Stock Code: 300748 Stock Abbreviation: JL MAG

Announcement Number: 2020-017

Bond Code: 123033 Bond Name: JLMAG Convertible Bond

**JL MAG Rare-Earth Co., Ltd.**

**Abstract of the 2019 Annual Report**

I. IMPORTANT STATEMENTS

The Abstract of the Annual Report is excerpted from the Annual Report. Investors are advised to carefully read through the whole report on the media specified by the CSRC for the complete picture of the Company’s operating results, financial position and future development plan.

All the directors except the one highlighted below attended the board meeting which reviewed the Annual Report:

|  |  |  |  |
| --- | --- | --- | --- |
| Name of Director Absent from the Meeting | Official Title | Reason | Name of the Entrusted |
| Xie Zhihong | Director | Official duty | Cai Baogui |

BDO China Shu Lun Pan Certified Public Accountants LLP issued a standard unqualified opinion on the Company’s financial report for the year ended December 31, 2019.

Change of accounting firm during the reporting period: The Company did not change its accounting firm in 2019. BDO China Shu Lun Pan Certified Public Accountants LLP continued to provide accounting services for the Company.

Non-standard auditing opinion

□ Applicable √ Not applicable

Ordinary share profit distribution plan or plan for converting capital reserve to share capital for the reporting period reviewed by the Board of Directors

√ Applicable □ Not applicable

Ordinary share profit distribution plan approved at the Board Meeting of the Company: based on 413,424,188 shares of the Company, distribute a cash dividend of RMB1.1 (before tax) per 10 shares and zero bonus share (before tax) to all the shareholders; and transfer zero share per 10 shares from the capital reserve to all the shareholders.

Preference share profit distribution plan for the reporting period adopted by the Board of Directors through resolution

□ Applicable √ Not applicable

II. COMPANY PROFILE

1. Corporate Information

|  |  |  |  |
| --- | --- | --- | --- |
| Stock abbreviation | JL MAG | Stock Code | 300748 |
| Stock exchange where the shares of the company are listed | Shenzhen Stock Exchange |
| Contacts | Secretary of the Board | Representative for Securities Affairs |
| Name | Lu Ming | Lai Xunlong |
| Address | 81 West Jinling Road, Economic and Technological Development Zone, Ganzhou City, Jiangxi Province, P.R. China | 81 West Jinling Road, Economic and Technological Development Zone, Ganzhou City, Jiangxi Province, P.R. China |
| Fax | 0797-806-8000 | 0797-806-8000 |
| Telephone | 0797-806-8059 | 0797-806-8059 |
| Email | jlmag\_info@jlmag.com.cn | jlmag\_info@jlmag.com.cn |

2. Business Scope in the reporting period

**(I) Summary of business scope**

The Company is a high-tech enterprise engaged in research and development, production and sales of NdFeB permanent magnet materials. It is a leading supplier of core materials used in new energy and energy conservation and environmental protection sectors in China. The products are widely used in wind power, new energy vehicles and auto parts, inverter air conditioners, energy efficient elevators, robotics and intelligent manufacturing, as well as the 3C industry (computers, communications and consumer electronics). The Company has formed long-term stable partnerships with top-tier Chinese and foreign enterprises in various industries. The Company has started preparation for entering the 3C industry during the reporting period. And it is now actively exploiting the 3C market.

**(II) Business model**

The Company mainly adopts a Producing according to Sales model. It purchases rare earth and auxiliary metal materials in advance based on orders, designs and produces NdFeB magnets. Currently, the Company has the capability of manufacturing a whole series of products, covering product research and development, mold development and manufacturing, billet production and finished product processing, while exercising overall control and management of each process.

**(III) Position in the industry**

The Company is a world-leading supplier of magnets used in wind power and a top-grade supplier of magnets for new energy vehicle and inverter air conditioner in China, maintaining stronger competitiveness.

The Company is a global first-class supplier of magnets for wind power. End-users in wind power sector are mainly Goldwind and Siemens Gamesa. Goldwind is the largest manufacturer of permanent magnet direct-drive generators wind turbines in China, holding all core technologies. According to BloombergNEF’s 2019 ranking of Chinese wind turbine manufacturers by new installations, China newly installed 28.9 GW in the year, representing a 37% increase than the last year, including 26.2GW onshore wind turbine(increasing by 36%) and 2.7GW offshore wind turbine(increasing by 57%) . With new installations of 8.01 GW, Goldwind retained its title as the largest manufacturer in China.

