

# Shang Gong Group Co., Ltd

## Annual Report 2015

### Important Notes

**1. The Board of Directors, the Board of Supervisors, and all the directors, supervisors, and senior managers guarantee that there are no false statement, vital misunderstandings or important omissions in this report, and hold both individual and joint liability for the authenticity, accuracy and integrity of its contents.**

**2. All the members of the Board of Directors attended the meeting of Shang Gong Group Co., Ltd.**

**3. BDO China Shu Lun Pan Certified Public Accountants LLP. provided a standard unqualified opinion audit report for the Company.**

**4. Zhang Min, Chairman of the Company, Li Jiaming, the principal in charge of the accounting, and Zhao Lixin, Chief of Accounting Affairs, make the pledge for the authenticity and integrity of the attached financial statements.**

#### **5. Plan of Profit Distribution or Transfer of Reserves Deliberated by the Board**

Audited by BDO China Shun Lun Pan Certified Public Accountants LLP, the Company achieved the consolidated net profit of RMB 176,256,934.25 in 2015, of which, the net profit attributable to parent company owners is RMB 157,417,087.48.

According to the provisions in the Articles of Association, before withdrawing the legal accumulation fund, the Company should first cover the deficit with the profit of the year. As the profit of the year failed to make up the annual losses of previous years, the Company did not draw the legal accumulation fund. The current-period net profit of the parent company is RMB 5,507,272.27, added with the undistributed profit of RMB -237,700,994.08 at the beginning of 2015; the practical profit available for distribution is RMB -232,193,721.81 at the end of 2015. Considering the parent company's profit available for distribution is negative, the profit distribution cannot be made in 2015, neither the transferring of capital reserves into share capital.

#### **6. The Risk of Forward-looking Statements**

The Company's future plan, development strategy and other forward-looking statements in this annual report do not constitute a substantial commitment to the Company's investors.

**7 There was no occupation of fund of the Company occurred for non-operating use by holding shareholder and its related parties.**

**8. There was no external guarantee against the rules and regulations of the Company.**

#### **9. Major Risk Warning**

The Company has described in detail the risks faced by the company in this annual report. For details see "Management Discussion and Analysis" and other relevant chapters in this annual report.

As Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission, the main shareholder and actual controller of the Company, is planning a major issue which might constitute a major asset reorganization of the Company and is yet to be discussed, the Company released a suspension notice on major asset reorganization on February 25, 2016. Applied by the Company, the Company's shares are expected to suspend transactions for no more than a month since February 25, 2016. As of the date of this annual report, the reorganization is still in process.

**10. If the English Version of this Annual Report involves any differences from the Chinese Version, the latter shall be effective.**



## CONTENT

Chapter 1 Definition .....	3
Chapter 2 Company Profile and Main Financial Index .....	4
Chapter 3 Summary of Company Business .....	6
Chapter 4 Management Discussion and Analysis .....	9
Chapter 5 Important Events .....	19
Chapter 6 Status of Share Capital Changes and Shareholders of Common Stock .....	25
Chapter 7 Relevant Situation about Preferred Shares .....	28
Chapter 8 Status of Director, Supervisor, Officer and Employee .....	29
Chapter 9 Corporate Governance.....	33
Chapter 10 Relevant Situation about Corporate Bonds .....	36
Chapter 11 Financial Report .....	37
Chapter 12 For Reference .....	117



## Chapter 1 Definition

### 1. Definition

As used in this Report, the following terms have the following meanings unless the context requires otherwise:

Definition of common terms		
ShangGong Group, SGG, the Company	refer to	Shang Gong Group Co., Ltd
Pudong SASAC	refers to	Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission, the main shareholder and actual controller of SGG
ShangGong Europe, SGE	refer to	ShangGong (Europe) Holding Corp. GmbH
DA AG	refers to	Dürkopp Adler AG
PFAFF GmbH	refers to	PFAFF Industriesysteme und Maschinen GmbH
KSL GmbH	refers to	KSL Keilmann Sondermaschinenbau GmbH
KSL Branch	refers to	PFAFF Industriesysteme und Maschinen GmbH Zweigniederlassung KSL
Stoll KG	refers to	H. Stoll AG & Co. KG
DAPSH	refers to	DAP (Shanghai) Co., Ltd
SG & GEMSY	refers to	Zhejiang SG & GEMSY Sewing Technology Co., Ltd
SG Butterfly	refers to	Shanghai Shanggong & Butterfly sewing machine Co.,Ltd
SHENSY	refers to	Shanghai Shensy Enterprise Development Co., Ltd
BDO	refers to	BDO China Shu Lun Pan Certified Public Accountants LLP
CSRC	refers to	China Securities Regulatory Commission
Report period	refers to	from January 1, 2015 to December 31, 2015
Articles of Association	refers to	the Articles of Association of SGG
RMB	refers to	the lawful currency of China
EUR	refers to	the lawful currency of the European Union



## Chapter 2 Company Profile and Main Financial Index

### 1. Company information

Company name in Chinese	上工申贝（集团）股份有限公司
Abbreviation of the Company name in Chinese	上工申贝
Company name in English	Shang Gong Group Co., Ltd.
Abbreviation of the Company name in English	ShangGong Group
Legal representative of the Company	Zhang Min

### 2. Contact information

	Secretary of Board of Directors	Representative of Securities Affairs
Name	Zhang Jianguo	Shen Lijie
Address	No.1566 New Jinqiao Road, Pudong New Area, Shanghai	No.1566 New Jinqiao Road, Pudong New Area, Shanghai
Telephone	021-68407515	021-68407700*326
Fax	021-63302939	021-63302939
Email	zhangjianguo@sgsbgroup.com	shenlj@sgsbgroup.com

### 3. Basic situation introduction

Registered address	Room A-D, 12 <sup>th</sup> Floor, Orient Mansion, No.1500, Century Avenue, Pudong New Area, Shanghai
Postal Code of registered address	200122
Office address	No.1566 New Jinqiao Road, Pudong New Area, Shanghai
Postal Code of office address	201206
Website	<a href="http://www.sgsbgroup.com">http://www.sgsbgroup.com</a>
Email	sgsb@sgsbgroup.com

### 4. Information disclosure and place for consulting

Name of newspaper selected by the Company for information release	Shanghai Securities News, Hong Kong Commercial Daily
Website appointed by CSRC for publishing annual report	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Lodging address of annual report of the Company	Office of the Company

### 5. Corporate stock

Type of Stock	Stock Exchange	Stock Abbreviation	Stock Code	Stock Abbreviation before Change
A Share	Shanghai Stock Exchange	SGSB	600843	
B Share	Shanghai Stock Exchange	SGBG	900924	

### 6. Other information

Accounting firm appointed by the Company (domestic)	Name	BDO China Shu Lun Pan Certified Public Accountants LLP.
	Office address	Fourth floor, No. 61, East Nanjing Road, Shanghai
	Signing name of accountants	Li Ping, Li Yue
Sponsor engaged by the Company to conduct sustained supervision during the reporting period	Name	SHENWAN HONGYUAN FINANCING SERVICES CO., LTD
	Office address	No. 239 Changshu Road, Shanghai
	Signing name of sponsors	Huang Xuesheng, Feng Zhenyu
	Consistent supervision periods	March 28, 2014 – December 31, 2015

### 7. Main accounting data and financial index in the last three years

#### 7.1 Main accounting data

Unit: Yuan, Currency: RMB

Main accounting data	2015	2014	Year-on-year increase/ decrease (%)	2013
Total operating income	2,314,039,610.25	1,971,244,833.88	17.39	1,813,934,688.16
Net profit attributed to shareholders	157,417,087.48	197,616,061.21	-20.34	79,552,024.19
Net profit attributed to shareholders after non-recurrent account profit/loss	133,835,486.09	74,094,778.99	80.63	38,502,021.64
Net cash flow from operating activities	50,886,863.54	101,603,959.96	-49.92	698,006,628.03
	End of 2015	End of 2014	Year-on-year increase/ decrease (%)	End of 2013
Net assets attributed to shareholders	1,774,674,087.49	1,596,085,177.75	11.19	795,894,186.10
Total assets	3,146,701,717.06	2,732,574,497.28	15.16	2,047,916,471.17
Total share capital	548,589,600.00	548,589,600.00	0.00	448,886,777.00



## 7.2 Main financial index

Main financial data	2015	2014	Year-on-year increase/ decrease (%)	2013
Basic earnings per share (yuan/share)	0.2869	0.3774	-23.98	0.1772
Diluted earnings per share (yuan/share)	0.2869	0.3774	-23.98	0.1772
Basic EPS after non-recurrent account profit/loss (yuan/share)	0.2440	0.1415	72.44	0.0858
Weighted rate of return on net assets (%)	9.3992	14.3895	decreased by 4.99%	10.6907
Weighted average return on net assets after non-recurrent account profit/loss (%)	7.9912	5.3953	Increased by 2.60%	5.1742

## 8. Main accounting data of each quarter in 2015

Unit: Yuan, Currency: RMB

	The first quarter (from January to March)	The second quarter (from April to June)	The third quarter (from July to September)	The fourth quarter (from October to December)
Total operating income	459,547,157.43	579,514,931.66	630,314,584.38	644,662,936.78
Net profit attributed to shareholders	40,917,759.29	59,423,327.56	53,736,144.80	3,339,855.83
Net profit attributed to shareholders after non-recurrent account profit/loss	35,692,046.15	55,004,642.68	49,211,503.59	-6,072,706.33
Net cash flow from operating activities	1,875,213.85	-10,282,424.16	55,651,952.69	3,642,121.16

## 9. Items and amount of non-recurring profit and loss

Unit: Yuan, Currency: RMB

	2015	2014	2013
Profits and losses from disposal of non-current assets	5,380,014.25	104,418,371.04	38,149,700.05
Government subsidies recorded in the current profit and loss	6,668,426.57	2,718,674.99	3,203,590.00
Except effective hedging business relevant to the normal business of the Company, gains and losses from changes in fair value arising from trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets	9,448,774.70	28,259,539.60	-58,593.34
Other non-operating income and expenditure except the above-said items	6,472,839.74	-10,606,002.10	1,015,375.75
Impact on minority interests	-2,612,504.42		-515,414.86
Impact on income tax	-1,775,949.45	-1,269,301.31	-744,655.05
Total	23,581,601.39	123,521,282.22	41,050,002.55

## 10. Items for adopting fair value measurement

Unit: Yuan, Currency: RMB

Item	Opening balance	Ending balance	Current change	Influence on current profit
Trading financial assets				1,071,204.85
Financial assets for sale	89,648,607.58	118,127,307.02	28,278,699.44	257,251.09
Total	89,648,607.58	118,127,307.02	28,278,699.44	1,328,455.94



## Chapter 3 Summary of Company Business

### 1. The Company's main business, business model in the report period and Industry situation

During the report period, the Company's main business is sewing equipment manufacturing industry. The Company's business involves sewing equipment, office machinery, film materials, commerce and trade, and logistics services. The Company adheres to the globalization of business, adheres to professional multi brand marketing strategy, and is forming a business model –“R & D and marketing in Shanghai, Production in Jiangsu and Zhejiang” in China.

In 2005, the Company successfully acquired Dürkopp Adler AG through its wholly-owned subsidiary ShangGong Europe and started internationalized business operation. DA AG is a German sewing equipment manufacturing enterprise with more than 150 years of history, enjoys high reputation in the global sewing equipment industry, and is listed in the stock exchange in Frankfurt, Berlin and Dusseldorf. Through many years of overseas practice, the Company has achieved a brilliant performance and successfully rolled out an internationalized operation road suitable for its own development. It also firmed its confidence and decision to further implement its internationalized operation strategy. In March and July 2013, ShangGong Group again successfully acquired Germany's century-old PFAFF and the global leading enterprise in the industrial sewing automation application field – KSL and rapidly acquired the world's leading sewing technologies including the 3D sewing technology, which consolidated its leading status in the automation sewing technology field in the world.

