

## Offcn Education Technology Co., Ltd.

### 2019 Annual Report Summary

#### I. Important Notes

This summary is extracted from the full annual report. In order to fully understand the Company's operating results, financial status and future development plan, investors should read the full annual report carefully disclosed on the media designated by the China Securities Regulatory Commission (CSRC). The Company's 2019 Annual Report is prepared and published in Chinese version, and the English version is for reference only. Should there be any inconsistency between the Chinese version and English version, the Chinese version shall prevail.

The board of directors, the supervisor committee, the directors, supervisors, and senior management of the company shall hereby guarantee the authenticity, accuracy and completeness of the annual report also without misrepresentations, misleading statements, or material omissions, and bear individual and joint legal liabilities.

All directors of the Company personally attended the board meeting to review this annual report.

Notes of non-standard audit opinion

Applicable  N/A

The plan for the common stock profit distribution or the plan for converting reserved funds into share capital during the reporting period was reviewed by the board meeting

Applicable  N/A

Whether to convert reserved funds into share capital

Yes  No

According to the profit distribution proposal reviewed and approved by the Company's Board of Directors on March 9, 2020, based on the total share capital of 6,167,399,389 shares as of December 31, 2019, a cash dividend of RMB 2.40 (including tax) will be distributed for every 10 shares to all shareholders in a total of RMB 1,480,175,853.36. No equity dividends will be distributed and the equity reserves will not be converted to share capital.

The plan for the distribution of preferred stock profits during the reporting period is adopted by the board of directors through resolution.

Applicable  N/A

#### II. Basic Situation of the Company

##### 1. Company Profile

Stock Abbreviation	OFFCN EDU (Yaxia Auto has been renamed as OFFCN EDU on February 21, 2019)	Stock Code	002607
Stock Exchange for Stock Listing	Shenzhen Stock Exchange		

Stock Abbreviation before change	Yaxia Auto	
Contact Person and Contact Information	Secretary of the Board	Representative of Securities Affairs
Name	Gui Hongzhi	Gu Pan
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## 2. Main Business or Product Introduction During the Reporting Period

### (1) The main business, products and business model of the Company during the reporting period

Offcn Education is a leading full-category vocational education institution in China, and it is also the pioneer and leader in the field of enrollment examination training. The company bravely undertakes the mission of the times, continues to create new markets, and serves the society with friendliness and altruism.

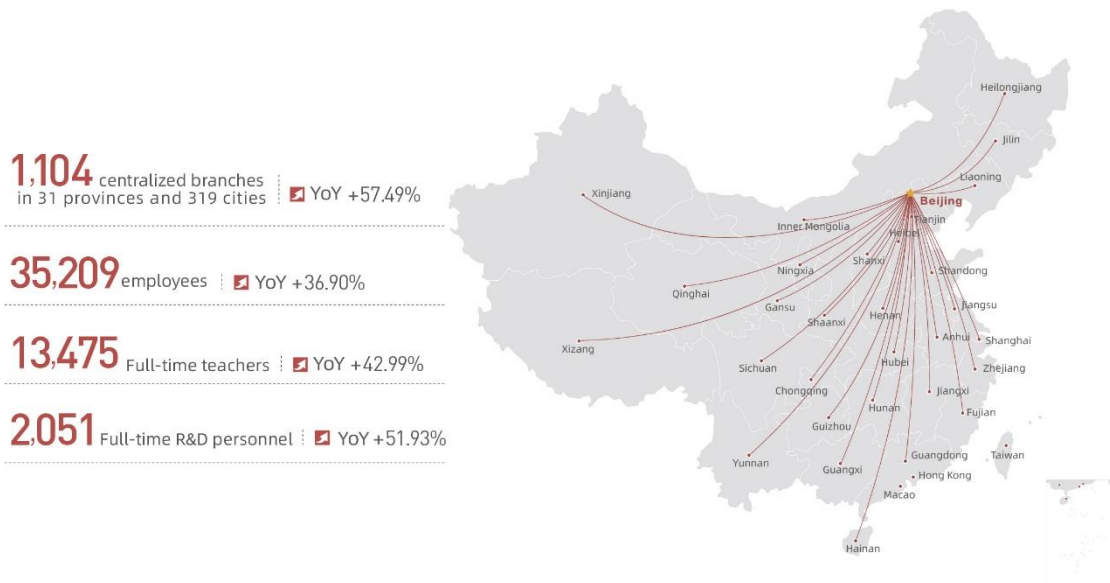
For hundreds of millions of knowledge-based people, the Company's main business covers three major sectors including enrollment examination training, academic qualification preparation and vocational ability training, and it provides more than 100 categories of comprehensive vocational training services. The company operates in more than 1,000 outlets across the country, covering more than 300 prefecture-level cities, and is rapidly expanding into thousands of counties and universities.

