

## **Wanhua Chemical Group Co., Ltd.**

### **Announcement on increasing the amount of routine associated transactions**

The Board of Directors and all the directors of the Company undertake that the information in this announcement contains no false records, misleading statements or material omissions, and they are jointly and severally liable for the veracity, accuracy, and integrity of the content hereof.

Notes for Important Content:

- No need to submit to shareholders meeting for deliberation

#### **I. Basic information about routine associated transactions**

(I) Procedure for deliberating the performance of routine associated transactions

The company intends to increase the annual amount of routine associated transactions with BorsodChem Zrt.(hereinafter referred to as “BC Company”) by 400 million yuan for 2017, the main transactions are sales of aniline, MDI and other products.

The associated transaction had been deliberated and passed by the board of directors at the 2nd interim session of the 7th board of directors held on July 31, 2017, in which some associated directors withdrew from voting on the proposal of this associated transaction, including Mr. Liao Zengtai, Mr. Li Jiankui, Mr. Ding Jiansheng, Mr. Kou Guangwu and Mr. Guo xingtian, the rest of 6 non-associated directors have deliberated and approved it.

No deliberation is required at the meeting of shareholders; Independent directors of the company have recognized this transaction in advance and expressed their opinions independently at the board meeting.

(II) Estimation and implementation of previous routine associated transaction and increased amount of routine associated transaction

The Proposal on Performance of Routine Associated Transactions between the Company and Affiliated Party had been deliberated and passed at 2016 annual general meeting held on May 3rd, 2017, which approved the routine associated transactions expected to occur between the company and affiliated party in 2017. Of which, the transactions to BC company are as follows:

Unit: RMB 10 thousand yuan

Related Party	Interrelation	Content of associated transaction	Associated transaction Settlement method	Projected amount in 2016	Actual amount in 2016	Projected amount in 2017
BorsodChem Zrt.	Parent company's wholly owned subsidiary	Sales of aniline, MDI and other products	Wire transfer	49,000	37,811	74,416

With sound operation condition of BC company in the first half of 2017, the company's sales of aniline, MDI and other products to BC company has reached total amount of 521,850,000 yuan, it's predicted that the annual sales of 2017 will exceed the expected amount of approval. For this reason, projected amount of 2017 is reassessed now, covering the related transactions as follows:

Unit: RMB 10 thousand yuan

Related Party	Interrelation	Content of associated transaction	Associated transaction Mode of settlement	2016 Projected amount	Actual amount in 2016	Expected increment of amount	Projected amount in 2017
BorsodChem Zrt.	Parent company's wholly owned subsidiary	Sales of aniline, MDI and other products	Telegraphic transfer	49,000	37,811	40,000	114,416

## II. Presentation of related party and its interrelation

Related Party: BorsodChem Zrt.

Interrelation: A wholly owned subsidiary of the parent company

Registered address : Bolyai t őr 1 3700 Kazincbarcika Hungary

Registered capital: 54,849,600 euros

On January 31, 2011, Wanhua Industrial Group Co., Ltd. became the actual

controller of BC Company by acquiring 96% shares of it, through which BC Company turned into a subsidiary of Wanhua Industrial Group Co., Ltd. In 2016, Wanhua Industrial Group Co., Ltd. had completed the acquisition of remaining 4% shares of BC Company. As of the end of 2016, Wanhua Industrial Group Co., Ltd. held 100% shares of BC. In 2016, Wanhua Industrial completed the acquisition of remaining 4% shares of BC Company. As of the end of 2016, Wanhua Industrial holds 100% shares of BC.

BC Company is located in Hungary, Europe, most of its production facilities are concentrated in Kazincbarcika, Hungary, its existing products are mainly MDI, TDI, PVC, etc. BC's products primarily target at European market, with a few of products sold to the Middle East, Africa, Asia and other regions.

### **III. Main content of transactions and pricing policy**

Since 2011, Wanhua Industrial had entrusted BC Company which was controlled by Wanhua Industrial to Wanhua Chemical. Following the trusteeship of BC, Wanhua Chemical had entered into a procurement and supply contract with BC, in the pricing principle of long term cooperation, equality and mutual benefit, in order to play a synergistic effect and achieve complementary in products and regions between them,

Wanhua Chemical mainly sells aniline, MDI, ADI and other products to BC, the prices in the contract shall be subject to the arrangement in the order confirmed by both parties.

### **IV. Purpose of conducting associated transactions and its impact on listed companies**

In the light of the announcement No.2011-01, Announcement of Yantai Wanhua Polyurethanes Co., Ltd. on Acquisition of 96% Shares of Hungary BorsodChem by Wanhua Industrial Group Co., Ltd. as Holding Shareholder, Wanhua Industrial Group Co., Ltd. entrusted Wanhua Chemical with the responsibility of operating and managing BC Company, with aim to resolve the issue of horizontal competition. Meanwhile, the two parties have signed a procurement and supply contract to fully exert their advantages in local channels and complement each other in products and regions, ensuring the company's capacity in sustainable operation can be enhanced

## **V. Independent directors' prior approval and their separate opinions**

Independent directors have reviewed this proposal in advance, and agreed to submit it to the board of directors for deliberation since they believe it does not harm the interests of minority shareholders, and accordingly issued a separate opinion.

## **VI. The commitment by holding shareholders**

Wanhua Industrial promised that Wanhua Chemical has the right to request Wanhua Industrial to put forward a proposal for the merger of BC and Wanhua Chemical through appropriate means within 18 months after BC's operations significantly improved (including but not limited to no normal operating losses in the next 12 months and BC's ability of sustainable operation). Wanhua Industrial also promised to put forward a proposal for the merger of BC and Wanhua Chemical through appropriate means within 18 months after BC's operations significantly improved and that it would not take part in the voting for the aforesaid proposal that it submitted to the General Shareholders' Meeting.

Based on 2016 annual audit report of BC company issued by Deloitte Auditing and Consulting Ltd. on March 21, 2017, combined with the original trusteeship agreement, Wanhua Industrial decides to resolve the horizontal competition with Wanhua Chemical within the next 18 months from the date when 2016 annual audit report was issued by BC, or prior to September 21, 2018.

The merger of BC's business with that of Wanhua Chemical will no longer constitute an associated transaction.

It is hereby notified the above.

The Board of Directors of Wanhua Chemical Group Co., Ltd.

August 1, 2017

- Document for filing
  - (a) Resolution of board of directors signed by the directors present
  - (b) The written document with directors having recognized the transaction in advance, and the independent opinions given by the board of directors