China's sewing machinery manufacturing industry is a branch of light industry in China. It has established the most complete industrial system in the world, and is capable of manufacturing a full range of sewing machinery products, including household and industrial sewing machine, embroidery machine and cutting machine, and the related controller, motor ability and spare parts, which satisfies all kinds of social needs. However, compared with the advanced in the world, there is still a large gap for China's sewing machinery manufacturing industry in independent innovation ability, industrial structure, technology, product and brand quality and other aspects. The whole industry is big but not strong. The development of the world sewing machinery industry started in the middle of the nineteenth Century in Europe and the United States. After 100 years of development, at present the world sewing machine industry development center has been transferred to the Asian region like China and Japan, and gradually formed tripartite confrontation pattern between China, Germany and Japan.

In recent years, the relatively weak international market demand for the downstream industry has formed a certain impact to the export of China's sewing machinery industry. China's garment and leather goods industry is facing the fact that export and domestic demand continues to slump, so the demand for sewing equipment remains sluggish. Besides, after years of sustained and rapid growth, China's auto industry is now facing challenging situation. So the investment of sewing equipment needed in the automotive interior parts processing is reduced. In this context, China's sewing machinery manufacturing industry continued the downward trend in 2015. According to the China Sewing Machinery Association, the production of sewing machine of top 100 enterprises in the industry is 54.65 million sets, reduced by 17.95% year-on-year; the sales volume is 54.99 million sets, reduced by 17.93%; the top 100 enterprises realize sales income of RMB 15.48 billion, reduced by 14.8%; realize total profit of RMB 810 million, reduced by 11.51%. According to the General Administration of Customs, China's total exports of sewing machinery products in 2015 are USD 2.247 billion, decreased by 6.03%, exports of the industry fell slightly over the same period last year. According to the National Bureau of Statistics, in 2015, the main business income margin of the 263 enterprises above designated size in China's sewing machinery industry is 5.49%, down 0.83%. The production and sales scale of the industry is further reduced, the growth of both internal and external markets remains negative; the business inventories remain high; the benefits are further decline. Continuous low speed operation becomes the new normal development of sewing machinery industry in China.

### 2. Description of major changes in the main assets of the Company during the report period

As of December 31, 2015, the Company's total assets are RMB 3.147 billion, increase RMB 414 million and increased by 15.16% comparing to RMB 2.733 billion -- total assets as of December 31 2014, the increase is



mainly caused by the incorporation into the scope of consolidation of SHENSY and SG & GEMSY; fixed assets as of December 31, 2015 are RMB 336 million, increased by 41.08%, mainly caused by the incorporation into the scope of consolidation of SHENSY and SG & GEMSY and the purchase of real estate in Zhangjiagang; construction in process as of December 31, 2015 are RMB 24.09 million, increased by 75.80%, mainly caused by the incorporation into the scope of consolidation of SHENSY; intangible assets as of December 31, 2015 are RMB 127.46 million, increased by 117.33%, mainly caused by the establishment of SG & GEMSY and the purchase of real estate in Zhangjiagang in the report period.

Assets overseas of the Company are RMB 1,553,285,041.81, accounting 49.36% of total assets.

The Company's overseas assets are mainly from the Company's previous overseas acquisitions. The Company successfully purchased German Dürkopp Adler AG in 2005, and in 2013, the Company successfully controlled German PFAFF Industriesysteme und Maschinen AG and German KSL GmbH and its affiliates

### 3. Core competitiveness analysis in the report period

The Company is the first listed enterprise with the longest history in the domestic sewing equipment industry, and has multiple years of experience in production of sewing equipment. The Company successfully purchased German Dürkopp Adler AG in 2005, one of the famous sewing machine manufacturing companies in the world, which gives the Company the most advanced sewing machine manufacturing technology in the world. In 2013, through cross-border merger and acquisition, the Company successfully controlled German PFAFF Industriesysteme und Maschinen AG and German KSL GmbH and its affiliates, both of which were well-established sewing equipment manufacturing enterprises in the same industry, to make its international influence and brand recognition improve largely, and further enhance the core competence of the Company. In the report period, the Company continues to promote the integration of global resources. The Company invested in Stoll KG which expand the Company's industrial chain and supplement the Company's business and products. Meanwhile, the Company invested in SG & GEMSY in China. The manufacturing capacity is enhanced in China. The core competence of the Company is mainly shown in the following aspects:

#### I. Technology Advancement Advantage

German KSL GmbH, purchased by the Company, holds the leading position in CNC and robot controlled automatic sewing technologies, and its products are not only applied in the traditional market for sewing machine industry but also applied in some emerging fields, such as automobile, environmental protection, aeronautics and astronautics and renewable energy, etc. In many fields, such as automobile airbags, filters protecting environment, light carbon fiber structure for plane, etc., the sewing application technology of KSL GmbH has the absolute competition advantage, and especially, it originally created the sewing technology for light carbon fiber and 3D sewing automation. Technologies of KSL GmbH together with technologies of German DA AG and PFAFF AG make the Company own the most advanced sewing technologies in the world.

#### II. Brand and Product Advantage

Through overseas acquisition, the Company owns some internationally well-known brands, such as "DA" and "PFAFF" with 150 years' history, and "KSL" and "Beisler" with more than 50 years' history, etc., and some famous domestic brands, such as "Butterfly" brand with more than 90 years' history and "Shanggong" brand with more than 50 years' history. These brands have a high recognition and reputation in the sewing machine industry. The products of the Company focus on smart, modularized and highly efficient automatic sewing unit and other sewing equipment with integrated machinery and electronics, covering various advanced technologies in the field of high-end sewing equipment, and the Company holds the leading position in the segmented market of sewing equipment.

#### III. Echnological Research and Development Capability

The Company highly attaches importance to the construction of technological research and development capabilities, which have become the important force driving the development of the Company. The Company has owned a powerful technological research and development team and had the complete and efficient scientific and technological innovation system, the leading sewing machine design plan and the first class assessment method for testing sewing machines in the world. Shanggong technology center domestically is the



city level of research and development center in Shanghai, and has the strong digestion and absorption and supporting development capability.

#### IV. Sales Network throughout the Globe

The products of the Company are widely sold domestically, and the Company has established the relatively perfect marketing channel and service network, and had a great number of valuable and stable high-end clients which manufacture automobile accessories and luxuries.

#### V. Internationalized Operation and Management Experience

Since 2005, the Company has started to implement strategies of “going out”, and after conducting the internationalized operation of the main business, gradually cultured an operation and management team accumulating a great deal of experience in cross-border operation and management.

During the report period, with the development of global resource integration and the construction of domestic production bases, the core competitiveness of the Company is constantly strengthened.



## Chapter 4 Management Discussion and Analysis

### 1. Management discussion and analysis

In 2015, the world's major economies' economy slowed down. The economic recovery is slightly weaker and slower than market expectations. And turbulence in global financial markets intensified to some extent increased the difficulty for further economic recovery. China is in the period of structural transformation of the economy development. China's GDP of 2015 grew by 6.9%. China's economic growth slowed, and the industrial growth fell. The producer price index fell 46 months consecutively. China's economy still faces greater pressure.

Though the external environment is still tough in 2015, with the effort of the board, managers and staff, SGG realized gratifying business performance.

At the end of 2015, the total assets is RMB 3,146.70 million, comparing to RMB 2,732.57 million at the end of 2014, realize an increase of 414.13 million, an increase of 15.16%. The increase is mainly caused by the incorporation into the scope of consolidation of SHENSY and SG & GEMSY. Liabilities amounted to RMB 1,096.17 million, comparing to RMB 1,096.41 million at the end of 2014, reduced RMB 240 thousand, decreased by 0.02%.

During the report year, the Company realized the operating profit of RMB 210 million, an increase of 7.57%; the net profit attributable to shareholders of the listed company totaled RMB 157 million, an increase of 148.41% year-on-year. Comparing to 2014, the main factors resulting in the increase or decrease of profit are:

First, operating profit increased RMB 95.08 million year-on-year, mainly because operating income increased by 17.39%;

Second, non-operating expenses decreased RMB 14.89 million year-on-year, mainly caused by writing off payment to the company which has gone bankruptcy;

Third, income tax expense decreased by RMB 1,470 thousand;

Fourth, minority interest decreased by RMB 20,300 thousand, mainly caused by acquiring 29% equity of DA AG in 2014;

Fifth, period expense increased RMB 45.40 million, including: sales expense decreased RMB 3630 thousand; administration expense increased by RMB 54.33 million, mainly caused by the incorporation into the scope of consolidation of SHENSY; financial expense decreased RMB 5.3 million, mainly caused by the decrease in interest expense;

Sixth, asset impairment loss increased RMB 21.13 million, mainly caused by the increase in inventory impairment provision and impairment of goodwill;

Seventh, investment income decreased RMB13.97 million, mainly caused by the decrease in selling financial assets available for sale;

Eighth, non-operating income decreased RMB 91.62 million, mainly caused by the disposal of land in 2014;

The factors increased profit totaled RMB131.92 million; factors decreased profit totaled RMB 172.12 million; thus the profit decrease RMB 40.20 million.

In 2015, the operating income realized RMB 2,314 million, increased by 17.39%, mainly because the Company invested more in modern service industry, invested in and controlled SHENSY, which increased income of RMB 381 million from logistics service. The integration of ShangGong Europe, the Company's wholly-owned subsidiary, has achieved initial success, thus SGE's sales income of sewing equipment increased by 15.9%.

Looking back on 2015, the Company mainly implemented the following work:

#### (1) Steadily Promote Investment Projects; Expand the Company's Industry Chain

In 2015, the Company continues to adhere to the globalization operation, promote the integration of global resources, expand and strengthen the sewing industry, expand to the upstream and downstream industry chain, and actively seek potential opportunities for mergers and acquisitions. The Company continues to prepare for



the potential projects, and steadily push forward the project investment, enhance the Company's competitiveness and ability to resist risks.

In 2015, SGE, the Company's subsidiary, invested in Stoll KG with about RMB 200 million and became Stoll KG's biggest limited partner which holds 26% equity of Stoll KG. The Company's industrial chain is expanded from sewing equipment to textile weaving machinery. Stoll KG's technological innovation and product performance advantages, global sales network and services, as well as the production and management of intelligent advantages would supplement and expand the Company's original business.

In order to further expand sewing equipment market, strengthen the construction of the domestic industrial sewing equipment manufacturing base, and in response to "Made in China 2025" strategy, the Company, as well as Zhejiang GEMSY Electromechanical Co., Ltd. jointly set up Zhejiang SG & GEMSY Sewing Technology Co., Ltd. The Company invested with RMB 129.6 million. Cooperating with private capital, the Company established an important manufacturing base in Taizhou, the Capital of China's Sewing Equipment. The main business of SG & GEMSY is the R & D, production, and sales of standardized intelligent sewing equipment. Investing in SG & GEMSY will be of benefit in developing domestic standardized intelligent sewing equipment, seizing the market of standardized intelligent sewing equipment, and has significant impact in the development of the Company's sewing equipment business. In April 2015, the Company invested RMB 75 million with Shanghai Pudong New Industry Investment Co., Ltd in SHENSY. After the capital increase, the Company holds 40% equity of SHENSY and become the controlling shareholder of SHENSY. The Company expanded its business to logistic service industry after investing in SHENSY. It is of benefit for the Company to re-promote SMPIC business and push SMPIC business to transform from traditional business to modern service industry.

#### (2) Accelerate the Implementation of Internal Integration; Promote the Construction of Domestic Manufacturing Base

In 2015, the Company continues to promote the integration of SGE and its affiliates and fulfilled the adjustment of SGE's structure in sales and marketing. As PFAPP GmbH and KSL GmbH have similarities in R & D and production, in order to share sources, avoid management risk and satisfy the strategic need of SGE's integration management, PFAFF GmbH as the surviving company merged KSL GmbH.