Offcn Education mainly serves knowledge-based employment population including college students, university graduates, and various professionals. Their age is from 18 to 45. This huge group of hundreds of millions of people is spread throughout the country, cities and towns at all levels and in all walks of life. Employment and vocational ability improvement are their two core demands.

Vocational ability determines labor productivity which is the key to China's success in overcoming the "middle income trap". And employment is not only a barometer of economic growth, but also a fulcrum of the entire vocational education. It is also the ultimate arena for vocational education institutions.

For this reason, the vocational education institutions that can get closer to the employment needs in the largest scope and to the greatest extent can get more opportunities to turn the flywheel of multi-category growth and can become a dominator in the overall vocational education.

After a long term exploration and accumulation, Offcn Education has a large-scale full-time R&D team of more than 2,000 people, a large-scale teacher team of more than 13,000 people, and a total staff of more than 35,000 people. Relying on outstanding team execution and nationwide vertical integration and rapid response capabilities, the Company has developed into an innovation-driven high-growth enterprise platform.



## (2) Overview of the industry and business environment in 2019

### ① The acceleration of economic transformation and public service investment is creating robust momentum both for the public recruitment test training and for the overall vocational education.

Shortage of public services is a fundamental reality in our country. It forces families to spend more on public consumption by reducing personal consumption, which significantly limits the economies of scale in consumption, and brings a negative effect on economic growth. Therefore, it is a popular sentiment to expand public services such as education, medical care, social service and other public services, so as to benefit both the country and the people.

In the past several years, the demands for recruitment of teachers, civil servants and other public service divisions continuously remained at a high level. The long term trend of driving economic growth model transformation by expanding public consumption is formed gradually. Such trend has been confirmed in the second half of 2019, when the state council and relevant department delivered policies to promote the employment. The outbreak of novel corona virus accelerates the involvement of the trend. Expanding both in recruitment of public services and enrollment of graduate schools has become a clear orientation of government policy.

### ② The industry of vocational education bids farewell to the state of dispersal and has entered into a new stage of the demand release led by the top players of large scale.

From the beginning, the lack of cost-effective products and services with high quality has been the principal contradiction for the industry. The scale of demand is depressed by the capability of supplying . Except the sector of public service recruitment training, many sub-tracks of the two larger sectors of academic qualification improvement and vocational training have been in the small-sized and scattered state for a long time.

There are two main aspects accounting for such situation. Firstly, these two sectors serve the existing labor force mainly as a part-time learner. The working population is not as concentrated in colleges or universities as those fresh graduates who have the graduation employment season and demand of employment is highly dispersed. And it is not a direct employment service of colleges or universities, but only indirectly enhances their employment competitiveness, so the demand is rigid but cannot be compared with the recruitment field. The external and institutional environment appears more mild and has not produced significant revolutionary forces.

By contrast, the booming of the recruitment sector over the past two decades has been driven by the superposition of the forces of economic and social change in urbanization and the expansion of universities. More importantly, It provides high-value-added services related to direct employment for the incremental labor force centered on fresh graduates of universities. There are profound market environment reasons behind the recruitment section that can produce enterprises with billions of revenues, such as Offcn Education. .

Therefore, without the accumulation and transferring of enterprise power formed by the employment market of the incremental labor population, it is difficult for the pioneers of the existing labor employment market to break the scale ceiling of 1 billion revenues, and it seems hard for a single track to break the 5 billion scale boundary. .

The emergence of large scale enterprises will have a profound impact on the structure of the existing labor force. From the operation of the training market related to incremental labor employment to the creation of a training market related to the employment of existing labor, it will be a great leap forward, and the overall vocational education industry will gain a geometric progression.

The formation of large scale enterprises is an essential prerequisite for the leap. Only large companies can break through the difficult obstacles brought by the extreme fragmentation of the market. Through full investment in the core areas of management such as R&D, channels, and management, we can create cost-effective products and detonate the huge demand in order to rotate the high-growth flywheel to create a tens of billions of vocational education tracks.

### ③ Main industry characteristics and cyclical characteristics

The industry of vocational education distributes vastly all over the county and demonstrates a significant long-tail effect. Different from both the K12 tutoring industry and English language training industry which are concentrated in big cities, the demand of vocational education distributes vastly in every province and every city, especially in the prefecture-level cities and the counties. Almost every county has a vocational high school, every prefecture-level city has vocational colleges. The recruitment demand of public employers from prefecture-level cities and counties also occupies a large proportion, which stimulates lots of local small training institutions to get into the market and provides a wide space for the large scale players to expand their network of channels. Meanwhile, the nation-wide operation adds more difficulties to management on one hand, and lifts the barriers to competition on the other hand.

