Company 1	45,772,738.20	2,288,636.92	5	Using aging analysis
Company 2	39,953,948.73	1,997,697.44	5	Using aging analysis
Company 3	39,431,197.48	2,195,092.22	5.57	Using aging analysis
Company 4	38,808,615.15	1,940,430.76	5	Using aging analysis
Others	732,482,081.89	95,357,193.45	13.02	Using aging analysis / Using the percentage of total receivables outstanding
<b>Total</b>	<b>963,391,162.06</b>	<b>103,779,050.79</b>		

RMB

Accounts receivable (by company)	Opening Balance			
	Accounts receivable	Bad debt provision	Proportion of provision (%)	Reasons of provision
Company 5	74,643,932.00	11,196,589.80	15	Using the percentage of total receivables outstanding
Company 1	40,197,728.18	2,009,886.41	5	Using aging analysis
Company 6	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 7	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 2016, RMB 14,331,169.00 of bad debt provision is accrued for accounts receivable that are individually significant (at 31 December 2015: RMB 14,331,169.00), for which provisions have been made in full amount due to the bankruptcy insolvency of the counterparty. With reference to the Note III.11, receivables for which bad debt provision is collectively assessed on a portfolio basis, as at 31 December 2016, an amount of RMB 89,447,881.79 is accrued as bad debt provision (at 31 December 2015: RMB 53,752,775.68).

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

3. Accounts receivable - continued

(1) Categories of accounts receivable - continued

The aging analysis of bad debt provision in portfolio basis:

RMB

Aging	Closing balance		
	Accounts receivable	Bad debt provision	Proportion of provision (%)
Within 1 year	429,875,370.67	21,640,055.50	5
More than 1 year but not exceeding 2 years	5,395,508.01	514,350.80	10
More than 2 years but not exceeding 3 years	5,638,865.94	1,691,659.80	30
More than 3 years but not exceeding 4 years	1,990,188.03	995,094.02	50
More than 4 years but not exceeding 5 years	3,216,370.71	3,216,370.71	100
More than 5 years	171,688.33	171,688.33	100
<b>Total</b>	<b>446,287,991.69</b>	<b>28,229,219.16</b>	

RMB

Aging	Opening Balance		
	Accounts receivable	Bad debt provision	Proportion of provision (%)
Within 1 year	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>	

The aging analysis of bad debt provision in portfolio basis:

RMB

Name of portfolio	Closing balance		
	Accounts receivable	Bad debt provision	Proportion of provision (%)
Accounts receivable due from overseas customers	514,356,177.70	77,153,427.11	15

RMB

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

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

3. Accounts receivable - continued

(1) Categories of accounts receivable - continued

Basis of determine portfolio	
Accounts receivable due from domestic customers	The Group classifies the receivables that are not individually significant 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.
Accounts receivable due from overseas customers	The Group classifies the receivables that are not individually significant 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.

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

For the year, the Company recorded a bad debt allowance of RMB 53,673,635.42; the Company transferred out a bad debt provision of RMB of 3,552,535.29.

(3) Accounts receivable write-off:

Item	Write-off amount	Reason
Accounts receivable write-off	157,299.61	Bankruptcy of counterparty company

RMB

(4) Top five customers with the largest balances

For period ended 31 December, 2016, the largest five debtors hold the accounts receivable balance of RMB 230,909,080.17 (at 31 December 2015: RMB 193,534,571.48), which accounts for 12.00% (at 31 December 2015: 14.09%) of total amount receivable balance. The bad debt provision is RMB 8,421,857.34 (at 31 December 2015: RMB 19,350,132.41).

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

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

4. Prepayments

(1) Aging analysis of prepayments is as follows:

RMB

Aging	Closing balance		Opening Balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	218,851,018.11	91.49	360,807,597.00	97.25
More than 1 year but not exceeding 2 years	19,837,642.01	8.29	9,342,760.71	2.52
More than 2 years but not exceeding 3 years	294,495.26	0.12	545,180.41	0.15
More than 3 years	244,593.21	0.10	295,143.63	0.08
<b>Total</b>	<b>239,227,748.59</b>	<b>100.00</b>	<b>370,990,681.75</b>	<b>100.00</b>

There are no significant items that aged more than 1 year in prepayments.

(2) Top five advanced payment to suppliers:

As of December 31, 2016, top five balances of advanced payment to suppliers amounted to RMB 137,909,476.66 (at 31 December 2015: RMB 173,366,387.62), accounting for 57.65% (at 31 December 2015: 46.73%) of total advanced payment to suppliers.

5. 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	105,581,841.23	83.75	-	-	105,581,841.23	125,931,611.38	88.59	-	-	125,931,611.38
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	20,479,663.50	16.25	-	-	20,479,663.50	16,223,277.11	11.41	-	-	16,223,277.11
<b>Total</b>	<b>126,061,504.73</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>126,061,504.73</b>	<b>142,154,888.49</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>142,154,888.49</b>

Explanations of categories of other receivables:

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

(2) Disclosure of other receivables by nature

RMB

Payment nature	Closing balance	Opening Balance
Export tax refund	105,581,841.23	60,206,557.65
Petty cash	3,008,488.20	2,163,160.43
Deposits	14,171,591.52	76,367,232.16
Others	3,299,583.78	3,417,938.25
<b>Total</b>	<b>126,061,504.73</b>	<b>142,154,888.49</b>

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

5. Other receivables - continued

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

(4) Top five other receivables:

RMB

Name	Payment nature	Closing balance	Aging	Percentage of total closing balance of other receivables (%)	Bad debt provision	Carrying amount
Company 9	Export tax refund	84,670,816.49	Within 1 year	67.16	-	84,670,816.49
Company 10	Export tax refund	20,911,024.74	Within 1 year	16.59	-	20,911,024.74
Company 11	Deposits	6,243,300.00	Within 1 year	4.95	-	6,243,300.00
Company 12	Deposits	3,154,840.35	1 to 2 years	2.50	-	3,154,840.35
Company 13	Deposits	2,175,000.00	Within 1 year	1.73	-	2,175,000.00
<b>Total</b>		<b>117,154,981.58</b>		<b>92.93</b>	-	<b>117,154,981.58</b>

RMB

Name	Payment nature	Opening Balance	Aging	Percentage of total closing balance of other receivables (%)	Bad debt provision	Carrying amount
Company 12	Deposits	65,725,053.73	Within 1 year	46.24	-	65,725,053.73
Company 9	Export tax refund	60,206,557.65	Within 1 year	42.35	-	60,206,557.65
Company 11	Deposits	5,844,240.00	Within 1 year	4.11	-	5,844,240.00
Company 14	Deposits	1,916,760.00	Within 1 year	1.35	-	1,916,760.00
Company 15	Export tax refund	1,006,837.03	Within 1 year	0.71	-	1,006,837.03
<b>Total</b>		<b>134,699,448.41</b>		<b>94.76</b>	-	<b>134,699,448.41</b>

(5) There are no other receivables that have been derecognized in the current period due to transfer of financial assets; No transfer of other receivable is involved in the amount of assets and liabilities; no other receivable granted by the government is involved.

6. Inventories

(1) Categories of inventories

RMB

Item	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	1,182,750,277.75	10,657,740.26	1,172,092,537.49	1,178,305,064.47	-	1,178,305,064.47
Work in-progress	1,534,649,421.92	2,466,700.89	1,532,182,721.03	1,055,919,421.38	1,096,825.01	1,054,822,596.37
Goods on hand	1,633,653,139.54	577,611.50	1,633,075,528.04	1,964,129,911.92	3,404,509.82	1,960,725,402.10
<b>Total</b>	<b>4,351,052,839.21</b>	<b>13,702,052.65</b>	<b>4,337,350,786.56</b>	<b>4,198,354,397.77</b>	<b>4,501,334.83</b>	<b>4,193,853,062.94</b>

(2) Provision for decline in value of inventories

RMB

Item	Opening Balance	Movement in the year			Closing balance
		Provision	Reversal	Transfer out due to changes in scope of consolidation	
Raw materials	-	10,657,740.26	-	-	10,657,740.26
Work in-progress	1,096,825.01	1,369,875.88	-	-	2,466,700.89
Goods on hand	3,404,509.82	1,280,147.79	3,387,975.32	719,070.79	577,611.50
<b>Total</b>	<b>4,501,334.83</b>	<b>13,307,763.93</b>	<b>3,387,975.32</b>	<b>719,070.79</b>	<b>13,702,052.65</b>

(3) Details of provision for decline in value of inventories

Inventories are measured at the lower of cost and net realisable value, including the compare of the carrying amount of the outdated and obsolete inventory with its corresponding net realizable value. If the net realisable value is below the cost of inventories, a provision for decline in value of inventories is made. 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 realisable 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.

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

6. Inventories - continued

(4) No inventory was used as a pledge at 31 December 2016, and no interest expense was capitalized in the closing balance of inventory as at 31 December 2016.

7. Other current assets

RMB

Item	Closing balance	Opening Balance
VAT to be deducted	1,167,362,458.83	1,791,422,177.73
Advance payment of income tax	54,573,350.14	23,891,941.58
Others	1,245,750.00	-
<b>Total</b>	<b>1,223,181,558.97</b>	<b>1,815,314,119.31</b>

8. Available-for-sale financial assets

(1) Details of available-for-sale financial assets:

RMB

Item	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						
At 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) Available-for-sale financial assets measured at cost at end of the year

RMB

Investee	Carrying amount				Provision for impairment losses				Proportion of ownership interest in the investee (%)	Cash dividends for the year
	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	30,000,000.00

9. Long-term receivables

(1) Details of long-term receivables:

RMB

Item	Closing balance			Opening Balance		
	Carrying amount	Provision for impairment losses	Book Value	Carrying amount	Provision for impairment losses	Book Value
Staff housing loans (Note)	276,851,198.01	-	276,851,198.01	247,862,406.51	-	247,862,406.51

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 seven to ten years if certain conditions are met; interest is calculated at the bank loan rate of interest over the same period. The Group is responsible for the interests and withholding individual income tax for the staff.

(2) No long-term receivables that have been derecognized due to transfer of financial assets in the reporting period; no transfer of long-term receivable is involved in the amount of assets and liabilities.

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

10. Long-term equity investments

RMB

Investee	Opening Balance	Movement of the current year									Closing balance	Closing balance for impairment
		Increase	Decrease	Other increase	Investment profit or loss recognized using equity method	Other comprehensive income	Other equity movement	Dividends or profit declared	Provision for impairment loss	Others		
I. Joint Venture												
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	155,285,861.85	-	-	-	7,592,386.44	-	-	-	-	-	162,878,248.29	-
UI Wanhua (Yantai) peroxide Co., Ltd. (Note 1)	-	15,000,000.00	-	-	276,835.36	-	74,555.25	-	-	-	15,351,390.61	-
Ningbo Xiebei Thermal Power Co.,Ltd. (Note 2)	-	-	-	139,342,267.04	18,083,514.96	-	-	-	-	-	157,425,782.00	-
II. Associate												-
Linde Gas (Yantai) Co., Ltd.	30,842,201.30	-	-	-	(3,184,576.86)	-	(8,622.80)	-	-	-	27,649,001.64	-
Total	186,128,063.15	15,000,000.00	-	139,342,267.04	22,768,159.90	-	65,932.45	-	-	-	363,304,422.54	-

Note 1: UI Wanhua (Yantai) peroxide Co., Ltd. is a company co-founded by the Company and United Initiators Asia Limited.; the Company holds 50% of equity interest, subscribed capital of RMB30,000,000.00, and actual capital of RMB15,000,000.00. According to the Articles of the Company, the Board of Directors consists of four directors, two of which are appointed by the Company, Therefore, it is a joint venture which is being jointly controlled and thus equity method is adopted.

Note 2: Refer to Note (VI) 2.

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

11. Fixed assets

(1) Details of fixed assets

RMB

Item	Buildings	Machinery and equipment	Electronic equipment, appliances and furniture	Transportation vehicles	Total
<b>I. Original carrying amount:</b>					
1. Opening carrying amount	3,198,418,081.01	21,830,530,184.86	244,587,980.83	124,654,804.30	25,398,191,051.00
2. Increase in the current period	1,232,228,663.20	10,355,104,286.63	29,807,311.85	7,749,146.83	11,624,889,408.51
(1) Acquisitions	276,599.00	33,326,343.87	22,266,744.88	6,666,407.86	62,536,095.61
(2) Construction in progress	1,231,952,064.20	10,321,777,942.76	7,540,566.97	1,082,738.97	11,562,353,312.90
3. Decrease in the current period	71,892,059.69	578,629,009.45	5,755,596.14	4,519,257.75	660,795,923.03
(1) Disposals or retirement	631,849.83	174,447,393.59	4,782,514.18	3,819,068.28	183,680,825.88
(2) Reversals of changes in scope of consolidation	71,260,209.86	404,181,615.86	973,081.96	700,189.47	477,115,097.15
4. Closing carrying amount	4,358,754,684.52	31,607,005,462.04	268,639,696.54	127,884,693.38	36,362,284,536.48
<b>II. Accumulated depreciation</b>					
1. Opening carrying amount	515,445,175.04	4,633,901,173.44	132,361,498.72	45,471,942.09	5,327,179,789.29
2. Increase in the current period	152,789,439.46	2,436,681,913.29	35,102,895.51	12,280,358.69	2,636,854,606.95
(1) Accrual	152,789,439.46	2,436,681,913.29	35,102,895.51	12,280,358.69	2,636,854,606.95
3. Decrease in the current period	388,661.70	97,338,046.56	3,902,506.10	3,490,157.30	105,119,371.66
(1) Disposals or retirement	224,548.75	95,216,126.37	3,612,857.07	3,266,058.68	102,319,590.87
(2) Reversals of changes in scope of consolidation	164,112.95	2,121,920.19	289,649.03	224,098.62	2,799,780.79
4. Closing carrying amount	667,845,952.80	6,973,245,040.17	163,561,888.13	54,262,143.48	7,858,915,024.58
<b>III. Provision for impairment losses</b>					
1. Opening Balance	24,207,249.24	511,969.80	-	-	24,719,219.04
2. Increase in the current period	-	-	-	10,705,340.30	10,705,340.30
(1) Accrual	-	-	-	10,705,340.30	10,705,340.30
3. Decrease in the current period	-	-	-	-	-
(1) Disposals or retirement	-	-	-	-	-
4. Closing balance	24,207,249.24	511,969.80	-	10,705,340.30	35,424,559.34
<b>IV. Book Value</b>					
1. Closing carrying amount	3,666,701,482.48	24,633,248,452.07	105,077,808.41	62,917,209.60	28,467,944,952.56
2. Opening carrying amount	2,658,765,656.73	17,196,117,041.62	112,226,482.11	79,182,862.21	20,046,292,042.67

(2) Temporary idle fixed assets

As at 31 December 2016 and at 31 December 2015, 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
Buildings	1,664,478,961.19	In process

Description of fixed assets:

As at 31 December 2016, buildings with net value of RMB1, 132,097,105.95 (2015: RMB 311,321,987.65), and machinery and equipment with net value of RMB 12,486,192,917.25 (2015: RMB 10,136,919,740.63) were pledged to acquire bank borrowings and to issue bank acceptances. For details, please refer to Note (V) 18, 20, 27 and 29.