In 2015, the Company purchased real estate and land use right in Zhangjiagang from Jiangsu ZOJE Jidian Technology Co., Ltd by increase the capital of Shanghai SGSB Asset Management Co., Ltd. The Company build a manufacturing base in Zhangjiagang, and formed a business model –“R & D and marketing in Shanghai, Production in Jiangsu and Zhejiang” in China. So far, the Company has establish Nanxiang manufacturing base which produce SewingAutomats and electronic control unit, Zhangjiagang manufacturing base which produce Medium and Heavy Duty machine, and SG & GEMSY Taizhou base which produce standardized machines. the three large manufacturing bases have been initially formed by now.

#### (3) Accelerate Product Innovation and R & D; Keep Leading In Technology

Technology innovation and product development are of vital importance for the enterprises. The Company, as always, adheres to “Innovation Driven”, vigorously promotes product development, and continues to keep leading in technology. In 2015, the Company and subsidiaries researched and developed on M2M intelligent sewing equipment system, sewing robot in the field of production and application of shirt and leather goods, cowboy suit automatic sewing unit and other projects. "Shirt cuff series robot automatic sewing system", researched by DA AG, won first prize in the Cisma 2015 Exhibition. JX550L-W Wireless control household sewing machine won second prize in Cisma 2015 Exhibition.

#### (4) Focus on Brand Development and Promotion; Vigorously Expand the Market Share

To achieve rapid development of enterprises must be market oriented and efficiency preferred. The Company adheres to the specialized multi brand strategy, adheres to a unified marketing management platform, focuses on the cultivation and promotion of the brand, and actively expands the market. SGE coordinated each DAP sales company. Its operating scale and profitability steadily increased year after year. In 2015 SG realized sales



income about EUR 180 million, increased by 15.6%, which made gratifying achievements in the tough environment.

2015 is the Company's 50<sup>th</sup> anniversary. Taking this opportunity and Cisma 2015 Exhibition the Company increased market promotion and brand promotion, showed innovative and positive corporate image and led the development of the industry

#### (5) Strengthen Internal Management and Control, Establish and Improve the Incentive and Restraint Mechanism

With the expansion of the Company, especially a larger proportion of overseas assets, to guard against the risk of overseas investment, effectively improve the efficiency of management, in 2015, the Company started to optimize overseas subsidiaries control process. The Company hired professional consulting organization to assist the Board to develop the program to improve management and control process of the Company's overseas subsidiaries and optimize the control mode.

To further improve the corporate governance structure, and also to improve the enthusiasm of managers and employees, the Company gradually explored and established a sound long-term incentive and constraint mechanism. According to the requirements of the reform of state-owned enterprises, under the help of Pudong SASAC and consulting firm, the Company's long-term compensation incentive plan for management initially completed.

The business indicators show the Company has basically achieved the goal and achieved good results in 2015 budget. At the same time, we must see the main problems existed in the Company's operation: first, faced with the changing market development situation, the Company's management system and level cannot fully adapt to the market competition and the needs of the development of the Company's globalized operation; second, the Company's compensation level is lower than the market level, which have negative impact on the enthusiasm of the management and staff to some extent, as well as the introduction of the talent and new product development and new business development schedule; third, products of domestic enterprises lack competitiveness, and their overall gross profit margin is low. Their technology research and development strength is weak, the digestion and absorption of Germany's technology is slow. The domestic enterprises are lacking in systematic innovation and research and development capabilities.

Faced with these problems, the Company needs to set up transnational management system which adapt to the market with the help of the state-owned enterprises reform and. Through the introduction of strategic investors and other measures, establish real mixed ownership mechanism which adapt to market competition, optimize corporate governance, and improve the efficiency of management decision.

## 2. Main operating conditions during the report period

During the report period, the Company achieved operating income of RMB 2.314 billion, increased by 17.39% year-on-year, mainly due to the increasing of investment in modern service industry. The Company invested in SHENSY in the report period, thus the logistics services revenue increased RMB 381 million. Furthermore, the integration of SGE has achieved initial success. Its sewing equipment sales revenue was increased by 15.9%.

During the report period, the Company achieved operating profit of RMB 210 million, increased by 7.57%; Net profit attributed to shareholders after non-recurrent account profit/loss is RMB 134 million, increased by 80.62%, mainly due to the successfully integration and good operation of overseas subsidiaries and stable operation of domestic enterprises.

### 2.1 Main business analysis

#### Analysis of changes of items in Profit statement and cash flow statement

Unit: Yuan, Currency: RMB

Item	2015	2014	Variable proportion (%)
Operating revenue	2,314,039,610.25	1,971,244,833.88	17.39
Operating expenses	1,614,750,228.46	1,368,150,933.75	18.02



Sales expenses	233,231,262.36	236,863,062.33	-1.53
Administration expense	255,477,642.42	201,143,590.02	27.01
Financial expenses	6,091,859.10	11,394,584.70	-46.54
Net cash flow from operating activities	50,886,863.54	101,603,959.96	-49.92
Net cash flow from investing activities	176,941,826.95	-517,685,432.55	134.18
Net cash flow from financing activities	-54,687,975.39	590,951,936.01	-109.25
Research and development expenditures	63,285,301.09	43,697,065.40	44.83

## 2.2 Analysis on income and cost

Main sale customers

Unit: Ten thousand Yuan, Currency: RMB

Total sales of top 5 sale customers	25,620
Proportion in total sales (%)	11.07

### 2.2.1 Status by industry and region.

Unit: Yuan, Currency: RMB

Main business by industries						
Industry	Operating income	Operating cost	Gross margin (%)	Operating income Increase/decrease (%)	Operating cost Increase/decrease (%)	Gross margin Increase/decrease (%)
Sewing equipment	1,501,218,523.38	894,016,797.24	40.45	-1.30	-7.22	Increase 3.81 percent
Logistics service	381,143,146.87	334,039,444.91	12.36			
Export trade	287,663,784.70	281,846,373.05	2.02	2.62	3.17	Decrease 0.52 percent
Office Equipment and film material	76,662,925.58	61,931,888.24	19.22	-31.76	-37.61	Increase 7.58 percent
Others	13,767,831.66	5,739,579.21	58.31	52.93	36.79	Increase 4.92 percent
Main business by region						
Region	Operating income	Operating cost	Gross margin (%)	Operating income Increase/decrease (%)	Operating cost Increase/decrease (%)	Gross margin Increase/decrease (%)
Domestic	1,081,806,993.28	941,806,582.67	12.94	38.69	36.43	Increase 1.44 percent
Overseas	1,364,589,079.28	809,759,517.06	40.66	7.61	6.48	Increase 0.63 percent

### 2.2.2 Production and sales analysis

Major product	Production output	Sales volume	Increase or decrease in production over the previous year (%)	Sales increase or decrease over the previous year (%)
industrial sewing machine (overseas)	31,078	32,462	19.2	17.0
industrial sewing machine (domestic)	31,030	44,789	483	65.1
household sewing machine	93,607	414,625	-6	-24.2

The production and sales of the industrial sewing machines of the company are 31,030 sets and 44,789 sets respectively. The growth comes mainly from the increase in production and sales after investing in SG & GEMSY in September 2015. The sales of the household sewing machines reached 414,625 sets, in which the sales of modern house multi-function sewing machines reached 90,607 sets.

### 2.2.3 Cost analysis

Unit: Yuan

By industry							
By industry	Cost item	Sum in current period	Current period proportion (%)	Sum in previous period	Previous period proportion (%)	Increase/decrease (%)	Note
Sewing equipment	Material	528,287,107.59	33.49	584,755,250.05	43.63	-9.66	
	Labor	238,845,798.73	15.14	236,493,358.50	17.65	0.99	
	Depreciation	38,905,612.04	2.47	39,831,849.25	2.97	-2.33	
	Manufacture cost	87,978,278.88	5.58	102,539,695.06	7.65	-14.20	



	Subtotal	894,016,797.24	56.67	963,620,152.86	71.90	-7.22	
Logistics service	Logistic Cost	334,039,444.91	21.17				
Export trade		281,846,373.05	17.87	273,188,987.39	20.38	3.17	
Office equipment and film materials	Material	45,238,332.26	2.87	77,603,023.25	5.79	-41.71	
	Labor	9,914,850.94	0.63	11,840,448.56	0.88	-16.26	
	Depreciation	694,678.64	0.04	2,059,377.97	0.15	-66.27	
	Manufacture cost	6,084,026.40	0.39	7,755,189.08	0.37	-21.55	
	Subtotal	61,931,888.24	3.93	99,258,038.86	7.41	-37.61	
Others		5,739,579.21	0.36	4,195,922.17	0.31	36.79	

### Main Suppliers

Unit: Ten thousand Yuan, Currency: RMB

Total purchase amount of top 5 suppliers	20,781
Proportion in total purchase (%)	12.14

### 2.3 Expense

Unit: Yuan, Currency: RMB

Item	2015	2014	Increase/decrease (%)
Sales expense	233,231,262.36	236,863,062.33	-1.53
Administration expense	255,477,642.42	201,143,590.02	27.01
Financial expense	6,091,859.10	11,394,584.70	-46.54
Income tax expense	53,282,857.16	54,757,852.97	-2.69

Note: the financial expense this year decreased by 46.54% year-on-year, mainly caused by the decrease in interest expense year-on-year.

### 2.4 R & D input

Unit: Yuan, Currency: RMB

R&D input capitalization in report period	53,312,604.15
R&D input expensing in report period	9,972,696.94
Total R&D input Expensing in report period	63,285,301.09
Total R&D input in proportion to operating income (%)	2.73
Proportion of R&D input capitalization (%)	15.76

### 2.5 Cash flow

Unit: Yuan, Currency: RMB

Item	2015	2014	Increase/decrease (%)	Reason
Net cash flow from operating activities	50,886,863.54	101,603,959.96	-49.92	Note 1
Net cash flow from investing activities	176,941,826.95	-517,685,432.55	134.18	Note 2
Net cash flow from financing activities	-54,687,975.39	590,951,936.01	-109.25	Note 3
Influence of fluctuation of exchange rate upon cash and cash equivalents	-10,288,945.38	-39,085,212.59	73.68	Note 4

Note 1: mainly caused by the increase of taxes paid and cash paid in other operating activities.

Note 2: mainly caused by the increase of cash recovered by the bank guaranteed financial products purchased by the Company.

Note 3: mainly caused by the fund raised by non-public offering in 2014 and the increase of payment in dividend distribution in current period.

Note 4: mainly caused by the change of Euro exchange rate.

### 3. An explanation of the significant changes in the profit resulting from the non-main business

Unit: Yuan, Currency: RMB

Item	2015	2014	Increase/decrease (%)	Reason
Financial expense	6,091,859.10	11,394,584.70	-46.54	Note 1
Loss on assets depreciation	31,064,037.35	9,929,821.03	212.84	Note 2
Non-operating income	20,497,344.53	112,112,852.67	-81.72	Note 3
Non-operating expense	676,214.75	15,569,535.84	-95.66	Note 4
Net other comprehensive income after-tax	13,430,628.35	-39,655,787.46	133.87	Note 5

Note 1: mainly caused by the decrease of interest expense.

Note 2: mainly caused by the increase of inventory impairment provision and provision for impairment of goodwill.



Note 3: mainly caused by income of land disposal in 2014.

Note 4: mainly caused by the written-off of money from company which is bankrupted in 2014.

Note 5: mainly caused by the increase of converted difference in foreign currency statements and changes in fair value of available-for-sale financial assets.

