

WANHUA CHEMICAL GROUP CO., LTD.

# 2020 ANNUAL REPORT

Company Code : 600309



## Important Note

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

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

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

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

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

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

VI. Risk statement of forward-looking description

Applicable  Not Applicable

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

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

No

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

No

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

X. Others  Applicable  Not Applicable

# Major Financial Indicators of the Company

## I. Major accounting data and financial indicators in recent three years

### (I) Major accounting data

Unit: RMB

Major accounting data	2020	2019	Year on year (%)	2018
Operating income	73,432,968,475.63	68,050,668,650.78	7.91	72,837,108,238.47
Net profit attributable to shareholders of the Company	10,041,428,014.60	10,129,985,097.55	-0.87	15,566,255,853.88
Net profit excluding non-recurring profit or loss attributable to shareholders of the Company	9,543,943,787.70	9,156,342,202.26	4.23	10,034,835,805.76
Net cash flow from operating activities	16,849,705,990.71	25,932,941,200.65	-35.03	22,877,296,893.61
	31 December 2020	31 December 2019	Year on year (%)	31 December 2018
Net assets attributable to shareholders of the Company	48,780,345,139.19	42,364,094,555.73	15.15	38,048,993,610.30
Total assets	133,752,669,388.47	96,865,322,655.29	38.08	87,063,457,480.75

### (II) Major financial indicators

Major financial indicators	2020	2019	Year on year (%)	2018
Basic earnings per share (RMB/Share)	3.20	3.23	-0.93	4.96
Diluted earnings per share (RMB/Share)	N/A	N/A		N/A
Basic earnings per share excluding non-recurring profit or loss (RMB/Share)	3.04	2.92	4.11	3.67
Weighted average return on net assets (%)	22.20	25.44	Decreased by 3.24 percentage points	50.83
Weighted average return on net assets excluding non-recurring profit or loss (%)	21.10	22.99	Decreased by 1.89 percentage points	34.82

## II. Quarterly financial data for the year 2020

Unit: RMB

	First Quarter (Jan. to Mar.)	Second Quarter (Apr. to Jun.)	Third Quarter (Jul. to Sept.)	Fourth Quarter (Oct. to Dec.)
Operating income	15,343,054,664.29	15,563,627,815.51	18,325,004,033.69	24,201,281,962.14
Net profit attributable to shareholders of the Company	1,377,088,601.34	1,458,208,110.24	2,513,876,664.14	4,692,254,638.88
Net profit excluding non-recurring profit or loss attributable to shareholders of the Company	1,062,101,269.05	1,427,481,009.55	2,477,353,939.52	4,577,007,569.58
Net cash flow from operating activities	2,870,117,078.07	3,419,351,923.78	1,681,874,738.52	8,878,362,250.34

# Section I The Company's Business Overview

## I. Principal businesses, operation models and industry profile in the reporting period

### (1) Main business

The Company is mainly engaged in R&D, production and sale of PU series products (MDI, TDI and polyether polyol), petrochemical products (including ethylene and propylene, their downstream products HDPE, LLDPE, PP, PVC, acrylic acid, PO series petrochemical products and others) and fine chemicals and new materials (including SAP, TPU, PC, PMMA, organic amine, ADI, water-based paint and others). Therein, the MDI and TDI are one of the principal materials for manufacturing PU. Having the advantages of both rubber and plastic, the PU is extensively used in the sectors of chemical industry, light industry, textile, construction, household electrical appliances, construction materials and transportation etc.

The Company has developed into a highly competitive supplier of PU, petrochemical, fine chemicals and new materials, and a leading global supplier and service provider of MDI, mainstream supplier of global TDI, ADI, polyether, TPU, etc. Entering the propylene and ethylene industry, and gradually expanding the petrochemical industry cluster, the company vigorously fosters high-tech, high-value-added fine chemicals and new materials industry clusters, builds up upstream and downstream integrated competitive advantages through technological innovation, and enhances diversified and differentiated product supply and service capabilities.