**The training of public services recruitment test is seasonal.** Students always take training classes within 1-2 years before or after their graduations.

The national civil servant test takes place once a year, and the provincial examinations for each province are basically once a year and provinces form a common sense that in the first half of the year, there is a relatively concentrated large-scale entrance and a small-scale entrance examination in the second half of the year. Institutes and teachers are recruited according to the needs of the provinces and cities, which are evenly distributed throughout the year. It is obvious that the number of exams amounts to tens of thousands.

This seasonal fluctuation has caused major growth bottlenecks for small and medium-sized training institutes and has also provided large institutes with continuous motivation to constantly challenge the scale boundary. With the rapid increase in examination categories, large institutes will increasingly enjoy the results of scale effects and obtain a more sound resource allocation structure. In recent years, the momentum of recruitment examinations has been switched to new areas such as public institutes, teachers and comprehensive recruitment, which has led to the

rapid concentration of market share in leading enterprises.

### 3. Key Accounting Information and Financial Indicators

#### (1) Major accounting data and financial indicators in the past three years

Does the Company need to adjust its financial information retrospectively or restate its previous year accounting information?

Yes  No

	2019	2018	Increase/Decrease Over Previous Year End	2017
Revenue (RMB)	9,176,129,995.89	6,236,987,812.57	47.12%	4,031,257,331.70
Net profit attributable to shareholders of the parent company (RMB)	1,804,548,688.01	1,152,887,416.22	56.52%	524,837,228.26
Net profit after deducting non-recurring profit or loss attributable to shareholders of the parent company (RMB)	1,700,369,663.16	1,112,879,085.16	52.79%	495,080,555.61
Net cash flow from operating activities (RMB)	2,473,986,085.19	1,407,946,376.93	75.72%	999,410,591.54
Basic earnings per share (RMB/share)	0.29	0.22	31.82%	0.10
Diluted earnings per share (RMB/share)	0.29	0.22	31.82%	0.10
Weighted average return on net assets	60.71%	71.89%	-11.18%	66.93%
	Year End 2019	Year End 2018	Increase/Decrease Over Previous Year End	Year End 2017
Total assets (RMB)	9,960,705,427.94	7,202,071,521.23	38.30%	3,234,754,509.88
Total equity attributable to shareholders of the parent company (RMB)	3,431,545,903.82	2,953,951,905.00	16.17%	1,000,314,049.84

#### (2) Quarterly major accounting data

Unit: RMB

	The First Quarter	The Second Quarter	The Third Quarter	The Fourth Quarter
Revenue	1,311,632,662.04	2,325,786,853.44	2,521,688,418.01	3,017,022,062.40
Net profit attributable to shareholders of the parent company	106,193,482.28	386,831,982.87	465,837,656.14	845,685,566.72

Net profit after deducting non-recurring profit or loss attributable to shareholders of the parent company	107,644,815.54	364,790,101.80	416,140,588.66	811,794,157.16
Net cash flow from operating activities	2,422,743,973.91	1,932,022,824.62	-1,312,107,088.75	-568,673,624.59

Do the above financial indicators differ significantly from those disclosed in the Company's quarterly and semi-annual reports

Yes  No

#### 4. Share Capital and Shareholders

##### (1) Number of common stockholders and preferred stockholders with voting rights restored and the shareholding conditions of the top 10 shareholders

Unit: share(s)

Total number of common shareholders at the end of reporting period	31,629	Total number of common shareholders at the end of last month before the disclosure date of the annual report	26,733	Total number of preferred shareholders with voting rights restored at the end of reporting period	0	Total number of preferred shareholders with voting rights restored at the end of last month before the disclosure date of the annual report	0	
Particulars about shares held by shareholders with a shareholding percentage over 5% or the Top 10 of them								
Name of shareholder	Nature of shareholder	Shareholding Percentage (%)	Total shares held at the end of the reporting period	Increase/decrease of shares during the reporting period	Number of shares held with sales restrictions	Number of shares held without sales restrictions	Pledged or frozen	
							Status of shares	Amount
Lu Zhongfang	Domestic natural person	41.36%	2,550,549,260	2,550,549,260	2,550,549,260	0	Pledged	400,000,000
Li Yongxin	Domestic natural person	18.35%	1,131,415,121	1,131,415,121	1,058,718,560	72,696,561	Pledged	782,850,000
Wang Zhendong	Domestic natural person	15.61%	962,471,418	962,471,418	962,471,418	0	Pledged	78,600,000
Beijing Aerospace Industry	Domestic non-state-owned legal	4.33%	267,353,171	267,353,171	267,353,171	0		