#### 4. Analysis on assets and liabilities

Unit: Yuan, Currency: RMB

Item	Current year Ending balance	Current year ending balance over total assets (%)	Previous year Ending balance	Previous year Ending balance over total assets (%)	Increase/decrease (%)	Reason
Notes receivable	63,502,861.92	2.02	5,152,168.94	0.19	1,132.55	Note 1
Account receivable	373,164,448.57	11.86	251,736,145.27	9.21	48.24	Note 2
Prepayment	27,058,587.15	0.86	18,112,338.36	0.66	49.39	Note 3
Interest receivable	0.00	0.00	892,650.00	0.03	-100.00	Note 4
Dividends receivable	0.00	0.00	2,865,327.09	0.10	-100.00	Note 5
Other receivables	62,684,178.64	1.99	92,524,188.84	3.39	-32.25	Note 6
Other current assets	373,659,277.60	11.87	545,243,812.18	19.95	-31.47	Note 7
Fixed assets	336,334,409.01	10.69	238,401,200.34	8.72	41.08	Note 8
Construction in progress	24,088,386.74	0.77	13,702,094.72	0.50	75.80	Note 9
Intangible assets	127,464,082.18	4.05	58,651,274.00	2.15	117.33	Note 10
Short-term loans	300,547,829.62	9.55	221,515,320.51	8.11	35.68	Note 11
Other current liabilities	319,502.32	0.01	703,838.61	0.03	-54.61	Note 12
Long-term loan	29,374,120.87	0.93	50,746,265.53	1.86	-42.12	Note 13
Long-term payables	4,724,683.15	0.15	6,972,940.71	0.26	-32.24	Note 14
Retained earnings	350,523,121.40	11.14	193,106,033.92	7.07	81.52	Note 15
Minority interests	275,858,665.32	8.77	40,079,662.83	1.47	588.28	Note 16

Note 1: mainly caused by the incorporation into the scope of consolidation of Shanghai Shensy Enterprise Development Co., Ltd, this increased bank acceptance in the report period;

Note 2: mainly caused by the incorporation into the scope of consolidation of SHENSY;

Note 3: mainly caused by the increase of goods prepayment by subsidiaries in the report period;

Note 4: caused by interest received in the report period;

Note 5: caused by dividend distributed by SHENSY;

Note 6: mainly caused by receiving remaining payment of land disposal;

Note 7: mainly caused by the decrease of bank guaranteed financial products in report period;

Note 8: mainly caused by the incorporation into the scope of consolidation of SHENSY, the establishment of Zhejiang SG & GEMSY Sewing Technology Co., Ltd and the purchase of real estate in Zhangjiagang;

Note 9: mainly caused by the incorporation into the scope of consolidation of SHENSY;

Note 10: mainly caused by the establishment of SG & GEMSY and the purchase of real estate in Zhangjiagang;

Note 11: mainly caused by bank borrowing increased by PFAFF GmbH in the report period;

Note 12: mainly because subsidiaries overseas wrote off the original-recorded interest and rent expense;

Note 13: caused by long-term loan returned by DA AG in report period.

Note 14: mainly caused by the decrease of subsidiaries overseas.

Note 15: caused by profit earned in 2015

Note 16: mainly caused by the incorporation into the scope of consolidation of SHENSY and SG & GEMSY.

#### 5. Analysis on investment

##### 5.1 Overall analysis of equity investment

Unit: Ten thousand Yuan, Currency: RMB

Amount of long-term equity investment in the Report Period	26,009
Increase or decrease on the amount of long-term equity investment	24,400
Amount of long-term equity investment in the same period of previous year	1,569
Increase or decrease proportion	1,557.68%

##### 5.1.1 Significant equity investment

Unit: Ten thousand Yuan, Currency: RMB

Name	Main business	Investment amount	Proportion in the invested company	Sources of funds	Profit in current period	involved in appeal or not
Shanghai Shensy	Road freight transportation,	7,549	40.03%	Self-owned	1,222.68	No



Enterprise Development Co., Ltd	distribution, warehousing services etc.					
Zhejiang SG & GEMSY Sewing Technology Co., Ltd	R & D, manufacture, sale and etc., of sewing equipment, Textile special equipment	12,960	60%	Raised	-114.23	No

### 5.1.2 Significant non-equity investment

Not applicable.

### 5.1.3 Financial assets measured at fair value

Unit: Yuan, Currency: RMB

Company	Initial investment	Quantity of shares	Period-end book value	Profit/loss	Change in shareholder equity	Account title	Origin of equity
Changjiang Publishing & Media	72,085,722.82	<5%	113,077,903.32	205,970.68	25,437,378.98	Available-for-sale financial assets	Note 1
Lujia B Shares	773,099.71	<5%	3,315,004.88	51,280.41	439,049.00	Available-for-sale financial assets	Enforcement
Shenwan & Hongyuan	200,000.00	<5%	1,734,398.82		1,534,398.82	Available-for-sale financial assets	Purchased

Note 1: Shares of Changjiang Publishing & Media were transferred to the Company by bank to which interests of Changjiang Publishing & Media were compensated in the bankruptcy and restructuring.

### 5.2 Significant assets and equity sold in report period

Not applicable.

### 5.3 Analysis on main subsidiaries

Unit: Ten Thousand Yuan, Currency: RMB

Company name	Business scope	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
ShangGong (Europe) Holding Corp. GmbH	Investment in, assets management on, and production, processing and sales of industrial sewing equipment	EUR 12.5 million	1,505,283,764.98	565,843,852.12	1,261,664,529.29	194,003,705.70	148,572,738.10
Shanghai Shensy Enterprise Development Co., Ltd	Road freight transportation, distribution, warehousing services etc.	17,882	319,346,946.62	232,364,425.79	381,143,146.87	11,712,693.63	12,226,821.05
Zhejiang SG & GEMSY Sewing Technology Co., Ltd	Manufacturing and sales of various sewing equipment	21,600	248,014,949.14	214,857,710.60	42,780,477.93	-1,516,252.08	-1,142,289.40
Shanghai Shangong & Butterfly sewing machine Co.,Ltd	Manufacturing and sales of various sewing equipment	7,900	104,800,420.42	78,659,309.33	236,464,033.18	3,551,269.52	2,382,977.21
DAP (Shanghai) Co., Ltd	Sales of various sewing equipment	USD 6 million	185,467,961.24	75,691,121.56	285,319,728.22	18,505,079.14	16,743,450.66

### 5.4 Structure Entity controlled by the Company

Not applicable.

#### 5.5 1.5.1.3 Stock equity of non-listed financial institutions held by the Company

Company	Initial investment	Quantity of shares	Period-end book value	Profit/loss	Change in shareholder equity	Account title	Origin of equity
Bank of	951,400.00	<5%	951,400.00			Available-for-sale	Purchased



Shanghai						financial assets	
Baoding Investment	7,500.00	<5%	7,500.00	2,875.50		Available-for-sale financial assets	Purchased

While the above-said financial enterprises were founded and established, the Company subscribed to their equity, and holds them until now.

## 6. Discussion and Analysis on the future development of the Company

### 6.1 Industry competition pattern and development trend

In recent years, with the deep integration of the new generation of information technology and manufacturing, information and communication technology, intelligent control technology, networking, big data and other new technologies have been rapidly applied in the sewing machinery industry. Sewing machinery products are rapidly upgraded in the direction of smart, and the corresponding production methods are also continuously advanced. Based on the physical information system, the innovation of “Sewing Equipment + Internet” is now leading the continuous expansion of sewing machinery industry and the downstream industry in the business model, product areas and product value chain system. Industry development focus and growth point constantly change. Global sewing machinery industry is faced with the task of transformation and upgrading, its developing pattern is facing a major adjustment.

At present the world sewing machine industry development center has already formed tripartite confrontation pattern between China, Germany and Japan. With the adjustment of the global industrial competition, China’s sewing machinery industry is facing great challenges. To maintain the industrial advantages, sewing machinery companies in Europe and the United States take advantage of technology and brand, adhere to the high-end market, and take the road of international brand management. Japan’s sewing machinery industry is accelerating the layout of the international industry, strengthening the integration and complementation of resources. On the one hand, in order to consolidate the high-end market advantages, Japan’s sewing machinery companies make use of China’s advanced manufacturing resources, and continue to shift the production of high-end products to China. On the other hand, Japan’s sewing machinery companies accelerate the transfer of low-end products to the lower-cost countries in Southeast Asia to compete with the sewing machinery companies in China. Therefore, China’s sewing machinery industry faces the “two way extrusion” of developed countries such as Europe, Japan and the developing countries in Southeast Asia.

### 6.2 Development strategy

In 2016, the Company will focus on deepening the market reform; continue to make a breakthrough in the internal integration and the development of innovation through inner growth and merger. The Company will make effort in business management and risk control, actively expand the market, develop Chinese manufacturing, and work hard to achieve the Company’s sustainable development.

#### (1) Steady Implement Capital Operation; Timely Promote Market Reform

The Company needs to establish corporate governance structure and the operator incentive and restraint mechanisms which adapt to listed companies in fully competition category, enhances the strength of the Company, enhances business vitality and competitiveness in the market. For the early realization of the Company’s development goal of becoming the world’s largest manufacturer of sewing equipment, the Company should make full use of the capital operation function of listed company, advance corporate strategy in the level of industry and capital, and explore the implementation market restructuring which conforms to the national policies.

#### (2) Further Promote the Integration At Home and Abroad; Actively Expand the Market Share

In 2016, the Company should give full play to the advantages of integration, and continue to promote the internal integration. The Company should carry out the adjustment of the organization and other aspects according to market changes. Through a series of integration, the parent of SGG will become profit centre and control sales so that the Company could solve the problem that the Company cannot distribute dividend because of the negative undistributed profit. SGE will transfer from a financial holding company from an entity controlling marketing and sales. SGE will coordinate the sales and marketing strategy, product and R &



D strategy with DA AG, PFAFF GmbH, and KSL Branch to form concert production strategy, supply strategy, sales strategy and R & D strategy. Meanwhile, the Company will actively promote the collaboration of the sales platform of SG & GEMSY, Stoll KG and DAP sales platforms. Enhance the sales and service in Southeast Asia and South Asia by establishing joint sales organization of the three enterprises and strive to expand market share.

(3) Accelerate the Construction of the Domestic Manufacturing Bases; Vigorously Develop China Manufacturing

The Company should fully tap the high-end technology advantage and market potential of DA, PFAFF, KSL brand, continue to implement the "Quality, Smart, Differentiation" strategy, effectively implement the "Multi Brand" development strategy and the "Eurasian Linkage" strategy, rapidly advance China manufacturing. The Company should make full use of the European R & D capabilities to promote domestic manufacturing bases' business, accelerate the upgrading of domestic product R & D, accelerate the development of automatic and smart high-end products, improve product market share, and further improve the competitiveness and profitability of domestic enterprises. According to the Company's development strategy, the Nanxiang base will undertake the R & D and production of automatic sewing unit, automatic sewing station and the electric motor. Zhangjiagang base will be a thick material machine production base. As an important manufacturing base, SG & GEMSY will mainly produce standardized sewing equipment. It will adhere to the concept of "Market Orientation and Benefit First", adhere to innovate the standardized products in the direction of platform and modularization.

(4) Adhere to Innovation Driven; Promote Product R & D

In recent years, under the background of industry's serious homogenization and disorderly price competition, the Company continuously increased investment in research and development, constantly increased the intensity of independent innovation, and achieved a substantial increase in the number of patent applied by the Company. The Company's core competitiveness was significantly enhanced, and the Company developed rapidly. The Company will always put "innovation driven" as the core power of development, will continue to increase investment in innovation, cultivation of innovative talents in the future to stimulate innovation and vitality, integrate innovation resources, accelerate the integration of Internet and networking technology and industry. The product R & D will keep innovating in the direction of "automatic, modular, smart" and aiming at the new materials, new technology and new industrial areas, develop in direction of Industry 4.0.