The Company is a leading supplier in inverter air conditioner and new energy vehicle manufacturing sectors in China. It supplies magnets to famous inverter air conditioner brands such as Midea, Mitsubishi, Gree and Shanghai Hailite, and supplies magnets to BYD and United Automotive Electronic Systems Co., Ltd., etc. for producing new energy vehicles drive motors, and it has also been the auto partmagnet supplier of Bosch Group for years.

In addition, the Company actively participates in new energy and environmental protection sectors such as energy efficient elevators, robotics and intelligent manufacturing, 3C, and has become an important NdFeB magnet supplier in these sectors, possessing strong market competitiveness.

3. Key accounting data and financial indicators

(1) Key accounting data and financial indicators for the past three years

Whether the Company performed a retroactive adjustments to or restatement of accounting data for prior years

□ Yes √ No

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2019 | 2018 | Increase/decrease  | 2017 |
| Operating income(RMB’000) | 1,696,838,476.01 | 1,289,339,875.43 | 31.61% | 912,427,221.16 |
| Net profit attributable to shareholders of the company(RMB’000) | 156,880,220.48 | 147,195,841.72 | 6.58% | 139,363,333.73 |
| Net profit attributable to shareholders of the company before non-recurring gains and losses(RMB’000) | 146,838,409.80 | 105,795,891.33 | 38.79% | 96,970,360.17 |
| Net cash flows from operating activities(RMB’000) | 42,838,401.92 | 58,093,008.47 | -26.26% | 100,233,656.82 |
| Basic earnings per share (RMB/share) | 0.38 | 0.39 | -2.56% | 0.37 |
| Diluted earnings per share (RMB/share) | 0.38 | 0.39 | -2.56% | 0.37 |
| Weighted average ROE(%) | 13.41% | 16.20% | -2.79% | 18.40% |
|  | At the end of 2019 | At the end of 2018 | Increase/decrease  | At the end of 2017 |
| Total assets(RMB’000) | 2,826,237,122.05 | 2,070,299,722.99 | 36.51% | 1,440,936,150.39 |
| Net assets attributable to shareholders of the company(RMB’000) | 1,330,352,853.02 | 1,111,491,991.61 | 19.69% | 819,038,204.06 |

(2) Key accounting data by Quarter

RMB’000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2019Q1 | 2019Q2 | 2019Q3 | 2019Q4 |
| Operating income | 358,860,291.95 | 421,402,917.19 | 389,275,314.71 | 527,299,952.16 |
| Net profit attributable to shareholders of the company | 26,359,146.61 | 32,543,495.98 | 47,562,573.59 | 50,415,004.30 |
| Net profit attributable to shareholders of the company before non-recurring gains and losses | 22,498,545.54 | 31,470,800.13 | 46,344,845.62 | 46,524,218.51 |
| Net cash flows from operating activities | -148,888,159.38 | 162,048,528.60 | -12,680,677.36 | 42,358,710.06 |

Whether there are any material differences between the financial indicators above or their summations and those which have been disclosed in the Company’s quarterly of semi-annual reports

□ Yes √ No

4. Shares and shareholders

(1) Number of common shareholders, number of preference shareholders with resumed voting rights, and top 10 shareholders