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

## 12. 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	3,040,725,980.80	-	3,040,725,980.80	11,034,683,206.66	-	11,034,683,206.66
Zhuhai special polyurethane project – phase I	503,466,533.71	-	503,466,533.71	246,127,598.33	-	246,127,598.33
Chlor-alkali-phase I & II of Yantai Chlor-alkali Thermoelectric Co.,Ltd	290,911,936.23	-	290,911,936.23	23,445,327.72	-	23,445,327.72
Wanhua Shanghai Center project	213,785,814.94	-	213,785,814.94	112,374,364.25	-	112,374,364.25
Technological transformation of Wanhua Ningbo HDI project	94,832,126.93	-	94,832,126.93	66,936,689.68	-	66,936,689.68
Polyether project of Yantai Rongwei Company	6,183,888.11	-	6,183,888.11	96,297,689.58	-	96,297,689.58
Capacity expansion of thermal power project in Wanhua Ningbo - phase III	-	-	-	310,760,571.08	-	310,760,571.08
Wanhua Ningbo Port Coal yard transformation project	-	-	-	143,523,522.94	-	143,523,522.94
Technological transformation of Wanhua Ningbo of 2015	-	-	-	93,158,670.72	-	93,158,670.72
Wanhua Ningbo water-borne project	-	-	-	46,744,700.67	-	46,744,700.67
Reorganization and expansion of Wanhua Chemical marketing department and surface material business department	-	-	-	8,565,517.42	-	8,565,517.42
Others	94,681,116.92	-	94,681,116.92	226,564,647.23	-	226,564,647.23
<b>Total</b>	<b>4,244,587,397.64</b>	<b>-</b>	<b>4,244,587,397.64</b>	<b>12,409,182,506.28</b>	<b>-</b>	<b>12,409,182,506.28</b>

As at 31 December 2016, no construction in progress has been used as collateral to obtain bank loan. 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, for details please refer to Note (V) 29.

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

12. Construction in progress - continued

(2) Changes in significant construction in progress

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

Name of Items	Budget amount	Opening balance	Increase in the current period(Note 1)	Transfer to fixed assets	Transfer to intangible assets	Other Decreases (Note 2)	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	28,000,000,000.00	11,034,683,206.66	2,225,573,292.36	10,086,258,857.43	133,271,660.79	-	3,040,725,980.80	86.09	86.09	1,329,457,545.91	69,906,914.98	3.47	Cash from operation and loans
Zhuhai special polyurethane project – phase I	520,000,000.00	246,127,598.33	257,338,935.38	-	-	-	503,466,533.71	96.82	96.82	-	-	-	Cash from operation
Chlor-alkali-phase I &II of Yantai Chlor-alkali Thermoelectric Co.,Ltd	1,297,363,000.00	23,445,327.72	297,418,933.68	29,952,325.17	-	-	290,911,936.23	98.41	98.41	43,767,359.81	13,229,557.78	3.18	Cash from operation and loans
Wanhua Shanghai Center project	610,000,000.00	112,374,364.25	101,411,450.69	-	-	-	213,785,814.94	35.05	35.05	-	-	-	Cash from operation
Technological transformation of Wanhua Ningbo HDI project	317,000,000.00	66,936,689.68	103,284,338.32	75,388,901.07	-	-	94,832,126.93	91.25	91.25	1,191,597.87	-	-	Cash from operation and loans
Polyether project of Yantai Rongwei Company	150,000,000.00	96,297,689.58	57,181,691.23	147,295,492.70	-	-	6,183,888.11	99.98	99.98	4,928,872.33	3,898,159.68	4.20	Cash from operation and loans
Capacity expansion of thermal power project in Wanhua Ningbo - phase III	730,180,000.00	310,760,571.08	265,917,305.81	474,952,788.14	20,948,000.00	80,777,088.75	-	78.98	78.98	-	-	-	Cash from operation and loans
Wanhua Ningbo Port Coal yard transformation project	440,000,000.00	143,523,522.94	35,412,473.45	178,935,996.39	-	-	-	40.67	40.67	474,806.83	-	-	Cash from operation and loans
Technological transformation of Wanhua Ningbo of 2015	200,000,000.00	93,158,670.72	133,471,155.63	226,629,826.35	-	-	-	100.00	100.00	-	-	-	Cash from operation
Wanhua Ningbo water-borne project	210,000,000.00	46,744,700.67	16,545,387.25	63,290,087.92	-	-	-	100.00	100.00	-	-	-	Cash from operation
Others	-	235,130,164.65	139,199,990.00	279,649,037.73	-	-	94,681,116.92	-	-	45,076,815.59	-	-	Cash from operation and loans
<b>Total</b>	<b>-</b>	<b>12,409,182,506.28</b>	<b>3,632,754,953.80</b>	<b>11,562,353,312.90</b>	<b>154,219,660.79</b>	<b>80,777,088.75</b>	<b>4,244,587,397.64</b>	<b>-</b>	<b>-</b>	<b>1,424,896,998.34</b>	<b>87,034,632.44</b>	<b>3.45</b>	<b>-</b>

Note 1: Increase for the current year includes depreciation of fixed assets of RMB 7,377,902.81 and amortization of intangible assets of RMB9, 858,841.92.

Note 2: Refers to Construction in progress transferred out from Xiebei Thermal Power due to changes in scope of consolidation.

RMB

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

## 13. Materials for construction of fixed assets

RMB

Item	Closing balance	Opening Balance
Equipment	361,317,214.90	181,932,999.95
Materials	92,865,706.85	106,985,624.87
<b>Total</b>	<b>454,182,921.75</b>	<b>288,918,624.82</b>

## 14. Intangible assets

## (1) Details of Intangible assets

RMB

Item	Land use right	Non-patent technology	Software	Others	Total
I. Original carrying amount					
Opening carrying amount	1,719,791,827.99	669,130,270.43	119,195,831.95	21,402,800.00	2,529,520,730.37
Increase in the current period	376,838,828.36	124,972,360.29	14,848,101.78	20,948,000.00	537,607,290.43
(1)Acquisitions	376,838,828.36	-	6,548,801.28	-	383,387,629.64
(2) Transferred from CIP	-	124,972,360.29	8,299,300.50	20,948,000.00	154,219,660.79
Decrease in the current period	19,005,920.00	-	-	20,948,000.00	39,953,920.00
(1)Transfer our due to changes in scope of consolidation	19,005,920.00	-	-	20,948,000.00	39,953,920.00
Closing carrying amount	2,077,624,736.35	794,102,630.72	134,043,933.73	21,402,800.00	3,027,174,100.80
II. Accumulated amortization					
Opening carrying amount	149,826,868.24	82,308,588.26	45,134,034.00	250,797.98	277,520,288.48
Increase in the current period	41,129,965.47	83,500,054.19	13,604,697.38	1,105,681.33	139,340,398.37
(1)Accrual	41,129,965.47	83,500,054.19	13,604,697.38	1,105,681.33	139,340,398.37
Decrease in the current period	570,012.85	-	-	675,741.94	1,245,754.79
(1) Transfer out due to changes in scope of consolidation	570,012.85	-	-	675,741.94	1,245,754.79
Closing carrying amount	190,386,820.86	165,808,642.45	58,738,731.38	680,737.37	415,614,932.06
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					
Closing book value	1,887,237,915.49	628,293,988.27	75,305,202.35	20,722,062.63	2,611,559,168.74
Opening 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

## (2) Description of Intangible assets

As at 31 December 2016, net carrying amount of RMB537,654,456.70 (2015: RMB 553,742,689.87) of land use right and carrying amount of RMB 0 (2015: RMB580,235,986.48) of non-patented technology has been pledged as collateral for acquiring borrowings and issuing bank acceptances, for details refer to Note (V)18,20,27 and 29.

## 15. 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

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

## 15. Goodwill - continued

## (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	-	-	-	-

The Group 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 13.39%. The Group believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount and therefore, no provision for impairment losses is made.

## 16. Deferred tax assets/Deferred tax liabilities

## (1) Deferred tax assets and deferred tax liabilities without offset

RMB

Item	Closing balance		Opening Balance	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment losses of assets	134,339,435.52	26,957,647.91	103,496,769.93	20,689,271.33
Deductible losses	69,126,069.14	20,317,686.87	561,572,633.05	95,494,824.73
Employee benefits payable	307,447,148.44	52,461,787.11	151,927,747.00	27,481,936.75
Unpaid expenses	740,099,356.01	154,540,200.86	480,742,330.06	103,396,103.64
Unrealized profit from inter-group transactions	607,923,412.16	118,779,543.95	191,588,132.37	30,900,173.03
Deferred revenue	473,468,704.01	78,564,508.92	260,740,825.75	44,012,206.32
Differences in depreciation of fixed assets	3,810,333.80	952,583.45	5,183,255.28	1,295,813.82
Deductible of special equipment	-	-	153,309,176.40	22,996,376.46
<b>Total</b>	<b>2,336,214,459.08</b>	<b>452,573,959.07</b>	<b>1,908,560,869.84</b>	<b>346,266,706.08</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	72,773,320.76	18,193,330.19	76,366,653.36	19,091,663.34
Differences in depreciation of fixed assets	26,561,554.97	4,970,195.33	49,012,510.31	10,342,585.00
<b>Total</b>	<b>99,334,875.73</b>	<b>23,163,525.52</b>	<b>125,379,163.67</b>	<b>29,434,248.34</b>

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

16. Deferred tax assets/Deferred tax liabilities - continued

(2) Deferred tax assets and deferred tax liabilities that are presented at the net amount after offset

RMB

Item	Offset amount at the end of the reporting period	Balance after the offset at the end of the reporting period	Offset amount at the beginning of the reporting period	Balance after the offset at the beginning of the reporting period
Deferred tax assets	4,970,195.33	447,603,763.74	8,726,091.02	337,540,615.06
Deferred tax liabilities	4,970,195.33	18,193,330.19	8,726,091.02	20,708,157.32

(3) Details of unrecognized deferred tax assets:

RMB

Item	Closing balance	Opening Balance
Deductible losses	71,588,080.32	66,185,250.09
Provision for impairment losses of assets	52,982,943.29	36,192,430.48
<b>Total</b>	<b>124,571,023.61</b>	<b>102,377,680.57</b>

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	Note
2016	-	2,490,635.33	As at 31 December 2016, overdue deductible loss amounted to RMB2,490,635.33.
2017	2,917,578.63	2,917,578.63	
2018	5,034,146.13	8,915,211.56	
2019	9,574,473.98	12,418,062.38	
2020	17,771,129.67	21,925,843.00	
2021	273,983.72	78,341.86	
Indefinite	36,016,768.19	17,439,577.33	It is the deductible losses of Wanhua Singapore and Wanhua Shipping. Its maturity has no limitation according to the local tax law.
<b>Total</b>	<b>71,588,080.32</b>	<b>66,185,250.09</b>	

17. Other non-current assets

RMB

Item	Closing balance	Opening Balance
Prepayment for construction	321,335,296.99	635,193,600.30
Prepayment for land	26,766,379.34	77,193,163.17
<b>Total</b>	<b>348,101,676.33</b>	<b>712,386,763.47</b>

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

**18. Short-term borrowings**

(1) Categories of short-term borrowings:

RMB

Item	Closing balance	Opening Balance
Guaranteed loans (Note 1)	712,971,400.84	248,241,400.84
Unsecured and non-guaranteed loans	7,788,494,500.57	9,369,619,979.75
Secured loans with collaterals (Note 2)	-	20,000,000.00
<b>Total</b>	<b>8,501,465,901.41</b>	<b>9,637,861,380.59</b>

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

Note 2: Secured loans with collaterals as at 31 December 2015 was the short-term borrowings obtained under the pledge of fixed assets and intangible assets, refer to Note (V) 11, 14.

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

**19. Derivative financial liabilities**

RMB

Item	Closing balance	Opening Balance
Liquefied petroleum gas (LPG)Futures contract(Note(V)54)	7,514,019.66	-

**20. Notes payable**

RMB

Category	Closing balance	Opening Balance
Bank acceptances	1,860,820,056.31	2,221,250,502.00

Note: Bank acceptances are mainly issued through letter of credit by the Group, refer to Note (V) 1, 2, 11, 14 for other issuing terms.

No overdue note payable outstanding at the end of year 2016.

**21. Accounts payable**

(1) Details of accounts payable are as follows:

RMB

Item	Closing balance	Opening Balance
Accounts payable for purchase	1,153,281,657.38	892,971,829.80
Accounts payable for construction	2,313,871,183.87	2,507,485,277.98
<b>Total</b>	<b>3,467,152,841.25</b>	<b>3,400,457,107.78</b>

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

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

22. Receipts in advance

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

RMB

Item	Closing balance	Opening Balance
Receipts in advance from sale of goods	1,496,702,136.79	711,215,589.43

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

23. Employee benefits payable

(1) Details of employee benefits payable

RMB

Item	Opening Balance	Increase in the current period	Decrease in the current period	Closing balance
1. Short-term employee-benefits	205,017,174.32	1,541,009,681.72	1,384,740,822.52	361,286,033.52
2. Post-employment benefit-defined contribution plan	953,620.64	150,750,543.19	150,049,170.19	1,654,993.64
<b>Total</b>	<b>205,970,794.96</b>	<b>1,691,760,224.91</b>	<b>1,534,789,992.71</b>	<b>362,941,027.16</b>

(2) Details of short-term employee benefits

RMB

Item	Opening Balance	Increase in the current period	Decrease in the current period	Closing balance
1. Wages or salaries, bonuses, allowances and subsidies	204,165,625.68	1,298,664,975.84	1,143,171,195.74	359,659,405.78
2. Staff welfare	-	53,290,378.33	53,290,378.33	-
3. Social security contributions	636,774.60	79,121,600.48	78,667,781.13	1,090,593.95
Including: Medical insurance	544,604.36	63,817,030.85	63,488,760.66	872,874.55
Work injury insurance	47,648.65	10,506,622.03	10,389,114.56	165,156.12
Maternity insurance	44,521.59	4,797,947.60	4,789,905.91	52,563.28
4. Housing funds	210,774.04	96,964,789.54	96,936,298.01	239,265.57
5. labor union and education fund and others	4,000.00	12,967,937.53	12,675,169.31	296,768.22
<b>Total</b>	<b>205,017,174.32</b>	<b>1,541,009,681.72</b>	<b>1,384,740,822.52</b>	<b>361,286,033.52</b>

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

23. Employee benefits payable - continued

(3) Defined Contribution Plan

RMB

Item	Opening Balance	Increase in the current period	Decrease in the current period	Closing balance
1. Pension insurance	885,342.15	142,031,808.98	141,268,898.86	1,648,252.27
2. Unemployment insurance	68,278.49	8,718,734.21	8,780,271.33	6,741.37
<b>Total</b>	<b>953,620.64</b>	<b>150,750,543.19</b>	<b>150,049,170.19</b>	<b>1,654,993.64</b>

The Group has set up the pension fund insurance and employment insurance by the government regulation. According to the plan, the Group deposits 13~18% and 0.5~2% 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 142,031,808.98 and RMB 8,718,734.21 into pension insurance and unemployment insurance, respectively. (2015: RMB 118,003,777.81 and RMB 7,992,233.70) As at December 31, 2016, the Group has outstanding payments of RMB 1,648,252.27 and RMB 6,741.37 (2015: RMB 885,342.15 and 68,278.49) for pension insurance and unemployment insurance. The relevant subsequent payments will be settled after reporting period.