The Company will accelerate the research and development of shirt and suit trousers automatic sewing unit and new thick material machines and other new products, accelerate the completion of the development of high-end electronic control, and continue to promote the R & D, production and customer application of M2M intelligent sewing equipment system; continue to promote development plan of automatic sewing unit of cowboy series, shoes machine and welding machine; accelerate the R & D in the field of environmental protection filter, airbags, mattresses, safety belt and industrial sewing robot products.

(5) Improve the Company's Internal Management System; Fully Participating in Global Business Management

In the past ten years, the Company seized the opportunity and innovatively developed in transnational mergers and acquisitions, the capital market, and globalization. We should sum up the gain and loss in global business management of the past ten years; continue to perfect the corporate governance structure of the Company, to make the Company staff to participate fully in the global business management.

The Company will continue to do a good job of headquarters and the subsidiary's internal control standard system construction, consistently achieve 2015 annual reassessment of internal control testing and fault rectification, as well as the construction supervision and perfection of the standardization of the Company's internal control system; continue to do a good job in project cost audit and other special audit work.

In 2016 the Company will launch a new ERP system. The new system not only has a high degree of integration, but also has strict requirements of standard operating procedures. The Company would preliminary build the system to be an information center of the Company through a year of running and improvement so as to provide the data analysis and decision support for finance, operation and internal management.



Continue to do a good job in the ISO9001 quality management system; further promote the quality of products; enhance the quality of OEM brand products; improve customer service.

Anyway, 2016 is a crucial year for the Company to deepen the market-oriented reforms, to strengthen internal integration, to promote China's manufacturing, to create a good start of the 13<sup>th</sup> Five-year Plan. The main tasks and the business goals of 2016 have been identified. the task is urgent and arduous. Facing the complicated international economic environment and the severe industry development situation, we should establish confidence, faith, enhance determination and courage to overcome difficulties, work hard to realize the smooth completion of the main tasks and the business goals of 2016, and strive for the sustainable development of the Company!

### 6.3 Business plan

The main business objectives of 2016 are: (1) operation income shall reach RMB 2.8 billion, increased by 22% year on year; (2) operation profits and net profits shall remain stable and be steadily improved; (3) account receivable turnover rate and ratio of inventory to operation income shall be controlled at the same level.

### 6.4 Possible risks

#### a) Industrial and market risks

Tailoring machine industry is a competitive industry, largely depending on its downstream industries such as the weaving, costume, leather, case and bags industries. Therefore, it develops along obvious periodicity and is highly affected by macro-economic environment. Along with increasing of the rate of tailoring machine production to company other industries, company development may be more and more affected by overall industrial fluctuation, which may lead to decreasing of product price, more and more fierce competition and decreasing of product gross profit rate, all will impact company business operation in the future.

#### b) Cross-country operation and integration risks

By expanding of company overseas assets and business scope, the cross-country operation brings more strict requirements for company organization, operation mode, talents and employees' skills. Also, during company production, operation and merger of overseas affiliates, more challenges may appear due to differences of enterprise culture, management concept, policies and company regulations.

#### c) Foreign exchange risks

The book-keeping standard money for company consolidated statements is RMB, but that used for daily business operations of SGE and SGE holding subsidiaries is Euro dollar. Therefore, the change of RMB foreign exchange rate may have exchange risks for company future operations.



## Chapter 5 Important Events

### 1. Profit Distribution or Capital Surplus Transferring and Increasing Proposal

#### 1.1 Making, Implementation and Adjustment of Cash Dividend Distribution Policies

According to the No.[2013] 43 of Notice on No. 3 Guidance of Cash Dividend Distribution Affairs for Listed Companies issued by the China Securities Regulatory Commission (CSRC), combined with the Company's situations, the Company has made clear cash dividend distribution policies and its mechanism of decision and adjustment

During the report period, the Company strictly complied with the dividend distribution policies stipulated in the Article of Association. Approved by 2014 Annual Shareholders' Meeting, the profit distribution do not be made in 2014, neither the transferring of capital reserves into share capital. The proposal of 2014 has been implemented.

Audited by BDO China Shun Lun Pan Certified Public Accountants LLP, the Company achieved the consolidated net profit of RMB 176,256,934.25 in 2015, of which, the net profit attributable to parent company owners is RMB 157,417,087.48.

According to the provisions in the Articles of Association, before withdrawing the legal accumulation fund, the Company should first cover the deficit with the profit of the year. As the profit of the year failed to make up the annual losses of previous years, the Company did not draw the legal accumulation fund. The current-period net profit of the parent company is RMB 5,507,272.27, added with the undistributed profit of RMB -237,700,994.08 at the beginning of 2015; the practical profit available for distribution is RMB -232,193,721.81 at the end of 2015. Considering the parent company's profit available for distribution is negative, the profit distribution cannot be made in 2015, neither the transferring of capital reserves into share capital.

#### 1.2 Company profit distribution proposal in recent three years (including the report period) , capital surplus transferring to increase capital stock proposal

Unit: Yuan, Currency: RMB

Year of Dividend Distribution	Number Of Bonus Shares Per 10 Common Shares (Share)	Number Of Dividends (Taxes Included) Per 10 Common Shares (Yuan)	Number Of Shares Converted By Capital Reserve Per 10 Common Shares(Share)	Number of Cash Dividend (Taxes Included)	Net Profit Listed in the Dividend Annual Consolidated Statement Belongs to Stockholders of Public Company	Rate to the Net Profit in the Consolidated Statement Belongs to Stockholders of Public Company (%)
2015	0	0	0	0	157,417,084.48	
2014	0	0	0	0	197,616,061.21	
2013	0	0	0	0	79,552,024.19	

### 2. Performance of committed issues

Background of commitment	Type of commitment	Commitment party	Content	Time limit	Whether there is a time limit	Whether timely and strictly perform
Other commitment	Non-tradable shares	Pudong SASAC	From July 10, 2015 to January 10, 2016, Pudong SASAC will not sell the Company's shares in the secondary market.	From July 10, 2015 to January 10, 2016	Yes	Yes

### 3. There was no occupation of fund of the Company occurred for non-operating use by holding shareholder and its related parties.

### 4. Appointment and Dismiss of Certified Accountant's Firm

Unit: Ten Thousand Yuan Currency: RMB

Name of domestic accountant's firm	BDO China Shun Lun Pan Certified Public Accountants LLP
Payment to the domestic accountant's firm	85



Service life of domestic accountant's firm providing audit service	9 years
--	---------

	Name	Payment
Certified accountant's firm for internal control audit	BDO China Shun Lun Pan Certified Public Accountants LLP	40
Sponsor	SHENWAN HONGYUAN FINANCING SERVICES CO., LTD	

## 5. Risk of suspension of listing

Not applicable.

## 6. Bankrupt and reforming events

Not applicable.

## 7. Significant lawsuit and arbitration

Not applicable.

## 8. Punishment on and rectification of listed company and its directors, supervisors, senior officers, controlling shareholders, actual controller and purchaser

Not applicable.

## 9. Credit status of the Company and its controlling shareholder and actual controller.

During the report period, the Company and its controlling shareholder and the actual controller has good credit status.

## 10. Company stock right incentives, ESPO, and other employee incentives

Not applicable.

## 11. Major associated transactions

### 11.1 Associated Transactions Relevant to Daily Operations

#### 11.1.1 Issues already disclosed in the temporary bulletin and for which there was no progress or change in the follow-up implementation:

Summary of Issues	Inquiry Index
Shanghai SGSB Electronic Co., Ltd., one wholly-owned subsidiary of the Company, sells products to Fiji Xerox of Shanghai Limited., and is its permanent accessory supplier, and the above-said transaction constitutes the daily associated transaction. It is estimated that in 2015, the amount of products that it will sell to Fiji Xerox is RMB 39 million, and in this report period, the sales amount was RMB 37.54 million, and there was no major change.	The temporary bulletin No. 2015-005 disclosed by the Company on March 21, 2015, published in Shanghai Securities News and Hong Kong Commercial Daily and website of Shanghai Stock Exchange.

## 12. Major contracts and their performance

### 12.1 Trusteeship, contracting and lease

Not applicable.

### 12.2 Guarantee

Unit: Ten Thousand Yuan, Currency: RMB

Company external guarantee list (excluded those for subsidiaries)													
Guarantor	Relations of the guarantor to public company	Security party	Amount guaranteed	Guarantee date (agreement sign-off date)	Guarantee starting date	Guarantee expiration date	Type of guarantee	If guarantee is done	If guarantee is overdue	Guarantee overdue amounts	If counter-guarantee available?	If it is affiliate guarantee?	Guaranteed relation
ShangGong Group	The Company	Commerzbank Shanghai Branch	7,000	March 25, 2014	March 25, 2014		Joint liability guarantee	No	No	0	Yes	No	No
ShangGong Group	The Company	Commerzbank Shanghai Branch	6,244	June 30, 2014	July 1, 2014		Joint liability guarantee	No	No	0	Yes	No	No
ShangGong Group	The Company	Commerzbank Shanghai Branch	9,950	October 8, 2015	October 8, 2015		Joint liability guarantee	No	No	0	Yes	No	No



ShangGong Group	The Company	Commerzbank Shanghai Branch	7,805	August 28, 2015	August 28, 2015		Joint liability guarantee	No	No	0	No	No	No
ShangGong Group	The Company	Industrial & Commercial Bank of China Shanghai Hongkou Branch	5,676	December 21, 2015	December 21, 2015	December 21, 2020	Joint liability guarantee	No	No	0	No	No	No
Guarantee amounts spent during the report period (excluded guarantee to affiliate company).						13,481							
Total balance of guarantee at the end of period (affiliate companies are not quailed.) (A)						36,675							
Guarantee of company to affiliates													
Total guarantee amounts of subsidiaries in the report period													
Total balance of guarantee to subsidiaries at the end of report period (B)						0							
Company total guarantee amounts (including those to subsidiaries)													
Total guarantee amounts (A+B)						36,675							
Ratio of total guarantee amounts to company net assets (%)						17.89							
In which:													
Guarantee amounts provided to stockholders, actual controller and affiliated parties (C)													
Guarantee amounts directly or indirectly provided for liabilities of guarantor whose assets liabilities ratio is higher than 70% (D)													
Differences of total guarantee amounts exceeds 50% of the net assets (E)													
Total guarantee amounts of the above-mentioned three items (C+D+E)													

#### Statement on Guarantee:

1. On March 25, 2014, ShangGong Europe, the Company's wholly owned subsidiary, applied to the Bielefeld Branch of the Commerzbank for current funds equivalent to not more than RMB 58 million, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for payment of RMB 70 million as counter guarantee for the abovementioned financing guarantee letter.

2. On June 30, 2014, ShangGong Europe, the Company's wholly owned subsidiary, applied to the Bielefeld Branch of the Commerzbank for a current fund loan of EUR 8 million, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for payment of EUR 8.8 million as counter guarantee for the abovementioned financing guarantee letter.

3. On October 8, 2015, ShangGong Europe, the Company's wholly owned subsidiary, applied to the Bielefeld Branch of the Commerzbank for a short-term loan line of EUR 12 million, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for payment of EUR 10.5 million as counter guarantee for the abovementioned financing guarantee letter.

4. On August 28, 2015, PFAFF GmbH, the Company's wholly owned subsidiary, applied to the Bielefeld Branch of the Commerzbank for a loan of EUR 10 million, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for payment of EUR 11 million as counter guarantee for the abovementioned financing guarantee letter.

5. On December 21, 2015, ShangGong Europe, the Company's wholly owned subsidiary, applied to the Industrial & Commercial Bank of China Frankfurt Branch for a loan of EUR 7.878 million to pay for 26% equity of Stoll KG. Industrial & Commercial Bank of China Shanghai Hongkou Branch issued a financing guarantee letter for the funds, and the Company mortgaged real estate in No.603 Dapu Road, Shanghai for the abovementioned counter guarantee.