Unit: Share

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Total number of common shareholders at the end of the reporting period | 55,517 | Total number of common shareholders at the prior month before the disclosure date of the Annual Report | 49,034 | Total number of preference shareholders with resumed voting rights restored at the period-end  | 0 | Total number of preference shareholders with resumed voting rights restored at the prior monthend before the disclosure date of the Annual Report | 0 |
| Top 10 shareholders |
| Name of shareholder | Nature of shareholder | Shareholding percentage (%) | Number of shares held | Number of restricted shares held | Pledged or frozenshares |
| State | Number |
| Jiangxi Ruide Venture Capital Co., Ltd. | Domestic non-state-owned corporation | 36.58% | 151,211,000 |  | Pledged | 5,359,999 |
| Jinfeng Investment Holding Co., Ltd. | Domestic non-state-owned corporation | 13.18% | 54,486,757 | -5,513,243 |  |  |
| Xinjiang Qianchang Enterprise Consulting Management Limited Partnership | Domestic non-state-owned corporation | 7.26% | 30,000,000 |  |  |  |
| Ganzhou Rare Earth Group Co., Ltd. | State-owned corporation | 6.53% | 27,000,000 |  |  |  |
| Shenzhen Yuanzhi Fuhai No. 9 Investment Enterprise (Limited Partnership) | Domestic non-state-owned corporation | 5.14% | 21,265,900 | -4,134,100 |  |  |
| Shanghai Shangqi Delian Investment Center (Limited Partnership) | Domestic non-state-owned corporation | 2.00% | 8,270,800 | -5,898,700 |  |  |
| China-Belgium Direct Equity Investment Fund | State-owned corporation | 0.90% | 3,731,658 | -4,010,274 |  |  |
| Beijing Jinhe Yongci Investment Management Center (Limited Partnership) | Domestic non-state-owned corporation | 0.74% | 3,062,550 | -7,434,200 |  |  |
| Mao Huayun | Domestic individual | 0.44% | 1,800,000 |  |  |  |
| Refinancing Guaranteed Security Subsidiary Account of China International Capital Corporation Limited  | Domestic non-state-owned corporation | 0.43% | 1,767,500 |  |  |  |
| Related-parties or acting-in-concert parties among the top ten shareholders | (1) Jiangxi Ruide Venture Capital Co., Ltd. (“Ruide VC”) mentioned above is the controlling shareholder of the Company. Actual controllers of the Company, namely Cao Baogui, Hu Zhibin and Li Xinnong contribute 40%, 30% and 30% to the capital base of Ruide VC, respectively, and they are acting-in-concert parties. Cai Baogui, Hu Zhibin and Li Xinnong hold a 27.31%, 31.43% and 17.96% equity stake in Xinjiang Qianchang Business Consulting Management Limited Partnership (“Xinjiang Qianchang”), respectively; (2) save as disclosed above, the Company is not aware of any connected relation or concerted action among the other shareholders. |

(2) Number of preference shareholders and status of top 10 preference shareholders

□ Applicable √ Not applicable

No preference shareholders held any shares of the Company during the reporting period.

(3) Disclosure of ownership and control relations between the actual controller and the Company in block diagram



Hu Zhibin

Cai Baogui

Li Xinnong

JL MAG Rare-Earth Co., Ltd.

Jiangxi Ruide Venture Capital Co., Ltd.

5. Bonds of the Company

Whether the Company has any bonds publicly offered and listed in the stock exchange that have not matured at the approval date of disclosure of the Annual Report or failed to redeem in full at maturity

Yes

(1) Basic information on the Company’s bonds

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Full name | Short name | Bond code | Maturity date | Bond balance (RMB10,000) | Interest rate |
| Convertible bond of JL MAG Rare-Earth Co., Ltd. | JLMAG Convertible Bond | 123033 | October 31, 2025  | 43,500 | 0.4% in the first year, 1.0% in the second year, 1.5% in the third year, 2.0% in the fourth year, 3.0% in the fifth year and 4.0% in the sixth year. |
| Interest payment and principal redemption during the reporting period | Not applicable |

(2) Latest rating of the Company’s bonds and rating changes

On March 20, 2019, CSCI Pengyuan Credit Rating Co., Ltd. issued the *Credit Rating Report on Convertible Bonds Publicly Issued by JL MAG Rare-Earth Co., Ltd. in 2019* (ZH.P.X.P. [2019] No. Z.80.01), granting a long-term credit rating of AA- to the Company and a credit rating of AA- to the Company’s convertible bonds, with a Stable outlook. CSCI Pengyuan Credit Rating Co., Ltd. is required to monitor the rating on a regular basis or from time to time during the duration of the bonds. And the Company will publish the complete text of rating monitor reports on the ChiNEXT information disclosure website (www.cninfo.com.cn) designated by the CSRC.

(3) Key accounting data and financial indicators for the last two years before the end of the reporting period

|  |  |  |  |
| --- | --- | --- | --- |
| Item | 2019 | 2018 | Change during the period (%) |
| Asset-liability ratio (%) | 52.93% | 46.49% | 6.44% |
| EBITDA/total liabilities | 17.62% | 22.82% | -5.20% |
| Interest coverage ratio | 5.71 | 7.73 | -26.10% |

III. PERFORMANCE DISCUSSION AND ANALYSIS

1. Statement of operation during the reporting period

On May 20, 2019, Xi Jinping, General Secretary of the Communist Party of China, visited the Company immediately after he arrived at Jiangxi Province for an investigation tour. At the Company, Xi learned about its production and operation, and the rare earth industry’s development in Ganzhou. He emphasized that rare earth is significant strategic resource yet nonrenewable, and called for strengthening scientific and technological innovation to raise the technological level of rare earth exploitation, extending the industrial chain, increasing the value-added, and stepping up environmental protection of projects to achieve green growth and sustainable development.