24. Taxes payable

RMB

Item	Closing balance	Opening Balance
Value-added tax	93,759,535.55	30,196,307.63
Business tax	-	525,429.15
Enterprise income tax	430,651,537.05	180,092,325.17
Individual income tax	4,386,236.17	3,648,291.40
City construction and maintenance tax	6,454,567.23	2,050,366.11
Others	21,140,425.68	16,260,100.89
<b>Total</b>	<b>556,392,301.68</b>	<b>232,772,820.35</b>

25. Interest payable

RMB

Item	Closing balance	Opening Balance
Interest payable on short-term borrowings	16,388,456.74	12,620,663.58
Interest payable on long-term borrowings	14,325,021.00	18,440,003.11
Interest payable on bonds payable	60,998,677.00	44,191,506.85
<b>Total</b>	<b>91,712,154.74</b>	<b>75,252,173.54</b>

No overdue payment of interest.

26. Other payables

(1) Details of other payables are as follows:

RMB

Item	Closing balance	Opening Balance
Transportation fees	103,231,860.04	94,994,784.84
Deposit fees	59,262,110.37	50,841,402.05
Current accounts (Note)	144,018,977.08	50,000,000.00
Unpaid maintenance fee	181,408,441.49	48,413,000.00
Others	23,659,712.41	31,448,044.53
<b>Total</b>	<b>511,581,101.39</b>	<b>275,697,231.42</b>

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

26. Other payables - continued

(1) Details of other payables are as follows: - continued

Note: Current accounts refer to the amount borrowed by Yantai Selling from Yantai Wanhua Synthetic Leather Co., Ltd., 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. The annual interest rate is 15% lower than the one-year benchmark loan interest rate announced by the People's Bank of China. The carrying amount of interest at the end of the year is RMB4, 018,977.08, and the annual interest is totaling RMB5, 004,977.08.

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

27. Non-current liabilities due within one year

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

Item	Closing balance	Opening Balance
Long-term borrowings due within one year	2,734,725,000.13	2,512,795,314.89
Bonds payable due within one year (Note)	1,310,400,000.00	-
<b>Total</b>	<b>4,045,125,000.13</b>	<b>2,512,795,314.89</b>

RMB

Note: Refer to Note (V) 30 for bonds payable due within one year.

(2) Long-term borrowings due within one year

(a) Long-term borrowings due within one year

Item	Closing balance	Opening Balance
Unsecured and non-guaranteed loans	1,796,725,000.01	1,706,544,726.67
Guaranteed loans (Note 1)	216,000,000.12	20,000,000.00
Secured loans with collaterals (Note 2)	722,000,000.00	786,250,588.22
<b>Total</b>	<b>2,734,725,000.13</b>	<b>2,512,795,314.89</b>

RMB

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

Note 2: As at 31 December 2016, fixed assets and intangible assets are pledged to obtain borrowings, refer to Note (V) 11 and 14.

The above interest rates range from 1.20% to 4.75% 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****28. Other current liabilities**

RMB

Item	Closing balance	Opening Balance
Short-term Financing Bonds	1,700,000,000.00	-

Increase and decrease of short-term financing bonds:

RMB

Name of bonds	Par values	Issue date	Term of the bond	Issue amount in current period	Provision for interest	Discount amortization	Payment in the current year	Closing balance
Short-term financing bonds (Note 1)	300,000,000.00	1 March 2016	1 year	300,000,000.00	7,121,095.89	-	-	300,000,000.00
Superb short-term financing bonds (Note 2)	600,000,000.00	17 August 2016	270 days	600,000,000.00	6,258,082.19	-	-	600,000,000.00
Superb short-term financing bonds (Note 2)	800,000,000.00	9 September 2016	270 days	800,000,000.00	7,016,057.83	-	-	800,000,000.00
<b>Total</b>	<b>1,700,000,000.00</b>			<b>1,700,000,000.00</b>	<b>20,395,235.91</b>	-	-	<b>1,700,000,000.00</b>

Note 1: In accordance with the "Registration Acceptance Notice" (CP 17) issued by National Association of Financial Market Institutional Investors on 21 January 2016, the Company was approved to issue short-term financing bonds of RMB 2,500,000,000.00. In March 2016, RMB 300,000,000 were issued for the first time with one-year maturity and a fixed interest rate of 2.85% per annum, the interests should be paid upon maturity.

Note 2: In accordance with the "Registration Acceptance Notice" (SCP 77) issued by National Association of Financial Market Institutional Investors on 7 April 2016, the Company was approved to issue Superb short-term financing bonds of RMB 5,000,000,000.00. In August 2016, RMB 600,000,000 were issued for the first time with 270-day maturity and a fixed interest rate of 2.82% per annum, the interests should be paid upon maturity. In September 2016, the second-time issue was RMB 800,000,000 with 270-day maturity and a fixed interest rate of 2.90% per annum, the interests should be paid upon maturity.

**29. Long-term borrowings**

RMB

Item	Closing balance	Opening Balance
Unsecured and non-guaranteed loans	5,298,344,999.98	6,275,410,273.33
Guaranteed loans (Note 1)	1,839,999,999.76	2,056,000,000.00
Secured loans with collateral (Note 2)	2,195,000,000.00	3,108,826,711.78
<b>Total</b>	<b>9,333,344,999.74</b>	<b>11,440,236,985.11</b>

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 are acquired with fixed assets, construction in progress and intangible assets as collaterals, for details refer to Note (V) 11, 12 and 14.

The above interest rates range from 1.20% to 4.75% per annum for this reporting period.

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

30. Bonds payable

RMB

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

Increase and decrease of bonds payable:

RMB

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	Reclassified to bonds payable due within 1 year at the end of the year	Closing balance
Medium Term Bonds	1,000,000,000.00	17 April 2012	5 years	1,000,000,000.00	1,000,000,000.00	-	55,600,000.00	-	-	1,000,000,000.00	-
Bond in denominated in RMB	1,000,000,000.00	19 November 2014	3 years	1,000,000,000.00	980,000,000.00	-	22,136,034.73	-	669,600,000.00	310,400,000.00	-
<b>Total</b>	<b>2,000,000,000.00</b>			<b>2,000,000,000.00</b>	<b>1,980,000,000.00</b>	<b>-</b>	<b>77,736,034.73</b>	<b>-</b>	<b>669,600,000.00</b>	<b>1,310,400,000.00</b>	<b>-</b>

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.

31. Long-term payables

RMB

Item	Closing balance	Opening Balance
For re-lending money from Department of Finance of Yantai	2,705,450.00	4,058,178.00

Increase and decrease of long-term payables:

RMB

Creditor	Period	Principal	Interest rate (% per annum)	Opening Balance	Accrued interest	Payment in the year	Closing balance	Borrowing terms
Finance Bureau of Yantai	No maturity date	14,880,000.00	2.80%	4,058,178.00	95,957.26	1,448,685.26	2,705,450.00	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.

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

32. Deferred income

RMB

Item	Closing balance	Opening Balance
Government subsidies	475,428,079.03	262,906,450.75

Details of deferred government grant:

RMB

Liability item	Opening balance	New grants in the current year	Recognized in non-operating income	Closing balance
Industrial upgrading subsidies	-	185,000,000.00	-	185,000,000.00
Key industries and comprehensive technology transformation projects	100,000,000.00	-	8,333,333.33	91,666,666.67
Environmental protection subsidy	45,000,000.00	-	-	45,000,000.00
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	1,921,000.00	-	34,651,000.00
Special fund from Bureau of finance and construction	30,000,000.00	-	-	30,000,000.00
Park upgrading and reconstruction subsidies	-	18,700,000.00	-	18,700,000.00
Recycling transformation subsidies	-	9,000,000.00	-	9,000,000.00
Others	10,546,450.75	6,630,002.39	396,040.78	16,780,412.36
<b>Total</b>	<b>262,906,450.75</b>	<b>221,251,002.39</b>	<b>8,729,374.11</b>	<b>475,428,079.03</b>

33. Share capital

RMB

	Opening balance	Changes in current years					Closing balance
		New issue	Bonus issue	Capitalization of surplus reserve	Others	Subtotal	
<b>2016:</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

As at 31 December 2016, Wanhua Industrial Group Co., Ltd., the holding shareholder of the Company, has respectively pledged its 112,600,000 shares to Bank of China, Yantai Branch, 150,000,000 shares to China Development Bank, Hong Kong 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>2016:</b>				
Capital premium	28,010,338.91	-	-	28,010,338.91
Other capital reserve	20,334,219.04	65,932.45	-	20,400,151.49
<b>Total</b>	<b>48,344,557.95</b>	<b>65,932.45</b>	<b>-</b>	<b>48,410,490.40</b>
<b>2015:</b>				
Capital premium	28,010,338.91	-	-	28,010,338.91
Others capital reserve	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>

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

35. Other comprehensive income

RMB

Item	Opening Balance	Amount for the current period					Closing balance
		Before income tax amount	Less: transferred from other comprehensive income previously to gains and losses in current period	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	4,015,139.50	3,592,393.74	-	-	3,592,393.74	-	7,607,533.24
Translation differences of financial statements denominated in foreign currencies	4,015,139.50	11,106,413.40	-	-	11,106,413.40	-	15,121,552.90
Effective part of gains and losses on cash flow hedging	-	(7,514,019.66)	-	-	(7,514,019.66)	-	(7,514,019.66)
<b>Total other comprehensive income</b>	<b>4,015,139.50</b>	<b>3,592,393.74</b>	<b>-</b>	<b>-</b>	<b>3,592,393.74</b>	<b>-</b>	<b>7,607,533.24</b>

RMB

Item	Opening Balance	Amount for the prior period					Closing balance
		Before income tax amount	Less: transferred from other comprehensive income previously to gains and losses in current period	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 of financial statements denominated in foreign currencies	(12,526,257.43)	16,541,396.93	-	-	16,541,396.93	-	4,015,139.50
<b>Total other comprehensive income</b>	<b>(12,526,257.43)</b>	<b>16,541,396.93</b>	<b>-</b>	<b>-</b>	<b>16,541,396.93</b>	<b>-</b>	<b>4,015,139.50</b>

## (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>2016:</b>				
Production safety fee	-	48,384,611.40	48,384,611.40	-
<b>2015:</b>				
Production safety fee	696,629.53	49,509,572.66	50,206,202.19	-

## 37. Surplus reserve

RMB

Item	Opening Balance	Increase in the period	Decrease in the period	Closing balance
<b>2016:</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
<b>Total</b>	<b>1,579,310,659.11</b>	<b>-</b>	<b>-</b>	<b>1,579,310,659.11</b>
<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
<b>Total</b>	<b>1,579,310,659.11</b>	<b>-</b>	<b>-</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 profit

RMB

Item	Amount	Proportion (%)
<b>2016:</b>		
Retained earnings at the end of the period	7,776,967,780.17	-
Add: Net profit attributable to owners of the Company for the period	3,679,421,831.90	-
Less: Appropriation to statutory surplus reserve	-	-
Appropriation to discretionary surplus reserve	-	-
Declaration of dividends on ordinary shares	432,466,944.00	-
Retained earnings at the end of the period	11,023,922,668.07	-
<b>2015:</b>		
Retained earnings at the end of the period	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	-

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

**38. Retained profit - 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 appropriate discretionary surplus reserve.

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

As at 28 March 2016, the General Shareholders' Meeting 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 with a total amount of RMB 432,466,944.00.

(3) Profit distribution declared after the balance sheet date

The Board of Directors proposed and approved, based on 2,278,344,000.00 outstanding shares after the increase in January 2017, a cash dividend of RMB 5.00 (pre-tax) per share for every ten shares with two bonus shares 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 2016, the balance of the Group's unappropriated profits include appropriation to surplus reserve by subsidiaries amounts to RMB 786,241,460.37 (2015: RMB 742,708,618.10).

**39. Operating income and operating costs**

RMB

Item	Amount for the current period		Amount for the prior period	
	Revenue	Cost	Revenue	Cost
Principal operation	29,824,207,561.91	20,521,991,074.72	19,209,280,032.70	13,339,364,927.69
Other operation	275,653,968.53	222,818,175.35	283,102,856.83	280,600,498.91
<b>Total</b>	<b>30,099,861,530.44</b>	<b>20,744,809,250.07</b>	<b>19,492,382,889.53</b>	<b>13,619,965,426.60</b>

**40. Taxes and levies**

RMB

Item	Amount for the current period	Amount for the prior period
Business tax	537,244.68	2,720,153.80
City construction and maintenance tax	76,437,184.28	54,078,845.48
Education surcharges	54,748,943.84	38,851,235.35
House property tax	10,699,147.35	-
Land use tax	40,250,799.38	-
Stamp tax	17,212,327.97	-
vehicle and vessel use tax	90,655.11	-
water conservancy construction fund	3,699,471.74	-
Others	85,293.51	-
<b>Total</b>	<b>203,761,067.86</b>	<b>95,650,234.63</b>

Note: Notice on Preparation for Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax (Cai Shui [2016] No. 32) was issued by Ministry of Finance and State Administration of Taxation, the accounts "house property tax, stamp tax and land use tax, etc. under" management fees " are accounted for under "taxes and levies" since May 2016.