### 12.3 Status of investment in entrusted financing and derivatives of non-financial companies

#### 12.3.1 Entrusted financing

Unit: Ten Thousand Yuan, Currency: RMB



Name of partner	Product name	Amount	Starting date	Ending date	Method of determining gains	Principal actually recovered	Gains actually obtained	Whether legal proceedings are involved	Amount of provision for impairment	Whether affiliated transaction is involved	Whether lawsuit is involved	Affiliated relationship
Bank of Communications Xuhui Branch	Linghui Wealth ` Huideli	5,000	October 20, 2014	April 20, 2015	Floating gains with guaranteed principal	5,000	98.48	Yes		No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21406M059	27,000	October 21, 2014	April 21, 2015	Floating gains with guaranteed principal	27,000	589.68	Yes		No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21406M059	8,000	October 21, 2014	April 21, 2015	Floating gains with guaranteed principal	8,000	174.72	Yes		No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21406M064	5,000	November 11, 2014	May 12, 2015	Floating gains with guaranteed principal	5,000	109.7	Yes		No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21406M67	7,000	November 27, 2014	May 28, 2015	Floating gains with guaranteed principal	7,000	155.3	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai “Winner” Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15M03015)	20,000	April 29, 2015	July 29, 2015	Guarantee gains with guaranteed principal	20,000	244.33	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai “Winner” Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15M03015)	4,000	April 29, 2015	July 29, 2015	Guarantee gains with guaranteed principal	4,000	48.87	Yes		No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 91 days	5,000	May 4, 2015	August 3, 2015	Guarantee gains with guaranteed principal	5,000	58.59	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai “Winner” Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15M03016)	4,000	May 6, 2015	August 5, 2015	Guarantee gains with guaranteed principal	4,000	47.37	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai “Winner” Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15M03017)	5,000	May 13, 2015	August 12, 2015	Guarantee gains with guaranteed principal	5,000	58.96	Yes		No	No	
Xiamen International Bank Shanghai branch	Win Step-by-step Phase 15738	7,000	June 1, 2015	August 31, 2015	Floating gains with guaranteed principal	7,000	86.70	Yes		No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 91 days	3,000	June 15, 2015	September 15, 2015	Guarantee gains with guaranteed principal	3,000	29.17	Yes		No	No	



Name of partner	Product name	Amount	Starting date	Ending date	Method of determining gains	Principal actually recovered	Gains actually obtained	Whether legal proceedings are involved	Amount of provision for impairment	Whether affiliated transaction is involved	Whether lawsuit is involved	Affiliated relationship
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product(WG15105S)	15,000	July 30, 2015	September 2, 2015	Guarantee gains with guaranteed principal	15,000	51.70	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15106S)	5,000	July 30, 2015	October 29, 2015	Guarantee gains with guaranteed principal	5,000	47.12	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15106S)	4,000	July 30, 2015	October 29, 2015	Guarantee gains with guaranteed principal	4,000	37.70	Yes		No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 91 days	5,000	August 10, 2015	November 9, 2015	Guarantee gains with guaranteed principal	5,000	45.50	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15115S)	6,000	August 14, 2015	November 12, 2015	Guarantee gains with guaranteed principal	6,000	56.96	Yes		No	No	
Xiamen International Bank Shanghai branch	Win Step-by-step Phase 151199	7,000	September 6, 2015	December 6, 2015	Floating gains with guaranteed principal	7,000	75.20	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15126S)	5,000	September 7, 2015	December 10, 2015	Guarantee gains with guaranteed principal	5,000	47.64	Yes		No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 91 Days	2,000	September 28, 2015	December 28, 2015	Guarantee gains with guaranteed principal	2,000	17.45	Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15154S)	5,000	November 2, 2015	February 3, 2016	Guarantee gains with guaranteed principal			Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series	7,000	November 2, 2015	February 3, 2016	Guarantee gains with guaranteed principal			Yes		No	No	



Name of partner	Product name	Amount	Starting date	Ending date	Method of determining gains	Principal actually recovered	Gains actually obtained	Whether legal proceedings are involved	Amount of provision for impairment	Whether affiliated transaction is involved	Whether lawsuit is involved	Affiliated relationship
	(Intravenous Drip into Gold) Financial Product (WG15154S)											
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 86 Days	5,000	November 11, 2015	February 5, 2016	Guarantee gains with guaranteed principal			Yes		No	No	
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15M03043)	6,000	November 18, 2015	February 17, 2016	Guarantee gains with guaranteed principal			Yes		No	No	
Xiamen International Bank Shanghai branch	Win Step-by-step Phase 152001	7,000	December 11, 2015	March 11, 2016	Floating gains with guaranteed principal			Yes		No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 90 Days	4,000	December 15, 2015	March 14, 2016	Guarantee gains with guaranteed principal			Yes		No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 90 Days	1,000	December 15, 2015	March 14, 2016	Guarantee gains with guaranteed principal			Yes		No	No	
Total	/	184,000	/	/	/	149,000	2,081.14	/		/	/	/
Aggregate principal and gains overdue and non-refunded (RMB)		0										
Statement on consigned financing		With the review and approval of the 21 <sup>st</sup> meeting of the Seventh Board of Directors on April 28, 2015, it is resolved that idle raised funds of RMB 250 million and self-owned funds of 250 million were managed in purchasing RMB financial products of the bank with principal guaranteed.										

### 12.3.2 Entrusted loan

Not applicable.

### 12.3.3 Other investment in financing products and derivatives

Not applicable.

## 13. Situations of Company Performing Social Liabilities Actively

Company insists on complying with laws and regulations as company basic operation principle, and focuses on mutual development of economic benefits and social benefits. In the year of 2015, company seriously complied with national laws, regulations and policies, operated business by legal requirements, paid taxes actively, controlled product qualities, given more employment chances, actively participated in charity donation and volunteer activities in Pudong New Area, supported development of local economy, and never behaved to destroy social economic development or environment protection.

## 14. Convertible bonds

Not applicable



## Chapter 6 Status of Share Capital Changes and Shareholders of Common Stock

### 1. Share capital changes of common stock

#### 1.1 Share capital changes of common stock

##### 1.1.1 Share capital changes of common stock

Unit: Share

	Before this change		Increase / Decrease ( + / - )					After this change	
	Number	Proportion (%)	New shares offering	Allotted share	Capitalization of capital reserve	Others	Sub-total	Number	Proportion (%)
1.Non-tradable shares	99,702,823	18.17	0	0	-99,702,823	0	-99,702,823	0	0
(1) State ownership	0	0	0	0	0	0	0	0	0
(2)Shareholding of state-owned corporate	42,302,823	10.46	0	0	-42,302,823	0	-42,302,823	0	0
(3)Other shareholding of domestic investors	57,400,000	7.71	0	0	-57,400,000	0	-57,400,000	0	0
Including: shareholding of domestic non-state-owned corporate	57,400,000	7.71	0	0	-57,400,000	0	-57,400,000	0	0
Shareholding of domestic individuals	0	0	0	0	0	0	0	0	0
(4)Shareholding of foreign investors	0	0	0	0	0	0	0	0	0
Including: shareholding of foreign corporate	0	0	0	0	0	0	0	0	0
Shareholding of foreign individuals	0	0	0	0	0	0	0	0	0
2.Tradable shares	448,886,777	81.83	0	0	99,702,823	0	99,702,823	548,589,600	44.47
(1)Common shares in RMB	204,943,027	37.36	0	0	99,702,823	0	99,702,823	304,645,850	55.53
(2)B Share	243,943,750	44.47	0	0	0	0	0	243,943,750	0
(3)Foreign-invested shares listed in foreign	0	0	0	0	0	0	0	0	0
(4)Others	0	0	0	0	0	0	0	0	0
3.Total shares	548,589,600	100	0	0	0	0	0	548,589,600	100

##### 1.1.2 Description of changes in common stock shares

The lock-up period of 99,702,823 A shares which issued by the Company in 2014 expired on March 28, 2014. These shares have gone on the market on March 30, 2015.

### 1.2 Change of non-tradable shares

Unit: Share

Name of Shareholder	Non-tradable shares at the beginning of this Period	Non-tradable shares removed in the Report Period	Increased non-tradable shares in the Report Period	Non-tradable shares at the end of this Period	Reason for non-trading	Date of removing non-trading
China Great Wall Asset Management Corporation	22,200,000	22,200,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
Nanjing Ruisen Investment Management Partnership (Limited Partnership)	16,000,000	16,000,000	0	0	12 months of lock-up period for object of Company's	March 30, 2015



					non-public offering	
Orient Securities Company Ltd.	11,100,000	11,100,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
SAIC Finance Co., Ltd.	11,100,000	11,100,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
Industrial Bank Global funds - China Everbright Bank – No. 2 of additional offering (classified) of assets management plan for specific multiple clients	11,100,000	11,100,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
China Universal Asset Management Co., Ltd. - Industrial Bank Co., Ltd. – Tianfu –Haifu-additional offering of assets management plan of ShuangxiShengshi 1	9,700,000	9,700,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
SIG Asset Management Co., Ltd.	9,002,823	9,002,823	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
China Universal Asset Management Co., Ltd. – ICBC – Foreign trade trust – Hengsheng fund trust of additional offering portfolio	5,700,000	5,700,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
Industrial Bank Co., Ltd. – Xingquan mixed securities investment fund with organic increase and flexible allocation	2,450,000	2,450,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
China Merchants Bank Co., Ltd. –Xingquan securities investment fund of light assets and share investment type (LOF)	1,350,000	1,350,000	0	0	12 months of lock-up period for object of Company's non-public offering	March 30, 2015
Total	99,702,823	99,702,823	0	0	/	/

## 2. Securities issuance and listing

### 2.1 Securities issuance during the report period

Unit: Share, Currency: RMB

Type of stock and its derivative securities	Issuing date	Issuing price	Issuing amount	Listing date	Amount approved of listing	End date of deal
A Share	March 28, 2014	6.73	99,702,823	March 28, 2014	99,702,823	

Note: The lock-up period of 99,702,823 A shares which issued by the Company in 2014 expired on March 28, 2014. These shares have gone on the market on March 30, 2015.

### 2.2 Total share and shareholder change and asset and liability structure change

Total share has no change in the report period. Shareholder change refers to 1.1 “Share capital changes of common stock”.

### 2.3 Employee shareholding status

No internal employee share in the report period.