In 2019, under the guidance of the development strategy formulated by the Board of Directors, the management led all the employees of the Company to pool in efforts and forge ahead. Against the adverse impact of declining sales in traditional vehicle and new energy vehicle sectors, the Company reported a two-year substantial growth in sales and could produce 10,000 tons of sintered NdFeB magnet materials (blank). What’s more, it further increased the market share, significantly optimized the customer structure, witnessed an evident growth in export earnings, further improved technologies, quality and management capabilities, and performed well in the capital market. The management beefed up solidarity, and the Company sharply boosted core competitiveness on a whole.

During the reporting period, the Company realized an operating income of RMB1,696,838,500, up 31.61%YoY. This included earnings of RMB281,262,800 from exports, up 58.65% YoY; the Company generated a net profit attributable to shareholders of the company of RMB156,880,200, up 6.58% YoY; the Company posted a net profit attributable to shareholders of the company net of nonrecurring profit or loss at RMB146,838,400, up 38.79% YoY.

Thanks to the rise of demand in China’s wind power industry and the growth of the Company’s offshore wind power business, the Company earned RMB855 million from the wind power industry, representing a sharp increase of 121.40% over the same period of last year, marking a further consolidation of its leading status of magnets supplier for the wind power industry. The Company won the honor of “5A Supplier with Good Quality and Credit” from Goldwind for five consecutive years from 2015 to 2019, and won the “Long-term Cooperation Award” from Goldwind. CRRC Zhuzhou Electric Co., Ltd. conferred the “10-year Strategic Cooperation Award” to the Company. The Company was also a key wind power magnet supplier to Siemens Gamesa.

The Company continued to boost sales in the inverter air conditioner sector. Its income from the sector grew by 13.68% compared with the same period of last year to RMB422 million in 2019. In addition to seizing a leading share in the global inverter air conditioner market, the Company was also fully recognized by strategic customers in the inverter air conditioner industry. It received the 2019 “Technological Innovation Award” and “Excellent Supplier” honorary title from the Electromechanical Division of Midea Group, the 2019 “Quality Excellence Award” from Mitsubishi Electric (Guangzhou) Compressor Co., Ltd. and the 2019 “Best Honest Contribution Award” from Shanghai Highly Co., Ltd.

In 2019, the Company expanded presence in the new energy vehicle sector with great endeavors. It was involved in the supplier chains of multiple top-tier new energy vehicle manufacturers in the world, and became a leading magnet supplier to the new energy vehicle sector. In 2019, the Company became the rare earth permanent magnetic material supplier of United Automotive Electronic Systems Co., Ltd.for the modular electric drive matrix (“MEB”) platform project of Volkswagen Group, and was designated the supplier of rare earth permanent magnetic materials for the BEV3 flexible global all-electric vehicle platform of General Motors. This is projected to bring positive impact on the Company in future expansion of new energy vehicle market. The Company has been engaged in friendly cooperation with BOSCH Group for years. It received the 2019 “Best Cooperation Award” from United Automotive Electronic Systems Co., Ltd.

In January 2020, the *Proposal on Establishing a Wholly-owned Subsidiary in Ningbo* was approved at the 18th Meeting of the Second Board of Directors, an initiative aimed at fostering and expanding the business in the 3C industry, improving competitiveness in the magnetic materials market for 3C and ensuring the capacity for supplying products to 3C customers. So far, JL MAG (Ningbo) Rare-Earth Co., Ltd., an enterprise wholly owned by the Company, has completed industrial and commercial registration, and it is preparing for the processing base project of magnetic products for 3C.

In 2019, the Company further improved its technological prowess, quality and management capabilities. In terms of technology research and development, the Company fully mobilized and leveraged the enthusiasm of the technology research and development team. The research and development projects covered materials engineering, process optimization, robotics and automation applications, surface treatment, and recyclable technologies. The Company actively cooperated with customers in new product research and development and product iteration and upgrading. Over the past year, it developed more than 1,000 new samples. The research and development achievements of ultra-high grades such as N56, 54SH, 54UH and 45AH, as well as 45SH products without heavy rare earth, have won praise from many strategic customers. In 2019, the Company independently researched and developed dozens of sets of new automation equipments, which significantly improved the capacity of independently developing equipments and making molds, and enhanced the automated production level. The Company promoted lean production which raised the delivery speed and production efficiency and reduced the inventory of work-in-process during the production process. It was honored with the “2019 Ganzhou Mayor’s Quality Award”.