In addition to completion of three major integrated chemical industrial parks in Yantai, Ningbo and Hungary in Europe, the Company has increased industrial investments based on positioning of "development of industrial park - oriented, integration, high-end oriented, large scale, greening oriented and globalization" to explore new layout in Fujian and Meishan, expanding space for development of Wanhua.

### (2) Business model

The business model of the Company: Wanhua Chemical sticks to development through specialization and constantly focuses on the sector of chemicals. To make better use of the Company's advantages in technology and manufacturing, the Company mainly conducts B2B business.

Procurement model: the major raw materials for the Company's production include pure benzene, coal and LPG, salt, and other bulk raw materials. Actively exploring the supply channels at home and abroad, establishing good strategic cooperation relationship with suppliers and comprehensively using multiple purchasing model like fixed price, floating price and contractual price etc., the Company realized stable supply and low cost purchasing.

Production model: the Company adopts the business model of localized production management with coordination of headquarters. The Company establishes monthly production goals according to annual production plan and makes dynamic adjustments according to market demand and equipment conditions.

Sales model: the main business of the Company is the production and sales of fine chemical and new material products. The major products are subject to market-oriented operation and sold in the form of direct sale and distribution.

### (3) Instruction of situation within the trade

At the beginning of 2020, as affected by factors such as outbreak of COVID-19 pandemic and slump in international oil price, global consumption demands were decline and trading logistics were blocked. The chemical industry all over the world was in a weak position in the first half year of 2020. The global market demands were gradually resumed in the second half year of 2020, especially, because COVID-19 pandemic in China was rapidly and effectively controlled, domestic market demands and the downstream export overseas were resumed rapidly, and growth of prices of chemical products was recovered. Despite the unfavorable factors in the short term, benefiting from continuous improvement of China's economic development, domestic chemical industry was still in an important period of strategic development opportunities in the middle and long run, the industry was transforming to a high-quality development model and optimization and upgrading of industrial structure had huge potentiality.

At present, Wanhua has formed three major industry clusters covering PU, petrochemical, fine chemicals and new materials, which are highly integrated in industrial chains and production. The Company maintains sustainable and rapid business development by continuously strengthening technological innovation, constantly expanding international layout and deepening construction of excellent operating system.

## (I) Analysis on principal business

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

Unit: RMB

	2019	2018	Changes (%)
Operating income	73,432,968,475.63	68,050,668,650.78	7.91
Operating costs	53,765,905,005.94	48,997,610,501.85	9.73
Selling expenses	2,938,799,656.65	2,782,908,073.79	5.60
Administrative expenses	1,420,039,011.98	1,433,850,380.23	-0.96
Research and development expenditures	2,043,039,569.73	1,704,767,184.22	19.84
Financial expenses	1,076,414,576.66	1,079,748,165.38	-0.31
Net cash flow from operating activities	16,849,705,990.71	25,932,941,200.65	-35.03
Net cash flow from investing activities	-23,855,021,621.28	-18,366,861,004.11	-29.88
Net cash flow from financing activities	19,812,753,798.28	-9,233,039,125.85	314.59

### 2. Income and cost analysis

During the reporting period, the operating income for the year has been increased on year-on-year basis due to remission of the COVID-19 pandemic in the second half year of 2020, increased demands drove market prosperity.