## 3. Shareholders and actual controller

### 3.1 Total number of shareholders

Total number of shareholder at the end of report period	59,277 (A share: 30,760; B share: 28,517)
Total number of shareholder as of February 29, 2016	60,508 (A share: 31,522; B share: 28,986)

### 3.2 Shareholding status of top 10 shareholders and top 10 unrestricted shareholders

Unit: Share



Top 10 Shareholders						
Shareholder Description	Changes in Report Period	Total Shares Held as of December 31, 2015	Holding Percentage (%)	Restricted Share	Shares pledged or frozen	Shareholder Status
Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission	0	105,395,358	19.21	0	No	State
China Great Wall Asset Management Corporation	0	22,200,000	4.05	0	No	State-owned legal person
SHANGHAI INTERNATIONAL GROUP Asset Management Co., Ltd.	0	10,968,033	2.00	0	No	State-owned legal person
SCBHK A/C KG INVESTMENTS ASIA LIMITED	3,951,503	4,853,043	0.88	0	No	Foreign legal person
Wuhu Changyuan Private Equity Fund (limited partnership)	-420,000	4,770,654	0.87	0	No	Unknown
GUOTAI JUNAN SECURITIES (HONGKONG) LIMITED	134,848	3,279,701	0.60	0	No	Foreign legal person
China Minsheng Trust Co., Ltd.- Minsheng trust value selection first phase Securities investment trust	2,800,000	2,800,000	0.51	0	No	Unknown
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	846,900	2,545,396	0.46	0	No	Foreign legal person
Bank of China - Huaxia Return Securities Investment Trust	2,100,000	2,100,000	0.38	0	No	Unknown
NORGES BANK	0	1,742,114	0.32	0	NO	Foreign legal person
Top 10 Unrestricted Shareholder						
Name of Shareholders	Unrestricted Shares	Share type and amount				
		Type	Amount			
Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission	105,395,358	A share	105,395,358			
China Great Wall Asset Management Corporation	22,200,000	A share	22,200,000			
SHANGHAI INTERNATIONAL GROUP Asset Management Co., Ltd.	10,968,033	A share	10,968,033			
SCBHK A/C KG INVESTMENTS ASIA LIMITED	4,853,043	B share	4,853,043			
Wuhu Changyuan Private Equity Fund (limited partnership)	4,770,654	A share	4,770,654			
GUOTAI JUNAN SECURITIES (HONGKONG) LIMITED	3,279,701	B share	3,279,701			
China Minsheng Trust Co., Ltd.- Minsheng trust value selection first phase Securities investment trust	2,800,000	A share	2,800,000			
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	2,545,396	B share	2,545,396			
Bank of China - Huaxia Return Securities Investment Trust	2,100,000	A share	2,100,000			
NORGES BANK	1,742,114	B share	1,742,114			
Shareholder Relationship and Consistent Actions Notes		Relationship between the above shareholders is not known to the Company				

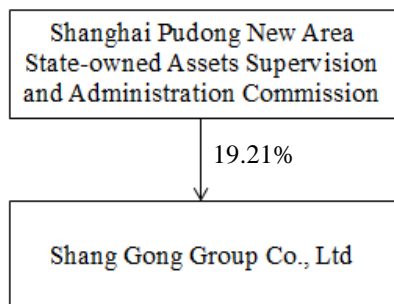
#### 4. Controlling Shareholder and Actual Controller

##### 4.1 Controlling Shareholder

###### 4.1.1 Legal person

Name	Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission
Responsible Person and Legal Representative	Sun Tong
Establishment Date	September 1, 1996
Main Business	Assigned by Pudong Government, Shanghai, responsible for managing national property of Pudong New Area.
Other listed company invested in the report period.	Lujiazui, Pudong Jinqiao, Pudong Jianshe, Waigaoqiao and Zhangjiang High Tech.

###### 4.1.2 Control relationship between the Company and Controlling Shareholder

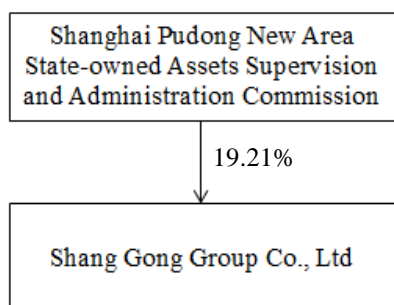


## 4.2 Actual controller

### 4.2.1 Legal person

Name	Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission
Responsible Person and Legal Representative	Sun Tong
Establishment Date	September 1, 1996
Main Business	Assigned by Pudong Government, Shanghai, responsible for managing national property of Pudong New Area.
Other listed company invested in the report period.	Lujiazui, Pudong Jinqiao, Pudong Jianshe, Waigaoqiao and Zhangjiang High Tech.

### 4.2.2 Property rights and control relationship between the company and the actual controller



## 5. Shareholders with more than 10% of the share

No other shareholder has a share more than 10% in the reporting period.

## 6. Description about share reduction limit

Not applicable.

## Chapter 7 Relevant Situation about Preferred Shares

Not applicable.



## Chapter 8 Status of Director, Supervisor, Officer and Employee

### 1. Share changes and compensation

#### 1.1 Current and former director, supervisor and officer share change and compensation

Unit: Share

Name	Title	Gender	Age	Stating Date	End Date	Shares Beginning of Year	Share End of Year	Changes in the Year	Reason for the Change	Compensation Payable in the Reporting Term (10,000 RMB, before tax)	Compensation Payable by Related Party
Zhang Min	Chairman, CEO	Male	53	2012/12/27	2015/12/26	70,000 (B Share)	100,000 (B Share)	30,000	Buy in the second market	44.74	
Li Jiaming	Director	Male	55	2014/4/28	2015/12/26					42.41	
	Vice-general manager			2012/12/27	2015/12/26						
Fang Haixiang	Director, Vice-general manager	Male	49	2012/12/27	2015/12/26					36.82	
Sun Gang	Director	Male	51	2012/12/27	2015/12/26					1.19	
Lu Yujie	Director	Male	45	2012/12/27	2015/12/26					1.19	
Bao Qi	Director	Female	39	2012/12/27	2015/12/26					1.19	
Zhang Ming	Independent director	Male	57	2012/12/27	2015/12/26					10	
Su Yong	Independent director	Male	60	2012/12/27	2015/12/26					10	
He Ye	Independent director	Female	52	2012/12/27	2015/12/26					10	
Qiao Junhai	Supervisory Board Chairman	Male	58	2015/4/28	2015/12/26					0	
Ding Binhui	Supervisor	Male	51	2012/12/27	2015/12/26					0	
Zhuge Huiling	Supervisor	Female	47	2012/12/27	2015/12/26					33.52	
Chen Guoling	Supervisor	Female	53	2012/12/27	2015/12/26	2,645 (B Share)	12,645 (B Share)	10,000	Buy in the second market	38.51	
Xu Yuping	Supervisor	Male	53	2012/12/27	2015/12/26					20.97	
Zheng Ying	Vice-general manager	Female	50	2012/12/27	2015/12/26	21,500(A Share: 1,500; B Share:20,000)	21,500(A Share:1,500; B Share: 20,000)			0	
Li Xiaofeng	Vice-general manager	Male	41	2012/12/27	2015/12/26					80.13	
Zhang Jianguo	Board secretary	Male	56	2012/12/27	2015/12/26					36.1	



Total	/	/	/	/	/	94,145	134,145	40,000	/	366.77	/
-------	---	---	---	---	---	--------	---------	--------	---	--------	---

Name	Main work experience
Zhang Min	Former GM of Shanghai Zanussi Electric Machinery Co., Ltd. ,GM, Chairman of Shanghai Shenbe Office Equipment Co. From July 2004, he has served as the Party Secretary, President and CEO of the Company, chairman of the board of SGE and Chairman of the Supervisory Board of DA AG, Vice President of China Sewing Machinery Association. Chairman of the 7th Board of Directors of the company.
Li Jiaming	Former R&D Director, Vice-general manager of Shanghai SMPIC Office Equipment Co., Ltd., Site Manager of SMPIC Photosensitive Materials Factory, General manager and Party Secretary of Shanghai Machinery Co., Ltd. Since Apr. 2008, he served as vice-general manager of this Company. Since April 28, 2014, he served as managing director of the 7 <sup>th</sup> Board.
Fang Haixiang	Former Deputy GM of Shanghai Xiechang Feiren Co., Ltd., Chief Engineer. Since April 2008, he served as VP of the Company, and Mar. 2012, GM of Shanghai Shangong Butterfly Sewing Machine Co., Ltd. Managing Director of the 7th Board
Sun Gang	Risk Detection Department Manager, Risk Compliance Senior Manager of China Great Wall Asset Management Corporation, Party Committee Member and Deputy GM of China Great Wall Asset Management Corporation Shanghai Office. Since December 2014, he served as the Deputy Party Committee Secretary (chair) of China Great Wall Asset Management Corporation Guiyang Office . Director of the 7th Board
Lu Yujie	Former Operation Director, Financial Controller, Investment Director and GM assistant of Shanghai International Group Asset Management Co., Ltd., and since May 2015, he served as Vice-general manager. Director of the 7th Board.
Bao Qi	From July 2008 to October 2014, she served as General Counsel, Operations Director, vice president of Shanghai Pudong Science and Technology Investment Co., Ltd. From December 2014, she served as a lawyer of Shanghai Haojia Law Firm. Director of the 7th Board.
Zhang Ming	Professor, Doctor Tutor with Shanghai University of Finance and Economics, Director of China Accounting Society, China Banking Accounting Society, Shanghai Accounting Association and Shanghai Cost Research Institute. Independent Director of the 7th Board.
Su Yong	Professor with Business Management Department, Deputy Director of Fudan Oriental Management Research Center, Doctor Supervisor of Oriental, Vice Chairman of Shanghai Association of Productivity, Standing Director of Chinese Enterprise Management Research Association, Chinese Culture Research Association and Japan Oriental International Economics Association. Independent Director of the 7th Board.
He Ye	Former Deputy Secretary General, Vice Chairman and Secretary General, and Standing Vice Chairman of China Sewing Machinery Association, starting from Sep. 2011, he was appointed Chairman of Sewing Machinery Association. Independent Director of the 7th Board.
Qiao Junhai	Serve in the army from December 1976 to April 2005, former deputy commander. Former director and secretary of party committee of Shanghai Nanhui District Sports Bureau, vice secretary and secretary-general of Nanhui District Politics and Law Committee, director of Nanhui District Comprehensive Management of Public. Former Party Committee Secretary of Pudong New Area Politics and Law Committee, vice director of Comprehensive Management of Social Security Committee Office, member of Pudong New Area Commission for Discipline Inspection. From April 28, 2014, he served as 7th Supervisory Board Chairman of the Company.
Ding Binhui	Former Chief Accountant with Shanghai Lujiazui Property; from Aug. 2009, work in Director and Supervisor Center, Pudong New Area SAC. Supervisor of the 7th Supervisory Board.
Zhuge Huiling	From Sep. 2007 to Dec. 2012, Deputy GM of the Company, from Dec. 2012 Secretary of Discipline Committee of the Company. Supervisor of the 7th Supervisory Board.
Cheng Guoling	Former GM with Shanghai SMPIC Real Estate Development Co., Ltd. , Deputy GM, Union Chairman of Shanghai Fengjian Real Estate, Party Secretary, Deputy GM, Secretary Office Manager, Union Vice Chairman of Shangong SMPIC Mechanical Branch, since Dec. 2012 Company Union Chairman. Supervisor of the 7th Supervisory Board.
Xu Yuping	Former Finance and Auditing Department Leader, Manager, Operation Deputy Manager of Shanghai SMPIC Office Equipment Co., Ltd., since Jan. 2012, Audit Department Deputy Manager of the Company. Supervisor of the 7th Supervisory Board.
Zheng Ying	Party Secretary, Deputy GM of Fuji Xerox Co., since October 2008, Deputy GM of the Company , and Executing Director of SGE and DA AG.
Li Xiaofeng	Former general manager Assistant of the Company, general manager of Shanghai Import & Export Co., general manager of Shanghai Shangong Butterfly Sewing Machine Co., Ltd., currently general manager of DAP Shanghai. since Dec. 2012, he served as the Company's vice-general manager.
Zhang Jianguo	Former Party Secretary, Deputy DM of Fuji Xerox Co., since Aug. 2011 Secretary of the Board of Directors of the Company.

Note 1: During the reporting period, Miss Zheng Ying, Deputy GM of the Company, worked in Germany. She received her salary from oversea subsidiary, not from Company's Headquarter.

Note 2: The 25<sup>th</sup> Meeting of the 7<sup>th</sup> Board of Directors deliberated and approved *Proposal on the extension of the 7<sup>th</sup> Board of Directors*. The election of the 8<sup>th</sup> Board of Directors will be postponed. Before electing the 8<sup>th</sup> Board of Directors, all the directors and senior officers of the 7<sup>th</sup> Board of Director would fulfill their duties and obligations prescribed by the law and the Articles of Association.