In November 2019, the Company issued convertible bonds successfully and raised RMB435 million, further strengthening competitiveness and boosting rapid development. Currently, the “Intelligent Manufacturing Factory Upgrading Project” financed by the capital raised from the convertible bond offering is forging ahead steadily. As of February 29, 2020, the “New Project of Producing 13 Million Tons of NdFeB Magnets in a Year” and the “Production Line Automation Project” financed by the money raised from the IPO have been basically completed and launched, further reinforcing the production capacity.

The Company paid close attention to its performance in the capital markets. In 2019, stocks of the Company were successively incorporated into the Growth Enterprise Index, the Shenzhen Stock Exchange Component Index and the FTSE Russell Global Index. In addition, the Company gained a series of laurels from authoritative media agencies, including the “Contributor to China’s CSR Endeavor” from the *International Financial News* under the *People’s Daily*, the “Investor Relation Management Star” from the *Economic Observer*, the “Excellent Board of Directors” title from the 15th “Golden Roundtable Award” campaign among board of directors of Chinese listed companies, the “IPO New Star Award of Chinese Listed Companies” from the *Securities Times*, the “Listed Company with the supreme Growth Potential” from the *Chinese Securities Journal*, and the “China New Economy Award” from Frost &Sullivan, a world-renowned research & consulting firm that helps clients accelerate growth.

Since its establishment, the Company has earnestly fulfilled the social responsibilities as a listed company while pursuing growth. In 2019, it donated RMB396,400 to the fight against poverty, and set up scholarships or education funds of RMB360,000 at schools and colleges. In July 2019, the Company won the honor of “Enterprise Providing Meritorious Service for Jiangxi Province in 2018”.

The Company has responded actively to the coronavirus outbreak since early 2020. It donated RMB1 million to the First Affiliated Hospital of Gannan Medical University through the Red Cross Caritas Foundation of Ganzhou and 28,000 imported medical masks to the Foundation in an effort to help the locals fight against the disease.

2. Whether there was any major changes in main business during the reporting period

□ Yes √ No

3. Products contributing over 10% of the Company’s main business income/profit

√ Applicable □ Not applicable

In RMB

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Product name | Operating income | Operating profit | Gross profit margin | Increase/decrease of operating income over the same period of the previous year | Increase/decrease of operating profit over the same period of the previous year | Increase/decrease of gross margin over the same period of the previous year |
| NdFeB magnet | 1,630,116,617.20 | 1,277,464,549.98 | 21.63% | 27.15% | 28.92% | -1.08% |

4. Whether there are seasonal or cyclical characteristics of business needing special attention

□ Yes √ No

5. Explanation on possible major changes of operating income, operating costs and net profit attributable to ordinary shareholders of the company during the reporting period over the prior reporting period

√ Applicable □ Not applicable

During the reporting period, the Company realized an operating income of RMB1,696,838,500, up 31.61% YoY. This included earnings of RMB281,262,800 from exports, up 58.65% YoY; the Company generated a net profit attributable to shareholders of the company of RMB156,880,200, up 6.58% YoY; the Company posted a net profit attributable to shareholders of the company net of nonrecurring profit or loss at RMB146,838,400, up 38.79% YoY. In 2019, the Company’s income from wind power surged by 121.40% over the same period of last year to RMB855 million, and its income from the energy-conservation inverter air conditioner manufacturing sector grew by 13.68% on a year ago to RMB422 million.

6. Suspension and termination of listing

□ Applicable √ Not applicable

7. Matters connected with the financial report

(1) Reason for changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year

√ Applicable □ Not applicable

(I) On January 30, 2019, the Company held the Ninth Meeting of the Second Board of Directors, which approved the *Proposal on Changing Accounting Policies* as follows:

The Ministry of Finance issued the *Circular on Amending the Formats of Financial Statements of General Enterprises in 2018* (C.K. [2018] No. 15) on June 15, 2018. Accordingly, the Company adjusted the formats of statements for the reporting period and submitted the adjusted statements to the Ninth Meeting of the Second Board of Directors for consideration.