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

## 41. Selling expenses

RMB

Item	Amount for the current period	Amount for the prior period
Logistics expenses	893,837,475.84	614,935,468.84
Staff cost	122,084,230.88	95,100,399.78
Sales commission and consulting fees	44,748,207.33	31,267,339.08
Travelling expenses	29,911,391.24	30,808,218.57
Others	75,402,349.60	75,158,262.68
<b>Total</b>	<b>1,165,983,654.89</b>	<b>847,269,688.95</b>

## 42. Administrative expenses

RMB

Item	Amount for the current period	Amount for the prior period
Staff cost	603,625,111.34	433,229,676.12
Material consumption	291,383,586.94	314,276,274.82
Depreciations	107,055,635.89	88,192,756.67
Tax fee	33,324,332.72	104,759,320.47
Consulting fee	30,026,783.63	31,278,995.43
Information cost	33,847,829.00	38,556,614.14
Rent and property management fee	32,642,134.69	35,134,934.55
Labor costs	26,451,546.25	30,674,792.31
Water, electricity & gas charges	59,867,295.75	25,209,812.22
Travelling expenses	28,240,817.43	28,092,651.99
Entertainment cost	12,929,347.07	13,264,680.42
Amortization of intangible assets	59,024,751.85	19,652,472.47
Insurance fee	5,804,618.85	10,509,464.93
Others	99,059,616.36	108,683,197.89
<b>Total</b>	<b>1,423,283,407.77</b>	<b>1,281,515,644.43</b>

## 43. Financial expenses

RMB

Item	Amount for the current period	Amount for the prior period
Interest expenses	1,045,945,849.20	1,075,455,285.26
Less: Capitalized interest expenses	86,619,650.04	463,578,813.76
Less: Interest income	28,886,774.70	12,281,019.83
Exchange losses (gains)	(80,391,284.52)	288,777,536.95
Less: Capitalized exchange losses and gains	414,982.40	101,899,115.10
Others	40,318,044.19	54,769,113.09
<b>Total</b>	<b>889,951,201.73</b>	<b>841,242,986.61</b>

## 44. Impairment losses of assets

RMB

Item	Amount for the current period	Amount for the prior period
I. Bad debt allowance	53,673,635.42	(12,854,672.10)
II. Provision for decline in value of inventories	9,919,788.61	4,501,334.83
III. Impairment on fixed assets	10,705,340.30	-
<b>Total</b>	<b>74,298,764.33</b>	<b>(8,353,337.27)</b>

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

45. Gain (losses) from changes in fair values

RMB

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

46. Investment income

Detail of Investment income:

RMB

	Amount for the current period	Amount for the prior period
Income (losses) from long-term equity investments under equity method	22,768,159.90	(2,612,485.20)
Investment income from held-for-sale financial assets	30,000,000.00	6,000,000.00
Others	(15,168.18)	-
<b>Total</b>	<b>52,752,991.72</b>	<b>3,387,514.80</b>

47. Non-operating income

Details of non-operating income are as follows:

RMB

Item	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	343,218.45	199,004.38	343,218.45
Including: Gains on disposal of fixed assets	343,218.45	199,004.38	343,218.45
Government grants	84,773,232.39	292,818,821.21	84,773,232.39
Others	4,632,548.80	9,294,934.07	4,632,548.80
<b>Total</b>	<b>89,748,999.64</b>	<b>302,312,759.66</b>	<b>89,748,999.64</b>

Government grants recognized in profit or loss in for the current period:

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period	Assets related/Income related
Special fund for key industries support	40,044,188.50	71,993,716.85	Income related
Key industries and comprehensive technology transformation projects	8,333,333.33	-	Asset related
Special funds for optimization of industrial structure	8,182,800.00	6,503,500.00	Income related
Subsidy for energy saving	4,650,000.00	3,921,600.00	Income related
Technology development subsidies	3,315,000.00	1,805,000.00	Income related
Interest subsidy	2,325,500.00	3,833,000.00	Income related
Informatization subsidies	1,000,000.00	-	Income related
Environmental protection subsidy	396,040.78	-	Asset related
Special fund for high and new technology industry development	300,000.00	177,727,003.14	Income related
Others	16,226,369.78	27,035,001.22	Income related
<b>Total</b>	<b>84,773,232.39</b>	<b>292,818,821.21</b>	

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

## 48. Non-operating expenses

RMB

Item	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	85,368,752.99	160,219,100.15	85,368,752.99
Including: Losses on disposal of fixed assets	85,368,752.99	160,219,100.15	85,368,752.99
Donations to third parties	1,033,000.00	970,100.00	1,033,000.00
Others	795,021.34	1,687,727.41	795,021.34
<b>Total</b>	<b>87,196,774.33</b>	<b>162,876,927.56</b>	<b>87,196,774.33</b>

## 49. Income tax expenses

RMB

Item	Amount for the current period	Amount for the prior period
Current tax expense calculated according to tax laws and relevant requirements	1,230,931,566.96	724,941,488.29
Final settlement and payment for prior year	(8,963,815.57)	(3,275,414.95)
Deferred income tax	(116,957,786.17)	(46,778,102.94)
<b>Total</b>	<b>1,105,009,965.22</b>	<b>674,887,970.40</b>

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

RMB

Item	Amount for the current period	Amount for the prior period
Accounting profit	5,653,079,400.82	2,954,448,758.91
Income tax expenses calculated at 15% (prior year: 15%)	847,961,910.12	443,167,313.84
Effect of expenses that are not deductible for tax purposes	2,619,650.11	6,722,523.24
Effect of tax-free income	(11,631,213.23)	(2,555,821.79)
Effect of unrecognized deductible losses and deductible temporary differences	5,334,501.82	2,931,524.62
Effect of using previously unrecognized deductible losses and deductible temporary differences	(1,631,905.08)	(2,226,863.23)
Purchase of special-purpose equipment for enterprise income tax credits	(33,875,304.03)	(5,924,230.67)
50% additional deduction of research & development expenses	(51,761,863.68)	(47,358,861.36)
Effect of different tax rates of subsidiaries operating in other jurisdictions	356,958,004.76	283,407,800.70
Final settlement and payment for prior year	(8,963,815.57)	(3,275,414.95)
<b>Total</b>	<b>1,105,009,965.22</b>	<b>674,887,970.40</b>

## 50. Notes to items in the cash flow statement

## (1) Other cash receipts relating to operating activities

RMB

Item	Amount for the current period	Amount for the prior period
Government grants related to income	103,294,860.67	345,739,111.93
Cash and bank balances with restrictions recovered	4,070,000.00	30,044,325.47
Customs deposit recovered	62,195,640.64	-
Others	17,198,631.73	21,575,953.90
<b>Total</b>	<b>186,759,133.04</b>	<b>397,359,391.30</b>

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

50. Notes to items in the cash flow statement - continued

(2) Other cash payments relating to operating activities

RMB

Item	Amount for the current period	Amount for the prior period
Total expenses	1,990,879,384.10	1,714,145,178.33
Customs deposit paid	-	61,723,510.21
<b>Total</b>	<b>1,990,879,384.10</b>	<b>1,775,868,688.54</b>

(3) Other cash receipts relating to investing activities

RMB

Item	Amount for the current period	Amount for the prior period
Government grants related to asset	194,000,000.00	-
Deposit of construction project	-	4,879,455.16
<b>Total</b>	<b>194,000,000.00</b>	<b>4,879,455.16</b>

(4) Other cash payments relating to investing activities

RMB

Item	Amount for the current period	Amount for the prior period
Fixed assets disposal costs	5,494,706.62	38,456,870.00
Cash and bank balances of Xiebei Thermal Power at the date of losing control	60,094,550.67	-
Deposit of construction project	1,359,751.81	-
<b>Total</b>	<b>66,949,009.10</b>	<b>38,456,870.00</b>

(5) Other cash payments relating to financing activities

RMB

Item	Amount for the current period	Amount for the prior period
Financing charges paid	11,897,770.83	14,966,474.95

## (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	4,548,069,435.60	2,279,560,788.51
Add: Impairment losses of assets	74,298,764.33	(8,353,337.27)
Depreciation of fixed assets	2,629,476,704.14	1,472,835,738.37
Amortization of intangible assets	129,481,556.45	73,177,887.93
Amortization of long-term prepaid expenses	3,511,454.08	-
Losses on disposal of fixed assets, intangible assets and other long-term assets	85,025,534.54	160,020,095.77
Losses on changes in fair values	-	3,466,833.57
Financial expenses	975,448,474.04	694,307,407.11
Investment income	(52,752,991.72)	(3,387,514.80)
Increase in deferred tax assets	(114,442,959.04)	(47,978,062.85)
Increase(decrease) in deferred tax liabilities	(2,514,827.13)	1,199,959.91
Increase in inventories	(165,241,872.48)	(1,188,361,869.19)
(Increase)Decrease in receivables from operating activities	(2,816,512,528.51)	1,227,061,982.57
Increase(decrease) in payables from operating activities	2,054,997,134.53	(61,156,183.71)
Net cash flow from operating activities	7,348,843,878.83	4,602,393,725.92
<b>2. Significant investing and financing activities that do not involve cash receipts and payments:</b>		
Fixed assets acquired and constructed by debts	2,313,871,183.87	2,507,485,277.98
<b>3. Net changes in cash and cash equivalents:</b>		
Closing balance of cash and cash equivalents	1,962,848,541.01	2,062,291,762.97
Less: Opening balance of cash and cash equivalents	2,062,291,762.97	994,630,106.64
Net increase (decrease) in cash and cash equivalents	(99,443,221.96)	1,067,661,656.33

## (2) Composition of cash and cash equivalents

RMB

Item	Closing balance	Opening balance
I. Cash	1,962,848,541.01	2,062,291,762.97
Including: Cash on hand	149,905.42	230,778.84
Bank deposits	1,962,681,300.94	2,062,043,692.27
Other monetary funds	17,334.65	17,291.86
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	1,962,848,541.01	2,062,291,762.97

Cash and cash equivalents exclude restricted cash and cash equivalents of the Company and subsidiaries within the Group. As at 31 December 2016, the restricted cash and bank balances amounted to RMB 23,954,898.18 (at 31 December 2015: RMB4,070,000.00).

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

52. Restricted ownership of asset and right of use

RMB

Item	Closing balance of book value	Opening balance of book value	Reasons to be restricted
Cash	23,954,898.18	4,070,000.00	Deposit for opening bank acceptances
Notes receivable	652,974,346.93	41,149,531.35	Notes pledged for opening bank acceptances
Fixed assets	13,618,290,023.20	10,448,241,728.28	Mortgage loan and for opening bank acceptance
Intangible assets	537,654,456.70	1,133,978,676.35	Mortgage loan and for opening bank acceptance
Construction in progress	-	6,113,253,680.22	Mortgage loan
<b>Total</b>	<b>14,832,873,725.01</b>	<b>17,740,693,616.20</b>	

53. Foreign monetary item

(1) Foreign monetary item

Item	Closing balance (O.C)	Exchange rate	Closing balance (RMB)
Cash and bank balances			
Including: USD	61,815,381.60	6.9394	428,961,659.08
EUR	1,455,531.40	7.2878	10,608,309.36
JPY	202,861,952.00	0.0593	12,026,265.10
RUB	80,162.19	0.1130	9,058.33
KRW	2,203,062,693.00	0.0057	12,649,446.01
HKD	10,825.89	0.8947	9,681.79
AED	21,097.23	1.8916	39,907.52
Total			464,304,327.19
Accounts receivable			
Including: USD	31,387,137.50	6.9394	217,807,901.97
EUR	11,354,768.84	7.2878	82,751,284.35
KRW	2,054,727,400.00	0.0057	11,783,861.64
Total			312,343,047.96
Other receivables			
Including: EUR	8,754.57	7.2878	63,801.56
KRW	59,225,000.00	0.0057	339,655.38
Total			403,456.94
Short-term borrowings			
Including: USD	50,000,000.00	6.9672	348,360,000.00
Total			348,360,000.00
Accounts payable			
Including: USD	17,897,150.25	6.9672	124,693,025.22
EUR	4,021,297.25	7.3389	29,511,898.39
JPY	7,454,497.00	0.0597	445,026.02
GBP	12,800.00	8.6139	110,257.92
SGD	4,913.72	4.8181	23,674.79
KRW	605,000.00	0.0058	3,497.51
AED	900.00	1.8929	1,703.61
CHF	838,500.00	6.8493	5,743,138.05
Total			160,532,221.51

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

53. Foreign monetary item - continued

(1) Foreign monetary item - continued

Item	Closing balance (O.C)	Rate	Closing balance (RMB)
Interest payable			
Including:USD	12,487.75	6.9672	87,004.65
Total			87,004.65
Other payables			
Including:USD	2,784.33	6.9672	19,398.98
EUR	1,947.13	7.3389	14,289.79
KRW	1,543,730.00	0.0058	8,924.30
Total			42,613.07

(2) Description of entities operating overseas

Wanhua Chemical (Hong Kong) Co., Ltd., a subsidiary of the Company, mainly operates in Hong Kong, and USD is the currency of the primary economic environment in which Wanhua Chemical (Hong Kong) Co., Ltd. operates. Therefore, Wanhua Chemical (Hong Kong) Co., Ltd., chooses USD as its functional currency.

Wanhua Chemical (Japan) Co., Ltd., a subsidiary of the Company, mainly operates in Japan, and JPY is the currency of the primary economic environment in which Wanhua Chemical (Japan) Co., Ltd. operates. Therefore, Wanhua Chemical (Japan) Co., Ltd., chooses JPY as its functional currency.

Wanhua Chemical (Singapore) Co., Ltd. and Wanhua Shipping Singapore Co., Ltd., subsidiaries of the Company, mainly operates in Singapore, and SGD is the currency of the primary economic environment in which the above mentioned two companies operate. Therefore, they choose SGD as their functional currency.

Wanhua Chemical (America) Co., Ltd., Wanhua Chemical US Holding Inc., Wanhua America Innovation Technology Co., Ltd. and Wanhua Chemical US Real Estate LLC, subsidiaries of the Company, mainly operate in the U.S.A., and USD is the currency of the primary economic environment in which they operates. Therefore, they chooses USD as their functional currency.

Wanhua Chemical International Holding (“BVI”), a subsidiary of the Company, mainly operates in the British Virgin Islands, and CNY is the currency of the primary economic environment in which BVI operates. Therefore, BVI chooses CNY as its functional currency.

Wanhua International (India) Private Limited., a subsidiary of the Company, mainly operates in India, and INR is the currency of the primary economic environment in which Wanhua International (India) Private Limited. Operates. Therefore, it chooses INR as functional currency.

Wanhua Chemical (Hungary) Holding Co., Ltd., a subsidiary of the Company, mainly operating in Hungary, chooses USD as functional currency, since USD is the currency of the primary economic environment in which Wanhua Chemical (Hungary) Holding Co., Ltd., operates.

