Announcement of Wanhua Chemical

On the Receipt of and the Reply to the Supervision Letter of
Shanghai Stock Exchange

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.

Wanhua Chemical Group Co., Ltd (hereinafter referred to as "Wanhua Chemical" or the "Company") received, from Shanghai Stock Exchange on April 25, 2017, the Supervision Letter on the Fulfillment of Commitment of Wanhua Chemical Group Co., Ltd and its Controlling Shareholders (Shang Zheng Gong Han [2017] No. 0457). After receiving the letter, the Company and its controlling shareholder - Wanhua Industrial Group Co., Ltd (hereinafter referred to as "Wanhua Industrial") - have attached great importance to the contents of the letter and carefully analyzed and discussed the commitments thereunder. It's hereby to reply the primary issues in the above letter as follows.

In February 2011, Wanhua Industrial, the controlling shareholder of Wanhua Chemical, entrusted Wanhua Chemical to operate the newly acquired Hungarian company BorsodChem (hereinafter referred to as "BC Company") in the form of agreement, and promised to propose the merger of BC Company with Wanhua Chemical after the relevant conditions are satisfied with a view to solve the same-industry competition issues. Both parties renewed such agreement for another 3 years upon its expiry in 2014. As the renewed agreement was expired in recent time, Wanhua Chemical and Wanhua Industrial propose to renew the agreement and submit it to the general meeting for consideration and for determination that whether BC Company triggers the conditions of merger. Both parties propose to put forward a same-industry competition solution by the end of 2018.

Question 1: Your company and the controlling shareholder Wanhua
Industrial shall strictly fulfill the commitments you have made and fully disclose the progress thereof in a timely manner in accordance with the "Guideline No.4 on Supervising Listed Companies - the actual controller, Shareholders, Related Parties and Buyers of Listed Companies and the Commitments and Fulfillment thereof" (hereinafter referred to as "Guideline No.4") as well as the requirements of Shanghai Stock Exchange such as Stock Listing Rules.

Reply: The Company and its controlling shareholders will strictly fulfill the commitments we have made and fully disclose the progress thereof in a timely manner.

Question 2: In respect of the above agreement, Wanhua Industrial, a controlling shareholder of your company, shall put forward the proposal on the merger of BC Company with your company within 18 months after the operation status of BC Company is significantly improved (including but not limited to no operational loss under normal circumstances is expected to occur within 12 months in the future, and BC Company satisfies the conditions for sustainable operation). Since 2014, BC Company has been profitable for three consecutive years. However, it was not until April 2017 under our continuous urges that your company and the controlling shareholder Wanhua Industrial supplemented and disclosed the required information, including that the operation status of BC Company was significantly improved and whether it triggered the conditions for fulfilling the commitments. Please verify and disclose: (1) the specific time to trigger the conditions for fulfilling the commitments and the basis for judgment thereof, whether there is violation of commitments and failure to fulfill the commitments in a timely manner, and whether it is compliant with the agreement; (2) BC Company has been profitable for consecutive three years from 2014 to 2016, and during such period whether your company and the controlling shareholder Wanhua Industrial met the conditions for fulfilling the commitments with due care assessment, and performed related decision-making procedures and fulfilled the information disclosure obligations based on related rules; (3) whether it will damage the interests of the listed company and other minority shareholders as your company and the controlling shareholder Wanhua Industrial have no initiated the business merger of BC Company with your company when BC Company has been profitable for consecutive three years from 2014 to 2016.
Reply:

(1)

Specific time: March 21, 2017, the date BC Company issued the 2016 Audit Report.

Basis for judgment: BC Company recorded a loss of EUR118.78 million in 2011, EUR96.65 million in 2012, and EUR41 million in 2013. In 2014, BC Company had a mix of profit and loss between months of operational profits on the basis of occupying assets of EUR1.7 billion, by which it has no basis for ongoing profitability. It achieved an annual profit of EUR9.4 million, but it's difficult to determine the ongoing profitability of BC Company based on the foregoing. From 2011 to 2014, the company's asset-liability ratio was 90.2%, 95.8%, 97.6% and 96.4%, respectively, which were lower than the thresholds of many banks for loan and caused significant financing difficulty. As a result, BC Company is still facing high financial risk.

In 2015, Company A, an European supplier in the same industry, started construction of 300,000 tons TDI and planned to put on the market in 2016. Its main market is the one where the primary profit of BC Company comes. Company K, an European supplier in the same industry, will also increase the TDI capacity by 300,000 tons. In addition, Company S, a Middle East company, has commenced the construction of 300,000 tons MDI and 400,000 tons TDI, both of which will be completed and put into operation by the end of 2016. The products that are produced after the completion thereof are primarily for European market. Plus the 250,000 tons TDI capacity of BC Company, the total TDI capacity in Europe will be 1,050,000 tons by then. The European market demands 400,000 tons TDI per annum. In this case, there may be disorderly competitions in the market. The controlling shareholder Wanhua Industrial determined, after considering the profitability in domestic TDI market, that the ongoing profitability of BC Company was highly uncertain and it was hard to guarantee a stable profitability of BC Company in 2015 and thereafter.

In the first half of the year, the prices of MDI and TDI in Europe were sluggish and the profitability was weak. However, the prices of the main products of BC Company were increasing and its TDI products achieved a record profitability. This was driven by significantly lower production costs of MDI and TDI that are due to decrease in the prices of petroleum and natural gas, the frequent announcement of force majeure by the above suppliers and the frequently overall increase in the prices of chemical products. Therefore, the profit of BC Company was dramatically higher than expected, and the audit report issued by Deloitte on March 21, 2017 indicated that a profit of EUR96 million was
recorded in the same year.