The Company adjusted the presentation of the following financial statement items and the comparative data in the comparable accounting periods:

i. Some items in the Balance Sheet were consolidated:

(i) The original “notes receivable” and “accounts receivable” items were consolidated into the new “notes receivable and accounts receivable” item;

(ii) The original “interests receivable”, “dividends receivable” and “other receivables” items were consolidated into the “other receivables” item;

(iii) The original “fixed assets disposal” and “fixed assets” items were consolidated into the “fixed assets” item;

(iv) The original “engineering materials” item was consolidated into the “construction in progress” item;

(v) The original “notes payable” and “accounts payable” items were consolidated into the new “notes payable and accounts payable” item;

(vi) The original “interests payable”, “dividends payable” and “other payables” items were consolidated into the “other payables” item;

(vii) The original “special payables” item was consolidated into the “long-term payables” item.

ii. In the Income Statement, items were split up, the sequence of some items was adjusted, and the descriptions of some items were simplified:

(i) The “R&D expense” item was added after separating the item from “management expenses”;

(ii) “Interest expenses” and “interest income” were broken down under the “financial expenses” item.

The changes in the Company’s accounting policies only involved the presentation and adjustments of financial statements. Apart from the effects of changes in the above items, there was no retrospective adjustment, and the changes had no substantial effects on the Company’s total assets, net assets, operating income and net profit.

iii. Refund of the personal income tax handling fee to the Company was recognized in the “other income”item.

(II) The Company plans to make the following changes to related accounting policies in accordance with the Accounting Standards for Business Enterprises revised and issued by the Ministry of Finance and relevant circulars released by the Shenzhen Stock Exchange:

i. The Ministry of Finance issued the *Revised Accounting Standards for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments (2017)* (C.K. [2017] No. 7), the *Revised Accounting Standards for Business Enterprises No. 23—Transfer of Financial Assets (2017)* (C.K. [2017] No. 8), the *Revised Accounting Standards for Business Enterprises No. 24—Hedge Accounting (2017)* (C.K. [2017] No. 9) on March 31, 2017, and the *Revised Accounting Standards for Business Enterprises No. 37—Presentation of Financial Instruments (2017)* (C.K. [2017] No. 14) on May 2, 2017, (collectively referred to as the “new financial instrument standards”). All companies listed in the mainland are required to implement the new financial instrument standards from January 1, 2019. Consistent with the above requirement, the Company implemented the new financial instrument standards from January 1, 2019, and made corresponding changes to related accounting policies. As per the requirements on transitional period set forth in the new financial instrument standards, the Company did not make any retrospective adjustments to the comparative statements for the same period of last year. Therefore, the accounting policy changes will not influence the Company’s financial position and operating results in prior years.

ii. The Ministry of Finance issued the *Revised Accounting Standards for Business Enterprises No. 14—Revenue (2017)* (C.K. [2017] No. 22) on July 5, 2017. Enterprises listed both at home and abroad and those listed overseas and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial statements shall implement these Standards from January 1, 2018. Other domestically listed companies shall implement these Standards from January 1, 2020. Unlisted enterprises subject to the accounting standards for business companies shall implement these Standards from January 1, 2021. The Company needs to align its related accounting policies with the revisions. Based on the timetable of the Ministry of Finance, the Company is required to implement these Standards from January 1, 2020.

iii. The Ministry of Finance issued the *Circular on Amending the Formats of Financial Statements of General Enterprises in 2019* (C.K. [2019] No. 6) on April 30, 2019, and the *Circular on Amending the Formats of Consolidated Financial Statements in 2019* (C.K. [2019] No. 16) on September 19, 2019, containing amendments to the formats of consolidated financial statements and requiring companies to prepare consolidated financial statements for the year ended December 31, 2019, and those for subsequent periods in line with the requirements of the accounting standards for business enterprises and related amendment circulars. Per the requirements of the above Amendment Circular, the Company needs to adjust the former format of consolidated financial statements. Based on the timetable of the Ministry of Finance, changes in the formats of financial statements will firstly apply to the consolidated financial statements for the year ended December 31, 2019.

The above-mentioned changes in the Company’s accounting policies only affect the format of financial statements and how to present some items. There was no retrospective adjustment, and the changes had no substantial effects on the Company’s total assets, net assets, operating income and net profit. The accounting policy changes are required by national laws and regulations and comply with relevant regulations and actual conditions of the Company. They will not damage the interests of the Company and its shareholders.

As per relevant regulations, the Company submitted the above-mentioned accounting policy changes to the 19th Meeting of the Second Board of Directors for consideration.

(2) Description of retrospective restatement due to the correction of material accounting errors during the reporting period

□ Applicable √ Not applicable

The Company did not have any correction of material accounting errors for retrospective restatement during the reporting period.

(3) Description of any changes in consolidation statements over the 2018 financial report

□ Applicable √ Not applicable

The Company did not have any changes in its consolidation statements during the reporting period.