Investment Fund (Limited Partnership)	person							
Beijing Guangyin Venture Capital Center (Limited Partnership)	境内非国有法人 Domestic non-state-owned legal person	2.89%	178,235,447	178,235,447	178,235,447	0	Pledged	30,000,000
Beijing Kerui Technology Innovation Investment Center (Limited Partnership)	Domestic non-state-owned legal person	1.44%	89,117,723	89,117,723	89,117,723	0		
Beijing Offcn Future Information Consulting Center (Limited Partnership)	Domestic non-state-owned legal person	1.30%	80,000,000	80,000,000	0	80,000,000		
Zhou Xiayun	Domestic natural person	1.28%	78,848,640	0	0	78,848,640	Pledged	62,148,845
Zhou Hui	Domestic natural person	1.17%	72,277,920	0	0	72,277,920	Pledged	18,249,020
Zhou Li	Domestic natural person	0.78%	48,185,280	0	0	48,185,280		
Particulars about the strategic investor or general legal person who becomes the top 10 shareholders due to the placement of new shares	N/A							

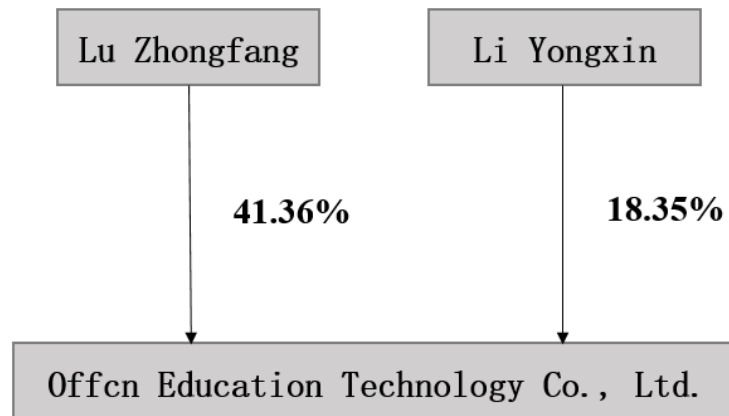
**(2) The total number of preferred shareholders and the top 10 preferred shareholders' shareholdings of the Company**

Applicable  N/A

During the reporting period, the Company did not have preferred stockholders holding shares.

**(3) The property rights and control relationship between the Company and the actual controller are**

disclosed in block diagram



## 5. Corporate Bond

Whether the Company has bonds publicly issued and listed on the stock exchange that have not expired or expired but not paid in full on the date of approval of the annual report

No

## III. Discussion about and Analysis of Business Operation

### 1. Overview of Business Operation during the Reporting Period

The year of 2019 was the closing year for the reform of national governmental institutions. During the last year, the overall demand of civil servant recruitment was not meeting our forecast. However, with all your attention and supports, and thanks to all the great efforts, courage, perseverance and excellent performance of the team, our company's performance realized a substantial growth. The amount of performance profits significantly exceeded the commitment we made for the last year at the time of the company's major assets restructuring, as well as the high expectations in the capital market. We are even happier to see that after working wholeheartedly together in the last year, the will of our team has become stronger, and the fast-response ability of the company's rapid-growing platform was again systematically improved. With our performance surpassing the line of 10 billion RMB, it marked a new fast-growing era of the company under the scale economies effect.

**(1) Outstanding execution triggered the superposition of high-growth culture, and the performance of the current period has been drastically improved.**

Under an overall bleak public services recruitment trend throughout the year, the company still achieved rapid growth against the trend, and laid a solid foundation for the business growth brought about by the 2020 national employment stabilization policy. During the reporting period, the Company achieved a gross revenue of RMB 9,176,129,995.89, representing an increase of 47.12% as compared with the same period of last year. Accordingly, the net profits attributable to shareholders of the parent company amounted to RMB 1,804,548,688.01, increased by 56.52% as compared with the same period of last year; and net profits attributable to shareholders of the parent company after deducing non-recurring profits and losses amounted to RMB 1,700,369,663.16, increased by 52.79%