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

**54. Hedges**

Cash flow hedges

Wanhua Singapore adopts LPG futures contracts to mitigate cash flow risk of Wanhua Hong Kong's forecast transactions, transferring floating prices to fixed prices. The Group designated futures contracts acquired in 2016 as hedging instruments, such futures contracts are the same with related sales contracts. The Group uses major terms comparison to assess hedge effectiveness and management of the Group believes that futures contracts are highly effective, major terms are as follows:

Item	Terms of transaction	Maturity date	Benchmark
LPG Futures Contracts	Sold 22,000 tons of LPG products	31 January 2017	AFEI price on specific date
Forecast Transaction	Sold 22,000 tons of LPG products	31 January 2017	AFEI price plus 13 USD per ton

The above mentioned contracts' fair value changes for the year 2016, a net loss of RMB7,514,019.66 arising from the effective hedge recognized in other comprehensive income was recognized in other comprehensive income (Note (V) 35). No profit or loss reversed from other comprehensive income was recognized for the reporting year.

(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 Ningbo	China	Ningbo	Manufacturing	74.5	-	Investment
Wanhua Port	China	Ningbo	Service	55	45	Investment
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd. (Note 1)	China	Ningbo	Manufacturing	51	-	Investment
Wanhua Chemical (Beijing) Co., Ltd.	China	Beijing	Manufacturing	100	-	Investment
Shanghai Wanhua Industrial Development Co., Ltd.	China	Shanghai	Service	100	-	Investment
Wanhua Chemical (Ningbo) Trading Co., Ltd. (Note 2)	China	Ningbo	Service	-	74.5	Investment
Wanhua Chemical (Ningbo) Rong Wei Polyurethane Co., Ltd. (Note 3)	China	Ningbo	Manufacturing	-	80	Investment
Yantai Trade	China	Yantai	Service	100	-	Investment
Wanhua Chemical (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Service	100	-	Investment
Wanhua Chemical (Japan) Co., Ltd.	Japan	Japan	Service	100	-	Investment
Wanhua Chemical (America) Co., Ltd.	America	America	Service	100	-	Investment
Wanhua International (India) Private Limited	India	India	Service	-	100	Investment
Wanhua Chemical (Yantai) Chlor-Alkali Thermal Power Co., Ltd	China	Yantai	Manufacturing	60	-	Investment
Wanhua Chemical (Guangdong) Co., Ltd.	China	Zhuhai	Manufacturing	100	-	Investment
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
Yantai Selling (Note5)	China	Yantai	Service	95	5	Investment
Wanhua Chemical (Yantai) Rongwei Polyurethane Co., Ltd. (Note 4)	China	Yantai	Manufacturing	80	-	By spinning off
Shanghai Kejv	China	Shanghai	Service	100	-	Subsidiary acquired not under common control
Wanhua Chemical US Holding Inc.	America	America	Service	-	100	Investment
Wanhua Singapore	Singapore	Singapore	Service	100	-	Investment
Singapore Shipping	Singapore	Singapore	Service	-	100	Investment
BVI	Britain	Virgin Island	Service	-	100	Investment
Wanhua America Innovation Technology Co., Ltd.	America	America	Service	-	100	Investment
Yantai Petrochemical	China	Yantai	Service	100	-	Investment
Wanhua Chemical US Real Estate LLC	America	America	Service	-	100	Investment
Wanhua Chemical (Hungary) Holding Co., Ltd.	Hungary	Hungary	Service	-	100	Investment
Zhuhai Wanhua Real Estate Development Co., Ltd.	China	Zhuhai	Service	-	100	Investment
Ningbo XinDa Mingzhou Trading Co. Ltd.	China	Ningbo	Service	-	50.36875	Investment
					5	

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

**1. Equity in subsidiaries- continued**

(1) Composition of the Group - continued

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

Note 2: A subsidiary invested by Wanhua Ningbo, who was a wholly owned subsidiary of the Company. 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 and Yantai 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.

(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%	632,908,807.67	306,000,000.00	2,519,575,754.71
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd.	49.63125%	110,778,309.35	63,528,000.00	397,003,198.81
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd.	49%	87,505,650.92	75,950,000.00	337,660,731.59

(VI) EQUITY IN OTHER ENTITIES - continued

1. Equity in subsidiaries - continued

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

RMB

Name of subsidiary	Closing balance						Opening Balance					
	Current assets	Non-current assets	Total asset	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total asset	Current liabilities	Non-current liabilities	Total liabilities
Wanhua Chemical Ningbo Co., Ltd.	8,667,551,378.37	6,132,524,223.67	14,800,075,602.04	3,829,031,169.71	855,000,000.00	4,684,031,169.71	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
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd.	294,186,352.72	741,214,294.95	1,035,400,647.67	212,907,771.11	13,385,235.30	226,293,006.41	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
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd.	142,253,168.42	1,000,733,758.76	1,142,986,927.18	431,664,050.33	7,629,687.50	439,293,737.83	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

RMB

Name of subsidiary	Amount for the current period				Amount for the prior period			
	Operating income	Net profit	Total comprehensive income	Operation cash flow	Operating income	Net profit	Total comprehensive income	Operation cash flow
Wanhua Chemical Ningbo Co., Ltd.	12,680,579,388.80	2,481,995,324.18	2,481,995,324.18	4,083,357,466.01	12,102,577,240.47	1,882,563,875.73	1,882,563,875.73	294,350,359.69
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd.	1,313,131,057.83	223,202,738.89	223,202,738.89	331,284,052.92	1,283,811,948.43	159,397,048.49	159,397,048.49	324,341,509.21
Wanhua Chemical (Ningbo) Thermal Power Co., Ltd.	1,061,560,054.96	179,553,485.09	179,553,485.09	248,052,558.16	909,269,737.70	165,564,653.77	165,564,653.77	250,204,832.54

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 the consolidated scope in current year

Subsidiaries that are no longer included in the consolidated scope:

RMB

Name of entity	the date when control is lost	Proportion of the remaining equity at the date when control is lost	Carrying amount of the remaining equity at the date when control is lost	Fair value of the remaining equity at the date when control is lost	Gains from the remaining equity re-measured at fair value	Net losses in January to June 2016
Xiebei Thermal Power	30 June 2016	55%	139,342,267.04	139,342,267.04	-	(2,072,142.82)

It is the joint venture set up by the subsidiary Wanhua Thermal and Union King Holdings Limited. Wanhua Thermal holds 55% of its total share and the investment reached RMB 148,500,000.00. While Union King Holdings Limited holds 45% of the total shares and its 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.

On 1 July 2016, Wanhua Thermal Power and Union King Holdings Limited agreed to terminate the Agreements of Shareholders' Voting Rights, and Union King Holdings Limited is no longer controlled by Wanhua Thermal Power nor included in the consolidated scope. According to the Articles of Xiebei Thermal Power, the Board of Directors consists of five directors, three of which is appointed by the Group, and the decision made by the board will not be effective unless approved by two thirds of the directors. Therefore it is a joint venture which is being jointly controlled and thus equity method is adopted.

3. Equity in associates or joint ventures

(1) Significant associates or joint ventures

Name of associate and joint venture	Main location	Registration location	Nature	Proportion (%)		Accounting method
				Direct	Indirect	
I. Joint Venture						
Yantai Harbor Wanhua Industrial Park Port Co., Ltd. (Note 1)	China	Yantai	Service	50	-	Equity method
UI Wanhua (Yantai) peroxide Co., Ltd. (Note:2)	China	Yantai	Manufacturing	50	-	Equity method
Ningbo Xiebei Thermal Power Co., Ltd. (Note(IV)2)	China	Ningbo	Manufacturing	-	55	Equity method
II. Associate						
Linde Gas(Yantai) Co., Ltd.(Note 3)	China	Yantai	Manufacturing	10	-	Equity method

registration capital was RMB 120,000,000.00, Yantai Harbor Wanhua Industrial Park Port Co., Ltd. made resolutions to increase capital to RMB 320,000,000.00 in 2015. The Company added investments by RMB100, 000,000.00 in cash.

Note 2: It is a joint venture co-founded by United Initiators Asia Limited and the Company, and the Company holds 50% of equity interest. According to the articles of association, the board of director is composed of four directors, among which of the Company has two directors. Therefore, it is a joint venture which is being jointly controlled and thus equity method is adopted.

(VI) EQUITY IN OTHER ENTITIES - continued

3. Equity in associates or joint ventures

(1) Significant associates or joint ventures - continued

Note 3: It is a joint venture co-founded by Linde Gas (Yantai) Co., Ltd. and the Company; 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.

(2) Financial information in significant joint ventures

RMB

	Closing balance / Amount incurred in the current period	Opening Balance / Amount incurred in the prior period
	Yantai Harbor Wanhua Industrial Park Port Co.,	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.
Current assets	184,430,406.36	179,083,104.13
Including: Cash and cash equivalents	169,252,823.40	148,268,403.31
Non-current assets	912,929,677.15	901,923,826.71
Total assets	1,097,360,083.51	1,081,006,930.84
Total current liabilities	465,790,817.25	482,606,661.71
Non-current liabilities	305,812,769.68	287,828,545.42
Total liabilities	771,603,586.93	770,435,207.13
Total equity	325,756,496.58	310,571,723.71
Share of net asset calculated by shareholding proportion	162,878,248.29	155,285,861.85
Book value of equity investment in joint venture	162,878,248.29	155,285,861.85
Fair value of equity investments in joint venture with quoted price on open market	N/A	N/A
Operating income	140,294,206.58	85,852,922.93
Financial expenses	12,390,563.62	11,820,101.10
Income tax expenses	-	-
Net profit	15,184,772.88	479,253.54
Other comprehensive income	-	-
Total comprehensive income	15,184,772.88	479,253.54
Dividend from joint venture	-	-

(VI) EQUITY IN OTHER ENTITIES - continued

3. Equity in associates or joint ventures - continued

(2) Financial information in significant joint ventures - continued

	RMB
	Closing balance / amount incurred UI Wanhua (Yantai) peroxide Co., Ltd.
Current assets	28,546,732.17
Including: Cash and cash equivalents	28,416,684.16
Non-current assets	2,193,849.05
Total assets	30,740,581.22
Total current liabilities	37,800.00
Non-current liabilities	-
Total liabilities	37,800.00
Total equity	30,702,781.22
Share of net asset calculated by shareholding proportion	15,351,390.61
Book value of equity investment in joint venture	15,351,390.61
Fair value of equity investment in joint venture with quoted price on open market	N/A
Operating income	-
Financial expenses	(707,381.52)
Income tax expenses	112,038.22
Net profit	553,670.72
Other comprehensive income	-
Total comprehensive income	553,670.72
Dividend from joint venture	-

(VI) EQUITY IN OTHER ENTITIES - continued

3. Equity in associates or joint ventures - continued

(2) Financial information in significant joint ventures - continued

RMB

	Closing balance / Amount incurred between July- December 2016
	Ningbo Xiebei Thermal Power Co., Ltd.
Current assets	257,267,322.49
Including: Cash and cash equivalents	50,480,051.97
Non-current assets	710,164,276.81
Total assets	967,431,599.30
Total current liabilities	426,202,904.75
Non-current liabilities	255,000,000.00
Total liabilities	681,202,904.75
Total equity	286,228,694.55
Share of net asset calculated by shareholding proportion	157,425,782.00
Book value of equity investment in joint venture	157,425,782.00
Fair value of equity investment in joint venture with quoted price on open market	N/A
Operating income	289,280,216.55
Financial expenses	6,732,618.27
Income tax expenses	8,890,072.44
Net profit	32,879,118.11
Other comprehensive income	-
Total comprehensive income	32,879,118.11
Dividend from joint venture	-

**(VI) EQUITY IN OTHER ENTITIES - continued****3. Equity in associates or joint ventures - continued****(3) Financial information in significant associates**

RMB

	Closing balance / Amount incurred in the current period	Opening Balance / Amount incurred in the prior period
	Linde Gas (Yantai) Co., Ltd.	Linde Gas (Yantai) Co., Ltd.
Current assets	181,393,047.39	262,015,269.03
Non-current assets	801,213,678.00	787,846,617.26
Total assets	982,606,725.39	1,049,861,886.29
Total current liabilities	327,111,545.14	259,528,801.23
Non-current liabilities	379,005,163.85	481,911,072.13
Total liabilities	706,116,708.99	741,439,873.36
Total equity	276,490,016.40	308,422,012.93
Share of net asset calculated by shareholding proportion	27,649,001.64	30,842,201.30
Book value of equity investment in associates	27,649,001.64	30,842,201.30
Fair value of equity investment in associates with quoted price on open market	N/A	N/A
Operating income	422,341,323.15	307,308,712.60
Net loss	(36,184,249.67)	(29,317,410.94)
Other comprehensive income	-	-
Total comprehensive income	(36,184,249.67)	(29,317,410.94)
Dividend from associate	-	-

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.

Unrecognized commitments relating to investments with joint ventures

At 31 December 2016, according to Association of UI Wanhua (Yantai) peroxide Co., Ltd., contribution of RMB30,000,000.00 was subscribed by the company, and the actual contribution was RMB RMB15,000,000.00 and the outstanding contribution of RMB15,000,000.00. Refer to Note (V) 10.

Contingent liability is not recognized among the Group and associates and joint ventures.

**(VII) RISKS RELATED TO FINANCIAL INSTRUMENTS**

The Group's major financial instruments include cash and bank balances, notes receivable, accounts receivable, other receivables, available-for-sale financial assets, long-term receivables, borrowings, notes payable, accounts payable, interest payable, other payables, derivative financial liabilities, long-term payables, bonds 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 analyze 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, RUB, SGD, KRW, HKD, CHF, GBP and AED. Several of the Group's subsidiaries have purchases and sales denominated in USD, EUR, JPY, INR, SGD, HKD, KRW and RUR while the Group's other principal activities are denominated and settled in RMB. As at 31 December 2016, 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, RUB, SGD, KRW, HKD and AED. 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	464,304,327.19	211,017,901.69
Accounts receivable	312,343,047.96	254,399,708.74
Other receivables	403,456.94	1,395,360.94
Short-term borrowings	348,360,000.00	535,836,558.00
Accounts payable	160,532,221.51	34,737,913.69
Interest payable	87,004.65	10,277,961.76
Long-term borrowings due within one year	-	507,533,060.00
Long-term borrowings	-	1,522,664,240.00
Other payables	42,613.07	-

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) RISKS RELATED TO FINANCIAL INSTRUMENTS - continued**

1. Risk management objectives and policies - continued

1.1 Market risk - continued

1.1.1 Currency - continued

Foreign exchange rate sensitivity analysis:

Holding other factors constant, listed is effect of net profit and shareholders' equity due to exchange rate change:

RMB '000

Item	Exchange rate change	Current year		Prior year	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
USD	Appreciate 1% against RMB	1,327	1,327	(16,431)	(16,431)
USD	Depreciate 1% against RMB	(1,327)	(1,327)	16,431	16,431
EUR	Appreciate 1% against RMB	661	661	(1,253)	(1,253)
EUR	Depreciate 1% against RMB	(661)	(661)	1,253	1,253
JPY	Appreciate 1% against RMB	117	117	148	148
JPY	Depreciate 1% against RMB	(117)	(117)	(148)	(148)
KRW	Appreciate 1% against RMB	248	248	245	245
KRW	Depreciate 1% against RMB	(248)	(248)	(245)	(245)
CHF	Appreciate 1% against RMB	(48)	(48)	-	-
CHF	Depreciate 1% against RMB	48	48	-	-
GBP	Appreciate 1% against RMB	(1)	(1)	-	-
GBP	Depreciate 1% against RMB	1	1	-	-
RUB	Appreciate 1% against RMB	-	-	6	6
RUB	Depreciate 1% against RMB	-	-	(6)	(6)
All items	Appreciate 1% against RMB	2,304	2,304	(17,285)	(17,285)
All items	Depreciate 1% against RMB	(2,304)	(2,304)	17,285	17,285

**(VII) RISKS RELATED TO FINANCIAL INSTRUMENTS - continued**

1. Risk management objectives and policies - continued

1.1 Market risk - continued

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 31 December 2016, floating-rate loan amounted to RMB 15,409,192,417.08. 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 effect of net profit and shareholders' equity due to interest rate change.