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

Unit: RMB

By industry						
By industry	Operating income	Operating costs	Gross margin ratio (%)	Change of operating Income (%)	Change of operating Costs (%)	Change of gross margin ratio (%)
Chemical engineering	71,320,519,305.86	51,830,373,982.69	27.33	7.23	8.82	Decreased by 1.06 %
Others	959,036,004.78	826,658,973.67	13.80	23.51	26.62	Decreased by 2.12 %
By product						
By product	Operating income	Operating costs	Gross margin ratio (%)	Change of operating Income (%)	Change of operating Costs (%)	Change of gross margin ratio (%)
PU series	34,416,866,007.97	19,441,715,832.18	43.51	8.03	4.03	Increased by 2.17 %
Petrochemical series	23,084,986,882.68	22,102,638,647.73	4.26	14.84	23.76	Decreased by 6.89 %
Fine chemicals & new material series	7,947,857,682.48	5,927,576,342.81	25.42	12.13	12.45	Decreased by 0.21 %
Others	6,829,844,737.51	5,185,102,133.64	24.08	-17.13	-19.80	Increased by 2.53 %
By product						
By geographical region	Operating income	Operating costs	Gross margin ratio (%)	Change of operating Income (%)	Change of operating Costs (%)	Change of gross margin ratio (%)
Domestic	36,394,787,320.24	25,122,165,897.81	30.97	-2.09	2.00	Decreased by 2.77 %
Oversea	35,884,767,990.40	27,534,867,058.55	23.27	19.15	16.41	Increased by 1.81 %

The Company's PU series products experienced increases in the operating income and cost, and a slight increase in the gross profit margin compared with the previous year, mainly due to increase in sales volume of PU series products during the reporting period and a year-on-year decrease in unit cost.

The Company's petrochemical series products experienced increases in the operating income and cost with a slight increase in the gross profit margin compared with the previous year, mainly due to increase in transaction volume of LPG during the reporting period and a year-on-year decrease in prices of petrochemicals.

The Company's fine chemicals & new material series products experienced increases in the operating income and cost with a slight decrease in the gross profit margin compared with the previous year, mainly due to the rise in sales volume and decrease in price during the reporting period.

The domestic operating income and costs are decreased compared with the previous year and the gross profit is decreased accordingly, mainly due to decrease in prices of petrochemical products; The overseas operating income and costs are increased compared with the previous year and the gross profit is increased accordingly, mainly due to increase in exporting volume and transaction volume of products; Description of product series: PU series mainly include MDI, TDI and polyether polyol, etc.; petrochemical series mainly include C3 and C4 olefin derivatives; and fine chemicals and new materials series mainly include surface materials, TPU, SAP, PC, special isocyanate, special amines, etc.

## (2) Analysis on production and sales

Unit: RMB

Products	Unit	Production (Volume)	Sales (Volume)	Inventories (Volume)	Change of Production (Volume) (%)	Change of Sales (Volume) (%)	Change in inventories (%)
PU series	Ton	2,871,796	2,884,384	202,465	7.06	10.11	-5.85
Petrochemical series	Ton	1,879,133	1,884,886	85,942	-5.57	-4.72	-6.27
Fine chemicals & new material series	Ton	573,005	554,944	74,321	34.22	33.83	32.10

## 3. Research and development expenditures

Research and development ("R&amp;D") expenditures

Unit: RMB

R&D investments expensed in the current period	2,043,039,569.73
R&D investments capitalized in the current period	
Total R&D investments	2,043,039,569.73
Proportion of R&D investments to operating income (%)	2.78
Headcounts of R & D personnel	2,771
Proportion of R&D headcount to total employee headcount (%)	15.76
Proportion of capitalization of R&D expenses (%)	

## 1. Cash flow

 Applicable  Not Applicable

Unit: RMB

Item	2020	2019	Movement	Changes (%)	Explanation
Net cash flow from operating activities	16,849,705,990.71	25,932,941,200.65	-9,083,235,209.94	-35.03	It is mainly due to increase in receivables for the period and decrease in discount of acceptances received as payments for sales of goods compared with the previous period.
Net cash flow from investing activities	-23,855,021,621.28	-18,366,861,004.11	-5,488,160,617.17	-29.88	It is mainly due to increase in investments in engineering project of Yantai Industrial Park for the period.
Net cash flow from financing activities	19,812,753,798.28	-9,233,039,125.85	29,045,792,924.13	314.59	It is mainly due to increase in financing for the period.