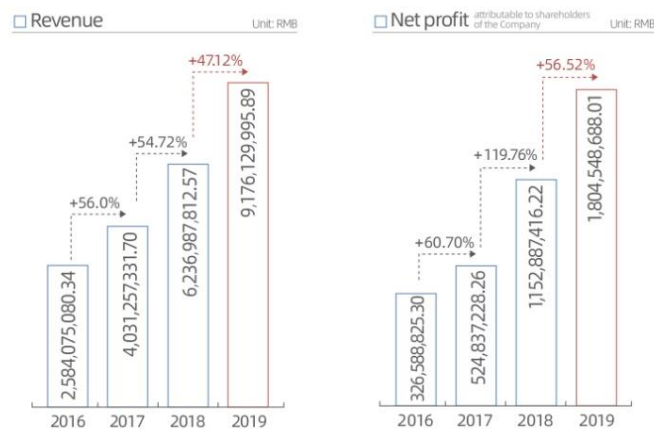


as compared with the same period of last year.

To achieve such a significant growth in a short period of time with adversity, excellent execution of the team would be the most important factor, which is embedded in the high-growth culture accumulated and shaped in the long-term exploration. the company could grow fast naturally when the business climate is good, while under unsound circumstances, the high-growth culture itself would trigger the superposition of high-growth culture itself and refresh the team’s understanding of refined operations and actions and thus greatly increase the current business performance . Then the company can reverse the potential energy of falling and ultimately achieve high growth in performance. Furthermore, it can solidify this high level of current business performance.

The key Operating Resources and Performance Indicators Shown in the Table Below:

Item	Indicators	At the End of the Reporting Period	At the End of Last Year	Year-on-year Change (%)
<b>Operating Resources</b>	Directly Operated Branches	1,104	701	57.49%
	Employees	35,209	25,718	36.90%
	R&D personnel	2,051	1,350	51.93%
	Teachers	13,475	9,424	42.99%
<b>Business</b>	Face-to-face Training Students	1,508,160	1,192,103	26.51%
	Online Training Students	1,779,196	1,115,779	59.46%
	Face-to-face Training Income (RMB)	8,083,730,102.79	5,770,250,029.33	40.09%
	Online Training Students (RMB)	1,035,595,638.64	443,502,944.37	133.50%
<b>Revenues &amp; Profits</b>	Revenue (RMB)	9,176,129,995.89	6,236,987,812.57	47.12%
	Net profits Attributable to Shareholders of the Company(RMB)	1,804,548,688.01	1,152,887,416.22	56.52%



Financial Results Maintained Fast Growth ◀

**(2) Digital Operation Deeply Matched with the Fast Response System with the Explosive Growth of Online and Offline Integration Business.**

During the reporting period, the company proactively embrace innovation, promote the in-depth matching between digital operations and the vertically integrated rapid response system, and use the power of digital operation to seek a more effective level of rapid response, further enhancing the company's core competitiveness based on the speed economy.

Specifically, the company actively deploy and build a smart teaching platform based on AI and big data technology. An interactive live broadcast teaching platform of version 3.0, a private cloud platform for education, a new generation of intelligent learning analysis engine and a strong capability of online R&D and comprehensive service have enabled the company's online education business to grow steadily, further consolidating the company's industry-leading position of online education and online and offline integrated education.

During the reporting period, the online training business exceeded RMB 1 billion and achieved revenue of RMB 1,035,595,638.64, representing an increase of 133.50%, as compared with the same period of last year.

### **(3) The scale economy effect of recruitment sector revenue broke the resistance line of RMB 10 billions**

During the reporting period, despite the overall severe public services recruitment climate, the performance of the sector still grew rapidly against the headwind, which made decisive contribution to go beyond the annual performance target. Among the four major categories of the sector, except the category of training for civil servant test, all of the rest three categories held growth rate of more 50%.

Such an achievement was not only a progress both in the total amount and in the incremental amount, but also a critical breakthrough in the magnitude of the scale economy effect of the sector revenue, which demonstrated the sector's annual revenue would step into a new level of 10 billions from the previous level of billions. With a stronger stable employment policy, the sector has got into a new high-growth circle.

Behind the breakthrough of growth level, there came significantly structural change in the momentum of growth within the sector. The other three categories had achieved a total annual revenue with the same size of civil servant category. Every category had an annual revenue of more than RMB 1 billion on average, which showed a new well-balanced fast growth mode driven by multicategories.