RMB '000

Item	Change of interest rate	Current year		Prior year	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
Floating rate financial instruments	Increase by 1%	(108,008)	(108,008)	(130,965)	(130,965)
Floating rate financial instruments	Decrease by 1%	108,008	108,008	130,965	130,965

1.1.3 Other price risk

Due to the fluctuation of liquefied petroleum gas prices, the Group's exposure to price risks are partly offset by cash flow hedges in response to price risks. The Group intends to further reduce price risks by using derivative financial instruments where applicable.

1.2 Credit risk

As at 31 December 2016, 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 guarantee contracts 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.

**(VII) RISKS RELATED TO FINANCIAL INSTRUMENTS - continued**

1. Risk management objectives and policies - continued

1.2 Credit risk - continued

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.

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 2016, the Group has available unutilized bank loan facilities of over RMB 34.2billion, and bonds issuing facilities of RMB 5.8 billion.

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
RMB						
Non-derivative financial liabilities						
Short-term borrowings	-	8,654,599,662.85	-	-	-	8,654,599,662.85
Notes payable	-	1,860,820,056.31	-	-	-	1,860,820,056.31
Accounts payable	-	3,467,152,841.25	-	-	-	3,467,152,841.25
Other payables	-	511,581,101.39	-	-	-	511,581,101.39
Long-term borrowings	-	4,426,643,245.33	3,044,912,386.69	2,893,991,103.26	3,992,286,444.05	14,357,833,179.33
Other current liabilities	-	1,748,670,000.00	-	-	-	1,748,670,000.00
Long-term payables	2,819,078.82	-	-	-	-	2,819,078.82
Derivative financial liabilities						
Financial guarantee contracts	-	75,000,000.00	-	-	1,230,000,000.00	1,305,000,000.00

2. Transfer of financial assets

(1) Transferred financial assets with entire derecognition but continued involvement

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, 2016, the balance of those undue but discounted bills, undue but endorsed bills were RMB 3,217,001,177.61 (as at 31 December 2015: RMB 3,383,323,809.64), RMB 1,034,210,941.45 (as at 31 December 2015: RMB 1,131,136,771.83), respectively.

**(VIII) FAIR VALUE**

**1. Closing fair values of assets and liabilities measured at fair value**

RMB

Item	Closing Balance			
	Level 1	Level 2	Level 3	Total
<b>Continuously measured at fair value</b>				
Held-for-trading financial liabilities	-	7,514,019.66	-	7,514,019.66
Including: Derivative financial liabilities	-	7,514,019.66	-	7,514,019.66
<b>Total liabilities continuously measured at fair value</b>	-	7,514,019.66	-	7,514,019.66

**2. Items at continues and non-continues level 2 fair value measurement, qualitative and quantitative information on valuation techniques and important parameters adopted**

RMB

Item	Fair value as at 31 December 2016	Valuation technique	Input
Derivative financial instruments			
Held-for-trading financial liabilities			
Including: Futures contracts of liquefied petroleum gas (LPG)	7,514,019.66	Discounted cash flow analysis	Forward price

**3. Items continuously measured at fair value, which transfer among all levels, and the reasons for the transfer and the policy at the time of the transfer**

There are no transfers among all levels for the fair value measurement of the Group's financial liabilities in the current year.

**4. Disclosure of fair value of asset and liability not measured at fair value**

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 assets				
-Long-term receivables	276,851,198.01	231,393,153.05	247,862,406.51	217,982,904.95
Financial liabilities				
-Long-term borrowings	9,333,344,999.74	8,916,342,382.50	11,440,236,985.11	10,968,345,457.59
-Bonds payable	-	-	1,980,000,000.00	1,936,072,681.32

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

**1. Parents of the Company**

RMB0000'

Name of Company	Registered place	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.	Yantai	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 party of the Company.

**2. Subsidiaries of the Group**

For details of subsidiaries of the Group, refer to Note (VI) 1.

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

For details of associates and joint ventures of the Group, refer to Note (VI) 3.

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

Other related parties	Relationship between other related parties and the Group
Wanhua EnergySav Science & Technology Co., Ltd.	The same intermediate holding company
Wanhua EnergySav (Yantai) Engineering Co., Ltd.	The same intermediate holding company
Wanhua EnergySav Science Technology (Yantai) Co., Ltd.	The same intermediate holding company
Wanhua EnergySav Science & Construction Materials (Yantai) Concrete Co., Ltd.	The same intermediate holding company
BorsodChem Zrt.	The same intermediate holding company
BORSODCHEM MCHZ, S.R.O.	The same intermediate holding company
Wanhua BorsodChem Latin-America	The same intermediate holding company
BorsodChem (Yantai) Co., Ltd.	The same intermediate holding company
Shanxi Wanhua Clean Energy Co., Ltd.	The same intermediate holding company
Wanhua Integrated Housing (Yantai) Co., Ltd.	The same intermediate holding company
Shanxi Zhongqiang Fushan Coal Industry Co., Ltd.	The same intermediate holding company
Shanxi Zhongqiang International Logistics Co.,Ltd.	The same intermediate holding company
Yantai Wanhua Chlor-Alkali Co., Ltd.	Associate of parent company
Wanhua Ecoboard 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 (Qixia) Co., Ltd.(Note)	Wholly-owned subsidiary that is owned by the 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 Co., Ltd.	Wholly-owned subsidiary that is owned by the associate of parent company

Note: The associates of the parent company of the Company sold all the equity interest in Wanhua Ecoboard (Qixia) Co., Ltd. in July 2015, therefore they are no longer included in the related parties of the Group.

(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 Co., Ltd.	Receipt of services	550,725.80	389,958.66
Yantai Wanhua Chlor-Alkali Co., Ltd.	Purchase of materials/Receipt of services	30,287,280.32	46,060,569.94
BorsodChem (Yantai) Co., Ltd.	Purchase of goods	2,105,876.07	33,234,529.93
BorsodChem Zrt.	Purchase of goods	190,675,220.88	212,555,276.65
Wanhua BorsodChem Latin-America	Receipt of services	4,283,275.95	-
Wanhua EnergySav (Yantai) Engineering Co., Ltd.	Receipt of services	1,809,500.00	3,680,694.24
Shanxi Zhongqiang Fushan Coal Industry Co., Ltd.	Purchase of materials	1,731,199.74	-
Shanxi Zhongqiang International Logistics Co., Ltd.	Purchase of materials	2,566,537.62	-
Yantai Harbor Wanhua Industrial Park Port Co., Ltd	Receipt of services	154,008,102.56	48,291,294.19
Yantai Huali Thermal Power Co., Ltd.	Purchase of materials/Receipt of services	69,928,379.50	77,755,294.37
Linde Gas (Yantai) Co., Ltd.	Purchase of materials	287,104,311.48	266,635,195.72
Wanhua EnergySav Science & Construction Materials (Yantai) Concrete Co., Ltd.	Purchase materials for construction of fixed assets	740,118.50	2,345,854.00
Wanhua Industrial Group Co., Ltd.	Receipt of services	3,199,432.83	3,006,743.15
Wanhua Integrated Housing (Yantai) Co., Ltd.	Purchase of materials/Receipt of services	1,778,779.71	8,374,602.40
Ningbo Xiebei Thermal Power Co., Ltd.(Note 2)	Purchase of materials	5,200,706.30	N/A

Sales of goods/ provision of services:

RMB

Related Party	Types of related party transaction	Amount for the current period	Amount for the prior period
Wanhua EnergySav Science & Technology Co., Ltd.	Sales of goods	115,184,017.21	243,436,437.07
Wanhua Ecoboard(Jingzhou) Co., Ltd.	Sales of goods	16,450,596.33	17,866,266.74
Wanhua Ecoboard(Xinyang) Co., Ltd.	Sales of goods	2,672,165.74	11,277,103.26
Wanhua Ecoboard (Qixia) Co., Ltd. (Note 1)	Sales of goods	N/A	981,617.09
Wanhua Ecoboard Co., Ltd.	Sales of goods	286,999.99	828,547.02
Wanhua Ecological Technology (Yantai) Co., Ltd.	Sales of goods	42,182,041.83	3,824,706.20
Wanhua Industrial Group Co., Ltd.	Sales of goods	-	201,709.39
Yantai Wanhua Chlor-Alkali Co., Ltd.	Sales of goods	42,330,856.67	135,147,744.14
BorsodChem Zrt.	Sales of goods	375,228,534.68	270,211,391.86
BORSODCHEM MCHZ, S.R.O.	Sales of goods	2,880,623.12	-
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	Sales of goods/provision of services	1,430,721.00	2,920,501.85
Linde Gas (Yantai) Co., Ltd.	Sales of goods	317,370,911.31	238,953,499.72
Shanxi Wanhua Clean Energy Co., Ltd.	provision of services	-	237,735.84
Wanhua EnergySav Science Technology (Yantai) Co., Ltd.	Sales of goods	60,509.80	80,350.67
Yantai Huali Thermal Power Co., Ltd.	Sales of goods	222,520.22	11,525.13
Ningbo Xiebei Thermal Power Co., Ltd. (Note 2)	Sales of goods/provision of services	143,230,834.32	N/A
Wanhua Integrated Housing (Yantai) Co., Ltd.	Sales of goods	5,299.14	-
Wanhua EnergySav (Yantai) Engineering Co., Ltd.	Sales of goods	21,606.83	-

Note 1: 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.

Note 2: Please refer to Note (VI) 2.

(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

5. Related party transactions - continued

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

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 Group 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 (VAT included)

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.

On 1 February 2017, the Company signed *Supplementary Agreement to the Agreement of Wanhua Industrial Group Co., Ltd. Entrusting Wanhua Chemical Group Co., Ltd. to Manage Hungary BorsodChem Co., Ltd.* with Wanhua Industrial Group Co., Ltd., upon mutual consent, the original period of validity is postponed for three years from the effective date of the Agreement, and the parties may agree otherwise after the expiration of the agreement.

(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/the lessor:

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 2016	31 December 2016	Lease agreement	12,357,949.78
Wanhua Chemical	Linde Gas (Yantai) Co., Ltd.	Land	1 January 2016	31 December 2016	Lease agreement	1,311,584.25
Wanhua Chemical (Ningbo) Chlor-alkali Co., Ltd.	Ningbo Xiebei Thermal Power Co., Ltd.	Land	1 May 2015	31 December 2020	Lease agreement	104,592.00

(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	3,177,999,999.88	2,555,999,999.88	12 November 2012	23 November 2031	N
Wanhua Industrial Group Co., Ltd.	Wanhua Ningbo	280,014,113.84	212,971,400.84	16 March 2015	28 February 2020	N
Wanhua Chemical(Note 1)	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	75,000,000.00	60,000,000.00	23 January 2014	21 January 2017	N
Wanhua Chemical(Note 1)	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	25,000,000.00	17,500,000.00	24 April 2014	22 April 2020	N
Wanhua Chemical(Note 1)	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	50,000,000.00	50,000,000.00	8 May 2015	7 May 2020	N
Wanhua Chemical(Note 1)	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	25,000,000.00	25,000,000.00	29 April 2016	28 April 2021	N
Wanhua Thermal Power(Note 2)	Xiebei Thermal Power	27,500,000.00	4,004,000.00	10 May 2016	9 May 2018	N
Wanhua Thermal Power(Note 2)	Xiebei Thermal Power	55,000,000.00	55,000,000.00	6 September 2015	5 September 2020	N
Wanhua Thermal Power(Note 2)	Xiebei Thermal Power	82,500,000.00	41,221,026.00	4 March 2016	5 September 2020	N
Wanhua Thermal Power(Note 2)	Xiebei Thermal Power	165,000,000.00	109,970,528.25	14 October 2014	13 October 2020	N

Note 1: Yantai Harbor Wanhua Industrial Park Port Co., Ltd., all with its assets, provide counter-guarantee for Wanhua Chemical, undertaking joint liability. This counter-guarantee equals the total amount guaranteed by the Company.

Note 2: Xiebei Thermal Power all with its assets, provide counter-guarantee for Wanhua Thermal Power, undertaking joint liability. This counter-guarantee equals the total guaranteed amount of Wanhua Thermal Power.