Therefore, during the 2014-2016 trusteeship periods, it was difficult for Wanhua Chemical and its controlling shareholder Wanhua Industrial to make an early judgment that no operational loss under normal circumstances was expected to occur within 12 months in the future, and it did not trigger the conditions for fulfilling the commitments. As of the end of 2016, the asset-liability ratio of BC Company still reached 89.3%.

In view of the operation of BC Company in 2017, Wanhua's six years of unremitting efforts to merge BC Company is paying off. The production capacity of BC Company is gradually expanding, the product quality has been greatly improved, the product is better received in the market, the Wanhua corporate culture is widely recognized in BC Company, and the management capability for Wanhua internationalization is greatly enhanced. It is expected that, by the end of 2017, the asset-liability ratio of BC Company will drop to below 80%, and the company's financial risk will be significantly reduced. The operating capacity and operating environment of BC Company has been fundamentally changed. Based on the current business situation of BC Company, the controlling shareholder Wanhua Industrial estimates that no operational loss under normal circumstances is expected to occur in BC Company within 12 months in the future.

In conclusion, during the 2014-2016 entrustment periods, it was difficult for Wanhua Chemical and its controlling shareholder Wanhua Industrial to make an early judgment that no operational loss under normal circumstances is expected to occur within 12 months in the future, and it does not trigger fulfilling the commitments. Therefore, it is not a violation of commitments or failure to fulfill the commitments under the Guideline No.4 on Supervising Listed Companies - the Actual Controller, Shareholders, Related Parties and Buyers of Listed Companies and the Commitments and Fulfillment thereof (SCRC Announcement [2013]No.55).

(2) During the period from 2014 to 2016, the Company and its controlling shareholders held continuous attention and communication on the operation status of BC Company and whether it triggers the conditions for fulfilling the commitments. However, it's difficult to determine whether BC Company will generate operational loss under normal in the 12 months in the future, by which Wanhua Industrial determines it is not qualified for fulfilling the commitments. Wanhua Chemical has disclosed in the 2014-2016 regular reports that such commitments is still within the fulfillment period but
never separately disclosed the operation status of BC Company.

(3) As described above, during 2014-2016, it was difficult for the controlling shareholder Wanhua Industrial to make an early judgment that no operational loss under normal circumstances is expected to occur within 12 months in the future. In case of unreasonable merger, the interests of listed companies and minority shareholders will be damaged once there is a loss. It would guarantee the interests of listed companies and minority shareholders to the extend possible by considering to solve the same-industry competition based on the current ongoing profitability and anti-risk capacity of BC Company.

Question 3: On April 15, 2017, your company and its controlling shareholder Wanhua Industrial expected that BC Company would not have an operational loss under normal circumstances in the next 12 months, and proposed a same-industry competition solution by the end of 2018. Please verify and disclose: (1) the basis for the above judgment and expectation, please determine whether there is inconsistency between the bases for pre-judgment and after-judgment by comparison with the judgments in 2014-2016; (2) please determine whether the above same-industry competition solution to be proposed by the end of 2018 complies with the agreements of the previous commitments on fulfillment time and method.

Reply:

(1) BC Company has been profitable during 2014 to 2016, but its asset-liability ratio was 96.4%, 94.8% and 89.3%, respectively. The asset-liability ratio wasn't below 90% until the end of 2016. Before that, the controlling shareholder Wanhua Industrial believed that it was difficult to guarantee sustained and stable operation with an asset-liability ratio of more than 90%.

In addition, the prices of MDI and TDI were sluggish due to the downturn in Europe and lower crude oil price, and remained weak until its significant increase in the second half of 2016 when the operation environment was greatly improved, which brought a higher profitability to BC Company. The 2014 to 2016 European regional price chart is as follows.
On the basis of the above analysis, the current sustainable profitability and anti-risk capacity of BC Company have been greatly improved, which enables an operational loss under normal circumstances in the next 12 months. This is not contradicted to the previous judgment and there is no inconsistency.

(2) Wanhua Industrial supplements the contents on the merger of Wanhua Chemical with BC Company, as follows:

Wanhua Industrial, after considering the external market environment and internal operating conditions of BC Company, expected that, by the end of 2017, the asset-liability ratio will drop to below 80% and the financial risk will be significantly reduced; BC Company is basically capable of sustainable operation and Wanhua
Industrial expected that there will be no operational loss to BC Company under normal circumstances in the next 12 months.

Based on the audit report issued by Deloitte Auditing and Consulting Ltd., on March 21, 2017 and after considering the original entrustment agreement, Wanhua Industrial decided to solve the same-industry competition with Wanhua Chemical via merger within 18 months after the 2016 Audit Report of BC Company is issued (namely prior to September 21, 2018).

Such supplementation of contents by Wanhua Industrial complies with the agreements of the previous commitments on fulfillment time and method.

**Question 4:** The independent directors and the Board of Supervisors of your company shall issue express written opinion and make disclosure in respect of Question 2 and Question 3 mentioned above.

We hope that your company and the controlling shareholders will properly handle the major events on this fulfillment of commitments in the spirit of responsibility for investors, report related progress and results to us in a timely manner, and fulfill the information disclosure obligations per requirements and announce the progress of works in a timely manner, so as to provide an express signal to the market expectation.

Reply: The independent directors and the Board of Supervisors of your company will issue express written opinion and perform information disclosure obligations in respect of Question 2 and Question 3 mentioned above.

The Company and our controlling shareholders will properly handle the major events on this fulfillment of commitments in the spirit of responsibility for investors, report related progress and results to Listed Companies Supervision Department I of Shanghai Stock Exchange in a timely manner, and fulfill the information disclosure obligations per requirements and announce the progress of works in a timely manner.

It is hereby notified the above.

Wanhua Chemical Group Co., Ltd.
April 29, 2017