During the reporting period, the category of training for civil servant test achieved revenue of RMB 4,171,091,369.87, an increase by 30.15%, from revenue of RMB 3,204,932,785.69 last year. Training for public institution test achieved revenue of RMB 1,401,287,171.43, representing an increase of 58.44%, from revenue of RMB 884,449,895.82 of the corresponding period of last year. The category of training for teachers' recruitment test achieved revenue of RMB 1,932,698,035.79, representing an increase of 60.85%, from revenue of RMB 1,201,551,528.55 of the corresponding period of last year. Besides, although the category of training for other public service test hasn't been separated from the item of new businesses statistically, it achieved nearly the same high growth rate with the category of training for public institution test and the category of training for teachers' recruitment test.

Training for civil servant test seemed growing steadily in comparison with other categories, but if considered in the latter period of the institutional reform, both the recruitment of national civil servant and recruitment of the provincial civil servant declined sharply more than 30% on average, such growth might nominate different

meaning. On the one hand, this was the combined achievement of business innovation and excellent execution. On the other hand, this also revealed significant progress both in training attendance rate and in the concentration degree of market share. The students orders of the category increased 27.09%, as compared to the corresponding period of last year. In the meanwhile, the sharp drop in the recruitment put much pressure on the operation of contractual class, under such circumstance, the unit price of the category still got a positive growth rate, which proved the leading edge effect of the company in this category again. All of the above also confirmed the early judgement that there is still strong potential for the growth of the category.

Training for public institution test achieved such a high growth rate out of our expectation. The student orders of the category increased 43.63%, and the unit price of the category increased by 10.31%, as compared to the corresponding period of last year. At the beginning of last year, the company reinforced the management team of the category. So when the recruitment soared in Q3, the team had been well prepared and grasped this valuable opportunity. More importantly, the warm-up of the recruitment climate demonstrated that after the institutional reform, public institutions revealed a much more nominating position to offer public services. Accordingly, the size of recruitment would get into the new orbit of steady rebound. In such a highly fragmented market distributing mostly in the low-tier cities, the company's competitiveness of owned channels, capability of teaching and overall lean operational services could be optimized both in the penetration to the low-tier regional market and in the expansion in market shares.

Training for teachers' recruitment test grew robustly. Because some provincial governments postponed their routine recruitment plan, it finally did not double the revenue. Even though, we still regarded this as short-term change from outside, the fast-growth trend driven by expansion of recruitment and penetration of operation has never been changed. Given the upcoming peak of retirement and promotion in the investment of education, the long-term shortage for K12 teachers would be more than 10 millions people. Expansion of teachers' recruitment was a key sparkle in the recent employment stabilizing policy. Actually, it's not a new situation coming up suddenly, the high-growth trend has been forged long time ago. The outbreak of novel coronavirus only accelerates the evolvement of the trend from outside. The category also reveal a trend of increase both in volume and in price. During the reporting period, the student orders of the category increased 52.89%, and the unit price of the category increased 5.21%, as compared to the corresponding period of last year respectively. In the first half of the year, the company adjusted the management team forcefully, and invested in the business decisively. Such experience of expansion verify the truth that keeping a positive operation standing point would always be paid off by the market.

Training for other public service test kept fast growth with plenty of niche categories, and responded to the tendency of current policy. During the reporting period, military reform, the policies such as poverty reduction and medical care promotion create strong opportunity for growth. The team of the category monetized the opportunity quickly, not only realize the increase both in volume and in price, but also extend the scale of relevant niche categories, leading the category of small size and fragmented originally head to the milestone of 1 billions in annual revenue. From the long-term perspective, this category would evolve into another category of training for public institution test in the region of grass root, since it share the attributes of public services and the diversities of the recruiter. On the other hand, the incremental amount of recruitment might have more potential to surpass those of the category of training for public institution test.

**(4) The leading-geese of the two emerging sectors have been confirmed again. The flock-of-geese of all categories grew fast and will redefine the border of the industry for next ten years.**

After successfully replicating the model of the sector of training for public services recruitment test, training for graduate school entrance examination and IT skills training enter a new fast-growth business. During the reporting period, training for graduate school entrance exam achieved a growth rate beyond 100%, and IT skills training even achieved a high growth rate of more than 300%. More importantly, there comes up a cluster of active categories with the revenue size of more than RMB 10 million, and more and more categories show their potential to grow into large scale players.

For a long time, there seldom came up with large scale leading company that could generate a revenue of more than RMB 1 billion per year in these two sectors. This might be the results of the capability of the operators, but more importantly, the result lies in the inner developmental logic of the vocational education market. Amid the three major sectors of vocational education oriented to the college students and graduates, only the training for public services recruitment test has the chance to cultivate large scale companies, while the other two sectors are not able to gestate large nationwide companies with annual revenue of RMB billions through its own self development. This can be explained by the current situation in this industry and its slow development process in such a long time.