(5) Asset transfer with related parties

RMB

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

(IX) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

5. Related party transactions - continued

(6) Compensation for key management personnel

RMB

Item	Amount for the current period	Amount for the prior period
Compensation for key management personnel	22,412,337.87	22,402,598.54

6. Amounts due from / to related parties

(1) Amounts due from related parties

RMB

Item	Related party	Closing balance		Opening balance	
		Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Accounts receivable	Linde Gas (Yantai) Co., Ltd.	-	-	7,696,434.49	384,821.72
Accounts receivable	BorsodChem Zrt.	66,942,580.61	-	470,152.68	-
Accounts receivable	Ningbo Xiebei Thermal Power Co., Ltd.	8,022,689.94	401,134.50	N/A	N/A
Accounts receivable	Shanxi Wanhua Clean Energy Co., Ltd.	252,000.00	-	252,000.00	-
Accounts receivable	Wanhua Ecoboard Co., Ltd.	-	-	809,400.00	40,470.00
Accounts receivable	Wanhua EnergySav (Yantai) Engineering Co., Ltd.	720.00	-	-	-
Accounts receivable	Yantai Wanhua Chlor-Alkali Co., Ltd.	219,727.50	10,986.38	-	-
Prepayments	Wanhua EnergySav (Yantai) Engineering Co., Ltd.	-	-	819,143.66	-
Prepayments	BorsodChem (Yantai) Co., Ltd.	-	-	546,000.00	-

(2) Amounts due to related parties

RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Yantai Wanhua Chlor-Alkali Co., Ltd.	10,645.51	899,488.74
Accounts payable	BorsodChem Zrt.	20,701,505.98	-
Accounts payable	Wanhua BorsodChem Latin-America	765,227.10	-
Accounts payable	Wanhua Integrated Housing (Yantai) Co., Ltd.	2,315,188.69	2,175,766.42
Accounts payable	Wanhua EnergySav (Yantai) Engineering Co., Ltd.	47,506.34	-
Accounts payable	Wanhua EnergySav Science & Technology Co., Ltd.	185,410.31	215,295.77
Accounts payable	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	5,136,288.99	-
Accounts payable	Yantai Huali Thermal Power Co., Ltd.	2,763,451.76	6,021,624.81
Accounts payable	Linde Gas (Yantai) Co., Ltd.	13,835,779.87	-
Receipts in advance	Wanhua EnergySav Science & Technology Co., Ltd.	574,206.05	1,819,348.61
Receipts in advance	Yantai Huali Thermal Power Co., Ltd.	165,890.00	-
Other payables	Yantai Wanhua Chlor-Alkali Co., Ltd.	1,640.00	1,640.00
Other payables	Linde Gas (Yantai) Co., Ltd.	15,000.00	6,150.00
Other payables	Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	100.00	-
Other payables	Wanhua Integrated Housing (Yantai) Co., Ltd.	43,756.00	40,306.00
Other payables	Wanhua EnergySav Science & Construction Materials (Yantai) Concrete Co., Ltd.	3,150.00	-
Other payables	Ningbo Xiebei Thermal Power Co., Ltd.	1,000,000.00	-

**(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	3,290,054	3,643,726
- External investment commitment (Note)	15,000	-
<b>Total</b>	<b>3,305,054</b>	<b>3,643,726</b>

Note: As at 31 December 2016, external investment commitment refers to the outstanding capital contribution not yet paid by the Company under the Association of UI Wanhua (Yantai) peroxide Co., Ltd., refer to Note (V) 10.

## (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	19,538	18,285
2nd year subsequent to the balance sheet date	16,363	15,632
3rd year subsequent to the balance sheet date	7,915	13,529
4th (or more) year subsequent to the balance sheet date	2,062	7,395
<b>Total</b>	<b>45,878</b>	<b>54,841</b>

(3) There is no need to disclose other commitments of the Group at the 31 December 2016.

**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 2016, there is no liability to the guarantee.

The Company provides guarantee to Yantai Harbor Wanhua Industrial Park Port Co., Ltd. for RMB 60 Million, RMB 17.5 Million, RMB 50 Million and RMB 25 Million borrowings and bears joint liability for repayment, the maturity date of the borrowing is 21 January 2017, 22 April 2020, 7 May 2020 and 28 April 2021, respectively. Meanwhile, these guarantees are offered counter guarantee by Yantai Harbor Wanhua Industrial Park Port Co., Ltd. At 31 December 2016, there is no liability to the guarantee, refer to Note (IX) 5(4).

The Company's subsidiary, Wanhua Thermal Power, provided guarantee for borrowings of Xiebei Thermal Power and undertakes joint liability. The maturity date of the related loans was 9 May 2018, 5 September 2020 and 13 October 2020. At the same time, Xiebei Thermal Power provided counter-guarantee of the above guarantees for the Wanhua Thermal Power. There was no significant guarantee liability as of 31 December 2016. Refer to Note (IX) 5 (4).

For guarantees provided by the Company for loans to its subsidiaries, refer to Note (XIV) 1(b).

(XI) EVENTS AFTER THE BALANCE SHEET DATE

1. Non-public offering of shares

Approved by the China Securities Regulatory Commission on *the Approval Of The Non-Public Offering of Wanhua Chemical Group Co., Ltd.* ([2016] No. 1805), the Company issued 116,009,280 RMB ordinary shares(A share) at RMB21.55 per share with the totaling stock capital of RMB2,499,999,984.00, after deducting the underwriter's issue expenses of RMB37,735,849.06 (excluding VAT) and other issuance-related expenses of RMB 1,839,622.64(excluding VAT), the net actual capital raised was RMB2,460,424,512.30, including additional registered capital of RMB116,009,280.00, and share capital premium of RMB2,344,415,232.30. The registered capital of the Company is RMB2, 278,344,000.00 and the share capital is RMB2, 278,344,000.00 after the change.

2. Profit appropriation

The Board of Directors proposed and approved, based on 2,278,344,000.00 outstanding shares after the additional issue in January 2017, a cash dividend of RMB 5.00 (tax included) per share for every ten shares, with 2 bonus shares for every ten shares. The proposal has been submitted to the General Shareholders' Meeting for final approval.

3. Other matters

On 1 February 2017, *the Company signed Supplementary Agreement to the Agreement of Wanhua Industrial Group Co., Ltd. Entrusting Wanhua Chemical Group Co., Ltd. to Manage Hungary BorsodChem Co., Ltd. with Wanhua Industrial Group Co., Ltd.*, upon mutual consent, the original period of validity is postponed for three years from the effective date of the Agreement, and the parties may agree otherwise after the expiration of the agreement.

(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 (By industry)

RMB

Industry	Amount for the current period		Amount for the prior period	
	Operating income	Operating costs	Operating income	Operating costs
Chemical industry	29,224,415,042.40	20,089,298,793.65	18,775,965,242.37	13,044,482,231.04
Others	599,792,519.51	432,692,281.07	433,314,790.33	294,882,696.65
<b>Total</b>	<b>29,824,207,561.91</b>	<b>20,521,991,074.72</b>	<b>19,209,280,032.70</b>	<b>13,339,364,927.69</b>

(3) Principle business (By product)

RMB

Product	Amount for the current period		Amount for the prior period	
	Operating income	Operating costs	Operating income	Operating costs
Polyurethane	16,417,266,624.29	9,748,584,228.43	14,539,854,228.59	9,724,731,235.38
Petrochemical	8,260,636,790.84	7,087,584,194.64	538,842,310.50	535,281,891.02
Functional materials	1,234,564,281.76	921,440,348.95	1,009,302,618.97	781,117,943.79
Specialty chemicals	1,497,026,498.90	808,015,447.00	972,509,896.32	564,981,480.62
Others	2,414,713,366.12	1,956,366,855.70	2,148,770,978.32	1,733,252,376.88
<b>Total</b>	<b>29,824,207,561.91</b>	<b>20,521,991,074.72</b>	<b>19,209,280,032.70</b>	<b>13,339,364,927.69</b>

(XII) OTHER SIGNIFICANT EVENT - continued

1. Segment reporting - continued

(4) Principle business ( By geography)

RMB

	Amount for the current period		Amount for the prior period	
	Operating income	Operating costs	Operating income	Operating costs
Domestic	23,603,075,160.46	16,187,687,983.25	13,766,072,080.45	9,335,846,126.65
Overseas	6,221,132,401.45	4,334,303,091.47	5,443,207,952.25	4,003,518,801.04
<b>Total</b>	<b>29,824,207,561.91</b>	<b>20,521,991,074.72</b>	<b>19,209,280,032.70</b>	<b>13,339,364,927.69</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

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 (%)	
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	137,625,002.07	71.95	16,526,261.22	12.01	121,098,740.85	1,058,147,704.15	94.91	14,331,169.00	1.35	1,043,816,535.15
Accounts receivables due from domestic customers	38,667,764.25	20.21	2,180,286.21	5.64	36,487,478.04	46,766,227.61	4.19	2,376,671.92	5.08	44,389,555.69
Accounts receivables due from foreign customers	14,987,947.31	7.84	2,248,192.10	15.00	12,739,755.21	9,988,434.43	0.90	1,498,265.16	15.00	8,490,169.27
Subtotal of portfolios	53,655,711.56	28.05	4,428,478.31	8.25	49,227,233.25	56,754,662.04	5.09	3,874,937.08	6.83	52,879,724.96
<b>Total</b>	<b>191,280,713.63</b>	<b>100.00</b>	<b>20,954,739.53</b>	<b>10.95</b>	<b>170,325,974.10</b>	<b>1,114,902,366.19</b>	<b>100.00</b>	<b>18,206,106.08</b>	<b>1.63</b>	<b>1,096,696,260.11</b>

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.

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

1. Accounts receivable - continued

(1) Disclosure of accounts receivable by categories: - continued

Accounts receivable that are individually significant but for which bad debts has been assessed individually as at 31 December 2016:

RMB

Accounts receivable (by company)	Closing balance			
	Accounts receivable	Bad debt provision	Proportion of provision (%)	Reason
Wanhua Hong Kong	60,606,024.91	-	-	No provision for bad debts in related parties within the Group
Yantai Chlor-alkali	23,256,610.68	-	-	No provision for bad debts in related parties within the Group
Company 3	39,431,197.48	2,195,092.22	5.57	Provision for bad debts by aging analysis
Company 8	14,331,169.00	14,331,169.00	100.00	Expected to be uncollectable
<b>Total</b>	<b>137,625,002.07</b>	<b>16,526,261.22</b>		

Note: The Company did impairment test for significant amount of accounts receivable. As at 2016 December 31, individual provision impairment amounts to RMB 14,331,169.00 (2015: RMB 14,331,169.00). For individual test, which impairment is not detected, bad debt is accrued, according to Note (III),11, on portfolio basis, RMB 2,195,092.22 was made for the bad debt provision on 31 December 2016 (2015: Nil).

Aging analysis of accounts receivable is as follows:

RMB

Aging	Closing balance		
	Accounts receivable	Bad debt provision	Proportion of provision (%)
Within 1 year	36,516,512.60	1,812,116.18	5
More than 1 year but not exceeding 2 years	1,404,110.13	140,411.01	10
More than 2 years but not exceeding 3 years	729,058.72	218,717.62	30
More than 3 years but not exceeding 4 years	18,082.80	9,041.40	50
<b>Total</b>	<b>38,667,764.25</b>	<b>2,180,286.21</b>	

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

1. Accounts receivable - continued

(1) Disclosure of accounts receivable by categories: - continued

RMB

Aging	Opening Balance		
	Accounts receivable	Bad debt provision	Proportion of provision (%)
Within 1 year	45,969,747.57	2,293,407.35	5
More than 1 year but not exceeding 2 years	778,397.24	77,839.73	10
More than 2 years but not exceeding 3 years	18,082.80	5,424.84	30
Total	<b>46,766,227.61</b>	<b>2,376,671.92</b>	

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

RMB

Name of portfolio	Closing balance		
	Accounts receivable	Bad debt provision	Proportion of provision (%)
Accounts receivables due from overseas customers	14,987,947.31	2,248,192.10	15

RMB

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

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

Bad debt provision is RMB2, 748,633.45 for this year, there is no reversal of provision for bad debt.

(3) No accounts receivable write-off in the report period

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

Top five largest balances of accounts receivables amount to RMB 143,540,054.13 (as at 31 December 2015: RMB 1,071,726,479.64), representing 75.04% (as at 31 December 2015:96.13%) of the total accounts receivables, the provision for bad debt is RMB 16,822,013.82 (as at 31 December 2015: RMB 15,010,107.78).

(5) There were no accounts receivables that have been derecognized in the current period; no accounts receivable were derecognized due to transfer of financial assets; there are no assets or liabilities arising from where accounts receivable are transferred but with continuous involvement.

(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	845,497,898.34	98.30	-	-	845,497,898.34	1,354,007,035.56	99.76	-	-	1,354,007,035.56
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	14,626,212.92	1.70	-	-	14,626,212.92	3,241,271.68	0.24	-	-	3,241,271.68
<b>Total</b>	<b>860,124,111.26</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>860,124,111.26</b>	<b>1,357,248,307.24</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>1,357,248,307.24</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) Disclosure of other receivables by nature

RMB

Item	Closing balance	Opening Balance
Other receivables due from related parties	845,497,898.34	1,304,574,439.51
Export tax refund	7,272,884.19	-
Petty cash	1,537,687.80	685,205.48
The deposits	5,170,213.99	51,736,390.30
Others	645,426.94	252,271.95
<b>Total</b>	<b>860,124,111.26</b>	<b>1,357,248,307.24</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

RMB

Name	Type	Closing balance	Aging	Percentage of total closing balance of other receivables (%)	Bad debt provision	Carrying amount
Wanhua Guangdong	Other receivables of related party	475,020,000.00	Within 1 year:	55.23	-	475,020,000.00
			423,324,338.76			
Yantai Chlor-alkali	Other receivables of related party	201,873,788.89	Within 1 year:	23.47	-	201,873,788.89
			51,695,661.24			
Shanghai Kejv	Other receivables of related party	135,043,933.51	Within 1 year:	15.70	-	135,043,933.51
			109,664,304.86			
Foshan Rongwei Company 10	Other receivables of related party	33,560,175.94	Within 1 year:	3.90	-	33,560,175.94
			7,272,884.19			
Total	Export tax refund	852,770,782.53	Within 1 year:	99.15	-	852,770,782.53
			7,272,884.19			

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

2. Other receivables - continued

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

RMB

Name	Type	Opening Balance	Aging	Percentage of total closing balance of other receivables (%)	Bad debt provision	Carrying amount
Yantai Selling	Other receivable of related party	480,511,125.00	Within 1 year	35.40	-	480,511,125.00
Yantai Chlor-alkali	Other receivable of related party	440,575,599.98	Within 1 year	32.46	-	440,575,599.98
Wanhua Ningbo	Other receivable of related party	185,230,819.18	Within 1 year	13.65	-	185,230,819.18
Foshan Rongwei	Other receivable of related party	55,058,993.06	Within 1 year	4.06	-	55,058,993.06
Wanhua Guangdong	Other receivable of related party	51,720,000.00	Within 1 year	3.81	-	51,720,000.00
<b>Total</b>		<b>1,213,096,537.22</b>		<b>89.38</b>	-	<b>1,213,096,537.22</b>

- (5) There were no other receivables transfer of financial assets that has been derecognized in the current period; No transfer of other receivable is involved in the amount of assets and liabilities; no other receivables related to government subsidies.