## (II) Analysis of assets and liabilities

### 1. Assets and liabilities

✓ Applicablee     Not Applicable

Unit: RMB

Items	31 December 2020	Proportion to total assets (%)	31 December 2019	Proportion to total assets (%)	Changes (%)	Explanations
Cash and bank balances	17,573,657,862.33	13.14	4,566,327,060.34	4.71	284.85	It is mainly due to increase in safety reserve for purpose of preparing funds for repaying borrowings that fall due.
Held-for-trading financial assets.			30,367,333.35	0.03	-100.00	It is mainly due to maturity settlement of entrusted wealth management business for the period.
Accounts receivable	6,309,034,173.56	4.72	4,433,077,609.63	4.58	42.32	It is mainly due to increase in sales income in the fourth quarter.
Prepayments	780,826,688.65	0.58	437,779,688.85	0.45	78.36	It is mainly due to increase in prepayments for raw materials.
Other current assets	1,453,051,481.76	1.09	848,717,543.91	0.88	71.21	It is mainly due to increase in the VAT retained in the current period.
Long-term equity investments	1,313,982,396.88	0.98	717,587,079.07	0.74	83.11	It is mainly due to additional capital contributions to a joint venture for the period.
Investment in other equity instruments	227,838,044.09	0.17	174,669,108.67	0.18	30.44	It is mainly due to changes in fair value.
Fixed assets	56,371,258,546.04	42.15	37,478,286,710.68	38.69	50.41	It is mainly due to transfer of capital of Yantai Industrial Park project.
Deferred tax assets	813,092,597.50	0.61	604,307,441.69	0.62	34.55	It is mainly due to increase in deductible temporary differences.
Short-term borrowings	38,244,937,889.93	28.59	20,034,036,150.27	20.68	90.90	It is mainly due to supplement demands on working capital.
Derivative financial liabilities	23,946,600.00	0.02	40,280,488.36	0.04	-40.55	It is mainly due to settlement of derivative financial liabilities and changes in fair value.
Receipts in advance			2,334,746,524.41	2.41	-100.00	It is mainly due to reclassification of line item of financial statements after adoption of new revenue standards.
Contract liabilities	2,878,652,144.26	2.15				It is mainly due to reclassification of line item of financial statements after adoption of new revenue standards.
Taxes payable	1,182,489,742.95	0.88	494,096,118.95	0.51	139.32	It is mainly due to increase in enterprise income tax and VAT payable
Non-current liabilities due within one year	655,378,473.84	0.49	3,324,127,445.00	3.43	-80.28	It is mainly due to repayment of part of project loans that falls due for the period.

Unit: RMB

Items	31 December 2020	Proportion to total assets (%)	31 December 2019	Proportion to total assets (%)	Changes (%)	Explanations
Other current liabilities	5,364,416,501.98	4.01				It is mainly due to issuance of super short-term financing bond for the period
Long-term borrowings	11,821,926,162.27	8.84	5,962,595,245.57	6.16	98.27	It is mainly due to increase in project loans for the period.
Long-term payables	400,017,800.00	0.30	591,048,619.50	0.61	-32.32	It is mainly due to decrease in amount of equipment under financing lease payable.
Other comprehensive income	375,214,767.93	0.28	-81,325,055.23	-0.08	561.38	It is mainly due to changes in translation differences of financial statements denominated in foreign currencies
Minority interests	2,870,428,617.77	2.15	1,567,164,415.90	1.62	83.16	It is mainly due to receipts of capital contribution of minority shareholders by shareholding subsidiaries.

## 2. Restriction of significant assets as of 31 December 2020

Unit: RMB

Items	Closing balance of book value	Reasons to be restricted
Cash and bank balances	133,050,075.27	Deposits for issuing bank acceptances
Cash and bank balances	125,192,281.46	Deposits for letter of credit, LPG paper deposits, procurement deposits and futures deposits
Cash and bank balances	12,019,113.08	Deposit for product registration, tax authorities and railway authorities
Financing with receivables	456,981,034.26	Pledged for opening acceptance bills and letter of credit.
Fixed assets	645,499,858.35	For obtaining loans
Intangible assets	512,641.65	For obtaining loans
Total	1,373,255,004.07	



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