This is decided by both the fragmented distribution of working personnel and the characteristic of low-pace from the demand end. To activate the potential demand within the two sectors, there must the participation of large scale companies from other industries, which have strong teaching and research capabilities as well as vertically integrated operation ability. With heavy investment in the long run, exploration the categories one by one, creating cost-effective products and aggressively cultivate both on the demand side and the supply side, these companies can eventually trigger out the eruption of the growth potential hidden deeply under separate categories in the market.

It takes this industry 5 years to layout its business resources and explore the developmental opportunities in more than a hundred programs in these two sectors. Since more and more sectors have generated a revenue above 10 millions and even 100 millions, the scale growth in the next 5-10 years can be expected. Given the large-scale growth brought by both single category and multi-categories development, the two new sectors will reshape the future of the company in the next ten years.

**2. Is there any major change in the main business during the reporting period?**

Yes     No

**3. Overview of products which account for more than 10% of the revenue or profit of the company's main business**

Applicable     N/A

**4. Is there any seasonal or periodical characteristics in the operation which needs special attention?**

Yes     No

## 5. Presentation of major changes in revenue, cost of revenue, total amount or composition of net profits attributable to shareholders of common stock of public company during the reporting period when compared to the previous reporting period

Applicable  N/A

In 2019, the Company achieved operating revenue of RMB 9,176,129,995.89, representing an increase of 47.12% as compared to the corresponding period of last year. Accordingly, operating profit amounted to RMB 2,090,668,843.03, representing an increase of 56.02%, and total profit amounted to RMB 2,089,327,430.78, increased by 55.97%, and net profits attributable to shareholders of the Company amounted to RMB 1,804,548,688.01, increased by 56.52% as compared to the corresponding period of last year respectively.

The rapid growth attributes to the enhancement of the company's leading position in the market and the advantage in the economies of scale. We have been promoting our management effectiveness and capability of research. Besides, we have been taking advantage of super execution power of the team. As more and more technology is implemented in our product and services, our overall competitiveness both in brand and platform becomes much nominating, accelerating the market shares to concentrate towards the leading player.

## 6. Conditions of suspension and termination of listing

Applicable  N/A

## 7. Matters related to financial statements

### (1) Changes in accounting policy, estimation, and methods when compared to the previous financial year

Applicable  N/A

1.Since 1 January 2019, the company has adopted the relevant provisions of "Notice on Revising and Issuing the Format of General Enterprise Financial Statements for 2019" [Cai Kuai (2019) No. 6] and "Notice on Revision of the Consolidated Financial Statement format (2019 edition)"([Cai Kuai (2019) No.16] , hereinafter referred to as "Amendment Notice").Accounting policy changes and the resulting effects are as follows:

**Table 1**

Projects	Adjustment Item
<b>Balance Sheet</b>	(1) The item "Notes and accounts receivable" is divided into the item "Notes Receivable" and the item "Accounts Receivable"; (2) The item "Notes and accounts payable" is divided into the item "Notes Payable" and the item "Accounts Payable"; (3) A new "Financing receivables" item reflects notes and accounts receivable that are measured at fair value and their changes are included in other comprehensive income; (4) The new item of "Special reserve" reflects the book value at the end of the period of the safety production expenses drawn by enterprises in high-risk industries according to state

	regulations.
	(5) New "Right-of-use assets" and "Lease liabilities" items.
	(1) A new item entitled "Income generated from the derecognition of financial assets measured at amortized cost" shall be added to reflect the gains or losses incurred by an enterprise as a result of the termination of recognition of financial assets at amortized cost due to transfer or other circumstances;
	(2) The items of "Impairment losses of assets" and "Impairment losses of creditability " are moved to the position after "Gains from changes in fair value" ;
	(3) The Income Statement "MINUS: Impairment losses of assets" is adjusted to "PLUS: Impairment losses of assets(Losses are indicated by "-")" ;
<b>The Income Statement</b>	(4) Adjusting the "MINUS: Impairment losses of creditability" in the Income Statement to "PLUS: Impairment losses of creditability (Losses are indicated by "-") " ;
	(5) In the Income Statement, under the item "Investment income" , add the item " Income generated from the derecognition of financial assets measured at amortized cost (losses are represented by '-)'" ;
	(6) The "Net increase in financial assets held for trading purposes" and "Cash received on issuance of bonds" were deleted from the Income Statement.
	The Statement of Cash Flows specifies the scope of the government subsidy, and the actual government subsidy received by the enterprise, whether related to assets or income, is listed under the item " Cash received relating to other operating activities " .
<b>Statement of Cash Flow</b>	(1) Specifying the scope of the item "Other equity instrument owner's invested capital" and the item "Other equity instrument owner's invested capital" , the amount of capital invested by the holders of financial instruments classified as equity instruments other than common shares issued by the Enterprise;
<b>Statement of Changes in Owners' Equity</b>	(2) Adding "Extraction and use of special reserve" items to the statement of changes in owners' equity.