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

## 3. Long-term equity investments

RMB

Investee	Opening Balance	Movement of the current year								Closing balance	Closing balance for impairment
		Increase	Decrease	Profit or loss recognized using equity method	Adjustment on other comprehensive income	Other equity movement	Dividends or profit declared	Provision for impairment loss	Others		
I. Subsidiaries											
Wanhua Thermal Power	229,500,000.00	-	-	-	-	-	79,050,000.00	-	-	229,500,000.00	-
Wanhua Beijing	61,410,000.00	-	-	-	-	-	-	-	-	61,410,000.00	-
Wanhua Port	66,000,000.00	-	-	-	-	-	-	-	-	66,000,000.00	-
Wanhua Ningbo	607,920,000.00	-	-	-	-	-	894,000,000.00	-	-	607,920,000.00	-
Wanhua Hong Kong	56,215,720.00	-	-	-	-	-	-	-	-	56,215,720.00	-
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	2,005,359.72	-	-	-	-	-	-	-	-	2,005,359.72	-
Foshan Rongwei	30,060,461.41	-	-	-	-	-	12,000,000.00	-	-	30,060,461.41	-
Yantai Rongwei	72,918,038.59	-	-	-	-	-	12,000,000.00	-	-	72,918,038.59	-
Ningbo Chlor-Alkali	190,028,517.61	-	-	-	-	-	32,472,000.00	-	-	190,028,517.61	-

(Continued)

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

3. Long-term equity investments - continued

RMB

Investee	Opening Balance	Movement of the current year								Closing balance	Closing balance for impairment
		Increase	Decrease	Profit or loss recognized using equity method	Adjustment on other comprehensive income	Other equity movement	Dividends or profit declared	Provision for impairment loss	Others		
Yantai Trading	20,000,000.00	-	-	-	-	-	-	-	-	20,000,000.00	-
Yantai Chlor-alkali	240,000,000.00	-	-	-	-	-	60,000,000.00	-	-	240,000,000.00	-
Wanhua Guangdong	200,000,000.00	-	-	-	-	-	-	-	-	200,000,000.00	-
Yantai Selling	20,900,000.00	-	-	-	-	-	-	-	-	20,900,000.00	-
Shanghai Kejv	183,369,120.00	-	-	-	-	-	-	-	-	183,369,120.00	-
Wanhua Singapore	6,167,500.00	-	-	-	-	-	-	-	-	6,167,500.00	-
Yantai Petrochemical	50,000,000.00	-	-	-	-	-	-	-	-	50,000,000.00	-
Subtotal	2,158,608,749.33	-	-	-	-	-	1,089,522,000.00	-	-	2,158,608,749.33	-
II. Joint Venture		-	-								
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	155,285,861.85	-	-	7,592,386.44	-	-	-	-	-	162,878,248.29	-
UI Wanhua (Yantai) peroxide Co., Ltd.	-	15,000,000.00	-	276,835.36	-	74,555.25	-	-	-	15,351,390.61	-
III. Associate			-				-				
Linde Gas (Yantai) Co., Ltd.	30,842,201.30	-	-	(3,184,576.86)	-	(8,622.80)	-	-	-	27,649,001.64	-
<b>Total</b>	<b>2,344,736,812.48</b>	<b>15,000,000.00</b>	<b>-</b>	<b>4,684,644.94</b>	<b>-</b>	<b>65,932.45</b>	<b>1,089,522,000.00</b>	<b>-</b>	<b>-</b>	<b>2,364,487,389.87</b>	<b>-</b>

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

## 4. Operating income and operating costs

RMB

Item	Amount for the current period		Amount for the prior period	
	Revenue	Cost	Revenue	Cost
Principal operating income	8,770,313,422.51	6,145,365,717.80	7,870,702,968.33	6,545,870,450.91
Other operating income	2,093,669,682.06	1,399,797,336.03	107,072,314.23	111,752,138.07
<b>Total</b>	<b>10,863,983,104.57</b>	<b>7,545,163,053.83</b>	<b>7,977,775,282.56</b>	<b>6,657,622,588.98</b>

## 5. Investment income

## (1) Details of investment income

RMB

	Amount for the current period	Amount for the prior period
Income from long-term equity investments under cost method	1,089,522,000.00	332,195,188.61
Investment income from available-for-sale financial assets in holding period	30,000,000.00	6,000,000.00
Investment income from disposal of long-term equity investments	-	1,870,152.20
Income from or loss on long-term equity investments under equity method	4,684,644.94	(2,612,485.20)
<b>Total</b>	<b>1,124,206,644.94</b>	<b>337,452,855.61</b>

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

RMB

Investee	Amount for the current period	Amount for the prior period	Reasons for movement compared to the prior period
Wanhua Ningbo	894,000,000.00	-	Change in dividend distribution of the investee
Yantai Selling	-	201,252,688.61	Change in dividend distribution of the investee
Yantai Chlor-alkali	60,000,000.00	-	Change in dividend distribution of the investee
Yantai Rongwei	12,000,000.00	-	Change in dividend distribution of the investee
Ningbo Chlor-Alkali	32,472,000.00	30,442,500.00	Change in dividend distribution of the investee
Wanhua Thermal Power	79,050,000.00	76,500,000.00	Change in dividend distribution of the investee
Foshan Rongwei	12,000,000.00	24,000,000.00	Change in dividend distribution of the investee
<b>Total</b>	<b>1,089,522,000.00</b>	<b>332,195,188.61</b>	

## (3) Loss on long-term equity investments under equity method

RMB

Investee	Amount for the current period	Amount for the prior period	Reasons for movement compared to the prior period
Yantai Harbor Wanhua Industrial Park Port Co., Ltd.	7,592,386.44	239,626.77	Profit /loss of Joint Venture
UI Wanhua (Yantai) peroxide Co., Ltd.	276,835.36	-	New Joint Venture in the year
Linde Gas (Yantai) Co., Ltd.	(3,184,576.86)	(2,852,111.97)	Loss of Associate
<b>Total</b>	<b>4,684,644.94</b>	<b>(2,612,485.20)</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	Amount for the current period	Amount for the prior period
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
Net profit	2,627,898,440.09	389,775,879.17
Add: Impairment losses of assets	12,600,691.27	(1,795,065.79)
Depreciation of fixed assets	1,612,134,513.44	499,366,958.54
Amortization of intangible assets	101,047,795.04	41,982,478.74
Amortization of long-term prepaid expenses	3,507,708.01	-
Losses on disposal of fixed assets, intangible assets and other long-term assets	37,572,060.42	135,959,254.48
Financial expenses	572,802,199.28	320,393,645.21
Investment income	(1,124,206,644.94)	(337,452,855.61)
Decrease(increase) in deferred tax assets	16,945,464.86	(27,373,813.21)
Increase in inventories	(216,603,354.64)	(321,856,383.16)
Decrease(increase) in receivables from operating activities	1,129,573,183.65	(837,004,381.21)
(Decrease)Increase in payables from operating activities	(3,336,313,427.20)	3,995,458,556.49
Net cash flow from operating activities	1,436,958,629.28	3,857,454,273.65
<b>2. Significant investing and financing activities that do not involve cash receipts and payments:</b>		
Fixed assets acquired or constructed by debts	2,055,504,527.69	2,042,218,414.38
Repay debts with dividends	-	201,252,688.61
<b>3. Net changes in cash and cash equivalents:</b>		
Closing balance of cash and cash equivalents	605,649,464.46	1,345,386,565.07
Less: Opening balance of cash and cash equivalents	1,345,386,565.07	360,594,879.35
Net increase in cash and cash equivalents	(739,737,100.61)	984,791,685.72

## (2) Composition of cash and cash equivalents

RMB

Item	Closing balance	Opening balance
I. Cash	605,649,464.46	1,345,386,565.07
Including: Cash on hand	56,742.30	15,851.61
Bank deposits	605,575,387.51	1,345,353,421.60
Other monetary funds	17,334.65	17,291.86
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	605,649,464.46	1,345,386,565.07

(XIV) THE COMPANY'S RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. 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

RMB

Related party	Transaction type	Amount for the current period	Amount for the prior period
Wanhua Beijing	Purchase of raw materials	18,979,999.45	12,406,853.36
Wanhua Ningbo	Purchase of goods	400,781,725.94	995,560,177.23
Wanhua Guangdong	Purchase of goods	653,008.90	-
Wanhua Hong Kong	Purchase of raw materials	11,266,278.41	1,724,092,100.01
Shanghai Kejv	Receipt of services	18,867,924.60	-
Ningbo Rongwei	Purchase of raw materials/Receipt of services	649,188.72	463,014.82
Yantai Rongwei	Purchase of raw materials	2,577,508.06	-
Yantai Chlor-alkali	Purchase of raw materials	486,536,603.89	711,543,157.79
Yantai Selling	Purchase of goods	6,933,465.78	95,893,949.81
Yantai Petrochemical	Purchase of goods/Purchase of raw materials	1,051,742,362.35	-
Yantai Wanhua Chemical Design Institute	Design services	25,765,801.73	29,493,463.03

Sales of goods/rendering of services

RMB

Related party	Transaction type	Amount for the current period	Amount for the prior period
Wanhua Beijing	Sales of materials /rendering of services	21,759,255.38	14,367,711.63
Wanhua Ningbo	Sales of goods	646,576,420.40	828,971,422.90
Ningbo Trading	Sales of goods	64,953,594.66	856,044,852.27
Wanhua Hong Kong	Sales of goods	731,496,662.73	657,974,887.86
Foshan Rongwei	Sales of materials /rendering of services	-	3,300,000.00
Ningbo Rongwei	Sales of materials /rendering of services	5,910,836.89	3,453,038.55
Yantai Rongwei	Sales of materials	3,477,990.85	118,427.88
Yantai Chlor-alkali	Sales of materials /rendering of services	308,563,736.24	342,547,403.04
Wanhua Guangdong	Sales of materials	7,911,772.84	1,948,895.93
Yantai Selling	Sales of goods	4,118,643,652.22	3,459,527,907.50
Yantai Petrochemical	Sales of goods	3,695,762,836.61	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) THE COMPANY'S RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Besides the related party relationship and transactions mentioned in Note (IX), 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 Hong Kong	2,718,848,000.00	193,852,882.81	28 October 2014	3 January 2021	N
Yantai Selling	1,071,048,000.00	644,000,000.00	1 August 2015	11 July 2017	N
Yantai Chlor-alkali	1,730,000,000.00	1,397,122,938.10	27 March 2014	28 July 2019	N
Yantai Petrochemical	1,544,424,000.00	400,000,000.00	30 September 2015	30 December 2017	N
Wanhua Ningbo	1,444,560,563.23	1,422,210,563.23	28 February 2015	28 February 2020	N
BVI	324,368,000.00	324,368,000.00	19 November 2014	19 November 2017	N
Ningbo Rongwei	370,000,000.00	213,000,000.00	28 February 2015	31 December 2020	N
Yantai Rongwei	130,000,000.00	100,370,000.00	23 July 2015	23 July 2020	N
Ningbo Chlor-Alkali	150,000,000.00	-	28 February 2015	28 February 2020	N
Wanhua Guangdong	20,000,000.00	-	1 December 2016	1 December 2026	N
Wanhua America	13,934,400.00	-	4 January 2016	3 January 2019	N

(c) Borrowings/loans with related parties

RMB

Related party	Amount of borrowing/loan	Inception date of borrowings	Mature date	Closing balance
Lent to:				
Yantai Chlor-alkali	440,000,000.00	10 August 2015	30 August 2016	-
Yantai Selling	480,000,000.00	17 April 2015	25 February 2016	-
Wanhua Ningbo	185,000,000.00	31 August 2015	25 February 2016	-
Yantai Rongwei	43,360,000.00	31 July 2015	30 December 2016	-
Ningbo Trading	25,000,000.00	31 August 2015	25 February 2016	-
Yantai Chlor-alkali	277,000,000.00	21 October 2015	20 October 2030	277,000,000.00
Yantai Chlor-alkali	200,000,000.00	13 September 2016	10 June 2017	201,873,788.89
Shanghai Kejv	138,113,923.10	31 December 2014	undecided	135,043,933.51
Foshan Rongwei	51,757,920.48	5 January 2015	undecided	33,560,175.94
Wanhua Guangdong	475,020,000.00	9 February 2015	undecided	475,020,000.00
<b>Total</b>	<b>2,315,251,843.58</b>			<b>1,122,497,898.34</b>
Borrowed from:				
Nil				

(XIV) THE COMPANY'S RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

(d) Amounts due from / to related parties

Amounts due from related parties

RMB

Item	Related party	Closing balance		Opening balance	
		Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Accounts receivable	Yantai Rongwei	-	-	138,560.62	-
Accounts receivable	Yantai Petrochemical	-	-	1,043,816,535.15	-
Accounts receivable	Yantai Chlor-alkali	23,256,610.68	-	-	-
Accounts receivable	Ningbo Rongwei	520,500.42	-	-	-
Accounts receivable	Wanhua Hong Kong	60,606,024.91	-	-	-
Prepayments	Yantai Wanhua Chemical Design Institute	2,164,220.61	-	-	-
Other receivables	Foshan Rongwei	33,560,175.94	-	55,058,993.06	-
Other receivables	Yantai Wanhua Chemical Design Institute	-	-	15,881,606.40	-
Other receivables	Wanhua Guangdong	475,020,000.00	-	51,720,000.00	-
Other receivables	Yantai Rongwei	-	-	25,181,287.71	-
Other receivables	Shanghai Kejv	135,043,933.51	-	25,383,816.40	-
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 Chlor-alkali	201,873,788.89	-	440,575,599.98	-
Long-term receivables	Yantai Chlor-alkali	277,000,000.00	-	277,000,000.00	-

Amounts due to related parties

RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Wanhua Beijing	19,982.80	20,239.21
Accounts payable	Wanhua Ningbo	7,415,510.21	1,234,651.10
Accounts payable	Wanhua Guangdong	764,020.40	-
Accounts payable	Ningbo Rongwei	-	219,598.77
Accounts payable	Yantai Rongwei	230,879.04	-
Accounts payable	Yantai Petrochemical	772,029,553.57	-
Accounts payable	Yantai Wanhua Chemical Design Institute	-	9,564,900.73
Accounts payable	Yantai Chlor-alkali	17.70	3,026,412.41
Receipts in advance	Yantai Selling	3,231,705,979.11	7,970,723,441.86
Other payables	Yantai Chlor-alkali	23,000.00	23,300.00
Other payables	Wanhua Hong Kong	-	73,326,987.65
Other payables	Yantai Trade	19,800,000.00	19,784,237.35

**(XV) SUPPLEMENTARY INFORMATION****1. Breakdown of non-recurring profit or loss**

RMB

Item	Amount
Profit or (loss) on disposal of non-current assets	(85,025,534.54)
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)	84,773,232.39
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	-
Trust fee from entrusted operation management	9,433,962.26
Other non-operating income or expenses other than the above	2,804,527.46
Other non-recurring profit or loss	-
Tax effects	(3,193,855.37)
Effects attributable to minority interests (after tax)	(5,671,330.13)
Total	3,121,002.07

**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	28.11	1.70	N/A
Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company	28.09	1.70	N/A