**Table 2**

<b>The contents and reasons for the changes of accounting policies</b>	<b>Affected financial statements line items</b>
Divide the “Notes receivable and Accounts receivable” into “Notes receivables” and “Accounts receivables”	As of 31 December 2019, the amount of notes receivables and accounts receivables presented in the statement of the consolidated financial position were RMB 0.00 and RMB 2,721,638,09;As of 31 December 2018, the amount of notes receivables and accounts receivables were RMB 0.00and RMB 6,804,330.67.  As of 31 December 2019,both of the notes receivables and accounts receivables are presented as RMB 0.00. As of 31 December 2018, both of the notes receivables and

**The contents and reasons for the  
changes of accounting policies**

**Affected financial statements line items**

Divide the “Notes payable and Accounts payable” into “Notes payable” and “Accounts payable”	<p>accounts receivables are also presented as RMB 0.00.</p> <p>As of 31 December 2019, the amount of notes payable and accounts payable presented in the statement of the consolidated financial position were RMB 0.00 and RMB 236,481,990.86;As of 31 December 2018, the amount of notes payables and accounts receivables were RMB 0.00and RMB 144,564,705.50.</p> <p>As of 31 December 2019, the amount of notes payable and accounts payable presented in the statement of the parent financial position were RMB 0.00 and RMB 561,752.26 ;As of 31 December 2018, the amount of notes payables and accounts receivables were RMB 0.00 and RMB 19,854,802.89.</p>
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2. Since 1 January 2019, the company has adopted the relevant regulations of the Accounting Standards for Business Enterprises No.22--Recognition and Measurement of Financial Instruments (Accounting [2017] No.7) and Accounting Standards for Business Enterprises No.23--Transfer of Financial Assets (Accounting [ 2017] No.8), Accounting Standards for Business Enterprises No.24-- Hedging Accounting (Accounting [ 2017] No.9) (and Accounting Standards for Business Enterprises No.37-- Presentation of Financial Instruments (Accounting [ 2017] No.14),and based on the cumulative impact, the retained earnings at the beginning of the year and other relevant items in the financial statements are adjusted, and information for comparable periods is not adjusted. Changes in accounting policies resulted in an increase of RMB 247,170.28 in the undistributed profit of the consolidated financial statements on 1 January 2019. The financial statements of the parent company on 1 January 2019 had no impact.

3. The company has adopted the relevant provisions of the Accounting Standards for Business Enterprises No.7-- Monetary Assets Exchange (Accounting [2019] No.8) from 10 June 2019. The company shall adjust non-monetary asset exchanges between 1 January 2019 and the implementation date of this standard according to the standards. The company does not need to make retrospective adjustments to non-monetary asset exchanges that occurred before 1 January 2019. Changes in accounting policies have no impact on the company's consolidation and the parent company's financial statements.

4. The Company has adopted the relevant provisions of the Accounting Standards for Business Enterprises No.12-- Monetary Assets Exchange (Accounting [2019] No.9) since 17 June 2019. The company shall adjust the debt restructuring that occurred between 1 January 2019 and the implementation date of this standard in accordance with the standards. The company does not need to make retrospective adjustments to debt restructurings that occurred before 1 January 2019. Changes in accounting policies have no impact on the company's consolidation and the parent company's financial statements.

**(2) Explanation of ratification of major accounting error in the reporting period which needs to be tracked and restated**

Applicable  N/A

No ratification of major accounting error in the reporting period which needs to be tracked and restated.

**(3) Explanation of changes in the scope of combined financial statements when compared with financial statements of the previous year**

Applicable  N/A

The name of the subsidiary	Proportion of shareholding (%)	Reason for changes
Tonghua Offcn Co., Ltd.	100.00	New establishment
Hunan Lightsalt Offcn Co., Ltd.	90.00	New establishment
Tianjin Hexi Offcn Co., Ltd.	100.00	New establishment
Chengdu Offcn Co., Ltd.	100.00	New establishment
Shandong Zuoda Business Management Co., Ltd.	100.00	New establishment
Liaoning Zhongcheng Real Estate Development Co., Ltd.	100.00	Acquisition

**(4) Expected operating performance in the first three months of 2019**

Applicable  N/A