## 1.2 Equity incentive granted to directors, supervisors and senior officers in the Report Period

☐ Not applicable

## 2. Current and former director, supervisor and senior manager's employment status

### 2.1 Employment with Shareholders

Name	Shareholder	Title	Starting From	End Date
Sun Gang	China Great Wall Asset Management Corporation	Deputy Party Committee Secretary (chair) of Guiyang Office	December 10, 2014	
Lu Yujie	Shanghai International Group Asset Management Co., Ltd.	Deputy general manager	May 2015	
Ding Binhui	Pudong SASAC	Professional Supervisor of Supervisors Center	August 1, 2009	

### 2.2 Employment with other companies

Name	Company Name	Title	Starting From	End Date
Zhang Min	China Sewing Machinery Association	Deputy Director	September 26, 2011	
Lu Yujie	Shanghai International Group Assets Operation Co., Ltd	Executive Director	March 1, 2009	
Lu Yujie	KINGBURG INDUSTRY INVESTMENT FUND MANAGEMENT CO., LTD	Director	February 1, 2015	
Lu Yujie	SHANGHAI KINGBURG INVESTMENT MANAGEMENT CO., LTD	Chairman of the Board	December 1, 2014	
Lu Yujie	Force Investment Fund Management Co., Ltd	Director	June 1, 2014	
Lu Yujie	New Shanghai International Mansion Co., Ltd	Deputy Chairman of the Board	January 1, 2014	
Lu Yujie	Fudan SIG Academic Exchanges Center	Director	December 1, 2011	
Lu Yujie	Tonglian Payment Network Service Co., Ltd	Supervisor	August 1, 2014	
Zhang Ming	Shanghai Shenda Co., Ltd.	Independent Director	May 24, 2010	
Zhang Ming	Tibet Haisike Pharmaceutical Group Co., Ltd.	Independent Director	August 8, 2010	
Zhang Ming	Shanghai Jinqiao Export Processing Area Development Co., Ltd.	Independent Director	June 2, 2011	
Zhang Ming	Wuxi Commercial Mansion Grand Orient Co., Ltd.	Independent Director	May 20, 2015	
Su Yong	Shanghai Bailian Co., Ltd.	Independent Director	May 22, 2007	June 20, 2015
Su Yong	Shanghai Jahwa United Co., Ltd	Independent Director	December 18, 2012	December 26, 2015
Su Yong	Shanghai Pret Composites Co., Ltd.	Independent Director	November 28, 2013	
Su Yong	Wuxi Commercial Mansion Grand Orient Co., Ltd.	Independent Director	November 25, 2014	July 22, 2015
Su Yong	Maanshan Iron and Steel Company Limited	Independent Supervisor	September 1, 2011	
Su Yong	China Sewing Machinery Association	Chairman	September 26, 2011	

## 3. Compensation for director, supervisor and senior officer

Decision Making Procedure for Director, Supervisor and Officer Compensation	Apply the regulation on Officers' Salary, in Company Performance Review and Salary Management Method.
Basis for Director, Supervisor and Officer Compensation	Apply PGZW 2010 284 Opinion on Salary Management of Officer Salary with Companies Directly under Pudong New Area and Company Performance Review and Salary Management Method issued by Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission.
Director, Supervisor and Officer Compensation Payable	Compensation will be paid according KPI, according to independent director compensation standard and procedure approved by the shareholder general meeting.
Total Compensation at End of Reporting Period for Director, Supervisor and Officer	RMB 3,667.7 thousand, before tax.



#### 4. Change of Directors, Supervisors and Senior Officers of the Company

Not applicable.

#### 5. Punishment by the securities regulatory authorities in last three years

Not applicable.

#### 6. Staff condition of parent company and major subsidiary companies

##### 6.1 Staff Condition

Population of serving staff in parent company	64
Population of serving staff in major subsidiary companies	3,076
Total population of serving staff	3,140
Population of retired staff who have to undertake expense in parent company and major subsidiary companies	0
Professional Composition	
Type of Professional Composition	Population of Professional Composition
Production Staff	2,073
Sales Personnel	332
Technician	270
Financial Staff	148
Administrative Staff	317
Total	3,140
Educational Degree	
Type of Educational Degree	Population
Postgraduate, undergraduate and above	482
Junior college	1,776
Junior college and below	882
Total	3,140

##### 6.2 Pay Policy

During the report period, the Company has formulated the Employee Performance Assessment and Salary Management Method in the Department. The staff salary is implemented strictly according to stipulated policies.

##### 6.3 Training Plan

The Company carries out highly skilled technician training and professional technical force training in order to create a staff team with adaptability, innovation, improvement and execution abilities, and enhance the staff quality. In order to offer suitable human resources for the company to become an enterprise with sustainable development and competitiveness, the company has formulated all levels and various forms of training plans.

##### 6.4 Outsourcing

Not applicable.



## Chapter 9 Corporate Governance

### 1. Illustration of Corporate Governance, Insiders' Registration Management and Related Condition

During the report period, the Company has continuously improved the corporate governance structure and regulated the Company operation in strict accordance with laws and regulations including the Corporate Law, Securities Law and Code of Corporate Governance for Listed Companies, and the requirement of China Securities Regulatory Commission, Shanghai Stock Exchange and other regulators. At present, the Company has formed the legal governance structure with distinct rights and liabilities, each performing its own functions, effective balance, scientific decisions and coordinating operation. The corporate government complies with the requirement of relevant laws and regulations, and there is no rectification within a limited time required by any supervision department. The stockholders' meeting, board of directors and board of supervisors fulfill their own duties and operate in a standard way to practically guarantee the interest of vast investors and the company.

#### (1) Shareholders and Shareholders' Meeting

The Company holds shareholders' meeting in strict accordance with the laws and regulations including the Corporate Law, Listing Rule of Shanghai Stock Exchange, and the requirement of the Articles of Association and Procedure Rules of Shareholders' Meeting to ensure that all the shareholders can enjoy equal status and rights. Meanwhile, lawyers are invited to attend the shareholders' meeting and confirm and witness the convention procedure, deliberation matters and attendees' identities. The meeting minutes should be complete to guarantee the legitimacy and effectiveness of the shareholders' meeting.

#### (2) Controlling Shareholders and Companies

The Company possesses independent business and management abilities. Both the Company and controlling shareholders can realize "five independences" in terms of staff, asset, finance, organization and business. The board of directors, board of supervisions and internal organizations can operate independently. The Company's major decisions are made by the shareholders' meeting according to the law. The controlling shareholders exercise shareholders' rights by law without the behavior of interfering with the Company's decision and operating activities directly or indirectly exceeding the shareholders' meeting. The Company has no related transaction with controlling shareholders.

#### (3) Directors and Board of Directors

The Company has formulated the Procedure Rules of the Board of Directors according to the stipulation of the Corporate Law and Articles of Association. The directors' qualification and electoral procedure comply with the stipulation of relevant laws and regulations. All the directors strictly abide by the directors' declaration and promise that they have made, fulfill the rights and obligations endowed by the Articles of Association earnestly, and perform their duties loyally, diligently and sincerely.

The Company's independent directors shouldn't be less than 1/3 of total directors. During the report period, they have attended the board meeting carefully, delivered their professional opinions on major issues including periodic reports, related party transactions and external securities, and played a positive role in the scientific decisions of the board of directors and the healthy development of the company.

#### (4) Supervisors and Board of Supervisors

The Company elects supervisors in strict accordance with the selection procedure of the Corporate Law and Articles of Association. The Company's board of supervisors consists of five supervisors, including two staff representatives. Population and staff composition comply with the requirement of laws and regulations. All the supervisors can carefully fulfill the obligations according to the Procedure Rule of the Board of Supervisors. Driven by the responsibility for all the shareholders, especially minority shareholders, supervisors fulfill responsibilities carefully, according to the *Procedure Rules of the Board of Supervisors*, supervise the Company's finance, the legitimacy and compliance of directors and senior executives in fulfilling their duties.

#### (5) Information Disclosure and Transparency

The Company appoints the secretary of the board to be responsible for the Company's information disclosure, receiving investors' visit and consultation, and designates Shanghai Securities News and Hong Kong



Commercial Daily to disclose the Company's information. The Company strictly abides relevant stipulations of information disclosure, effectively prevents selective information disclosure and occurrence of insider trading, and makes everything in a just, impartial and open way. The Company can disclose relevant information truly, accurately, completely and timely according to relevant stipulations of laws, regulations and the Articles of Association to ensure that all the shareholders have the equal opportunity to gain information. During the report period, the Company has revised the Information Disclosure Affairs Management System in order to enhance the internal control and further stipulate the Company's information disclosure affairs management according to the stipulation of the Shanghai Stock Exchange on implementing direct business in information disclosure.

#### (6) About Investors' Relation and Related Interest Parties

The Company further enhances the channel to communicate with investors, fully respects and maintains the legitimate interest of related interest parties realizes the balance of the interest of shareholders, staff and society, commonly promotes the sustainable and healthy development of the company according to the Investor Relations Management. A specially-assigned person in the Company's board office is responsible for receiving investors' incoming calls, letters, visits and questions, and replies them by instant answers, relying letters or emails.

In order to regulate the Company's insider information management, enhance the privacy of inside information and maintain information disclosure fairness, the Company formulates and strictly executes the Inside Information and Insiders' Management System according to laws and regulations of the Corporate Law, Securities Law, Administrative Measures on Information Disclosure by Listed Companies, Stock Listing Rule of Shanghai Stock Exchange, relevant stipulations of the Articles of Association and the actual condition of the company. The Company's inside information management will be under the centralized leadership and management of the board of directors to guarantee that the information insiders' files are true, accurate and complete. The chairman will become the major person in charge. The secretary of the board organizes the implementation and is responsible for registering and filling information insiders. The board of supervisors supervises the management system implementation of information insiders.

During the report period, the Company has strictly implemented the registration management system of inside information and normalized information transfer process. During the regular report and temporary announcement disclosure period, the company has strictly controlled insiders' range for private information, organized to fill in the Information Insider Registration Form, and truly and completely recorded the list of all the information insiders before the information above were public, and the time when insiders knew the inside information, etc.

During the report period, the Company's directors, supervisors, senior executives and other relevant staff have strictly abided by the management system of information insiders. No information insider has been discovered to utilize inside information to buy and sell Company's stocks, and no information insider has been investigated by the supervision department for being suspected of being involved in inside information trade.

During the report period, the Company has revised the Articles of Association, Rules for the Shareholders' Meetings, and various regulations and systems to further perfect the corporate governance and normalize operation.

## 2. Brief Introduction to Shareholders' Meeting Condition

Meeting Sessions	Holding Date	Inquiry Index of Designated Website for Publishing Resolutions	Disclosure Date for Publishing Resolutions
Annual shareholders' meeting in 2014	June 18, 2015	Shanghai Stock Exchange Website: <a href="http://www.sse.com.cn">www.sse.com.cn</a>	June 19, 2015
First temporary shareholders' meeting in 2014	October 20, 2015	Shanghai Stock Exchange Website: <a href="http://www.sse.com.cn">www.sse.com.cn</a>	October 21, 2015

## 3. Duty fulfillment of Directors

### 3.1 Attendance of Directors in Board Meeting and Shareholder's Meeting

Name	Whether	Attendance in Board Meeting	Attendance in
------	---------	-----------------------------	---------------



	independent director	Scheduled meetings	Personal attendances	By telecommunication	By proxy	Absent	Whether two times in a row did not personally attend the meeting	Shareholder's Meeting
Zhang Min	No	5	5	3			No	2
Li Jiaming	No	5	5	3			No	2
Fang Haixiang	No	5	5	3			No	2
Sun Gang	No	5	5	3			No	2
Lu Yujie	No	5	5	3			No	1
Bao Qi	No	5	5	3			No	1
Zhang Ming	Yes	5	5	3			No	1
Su Yong	Yes	5	5	3			No	2
He Ye	Yes	5	5	3			No	1

Number of Board Meeting within year	5
Including on-site meeting	2
meetings by telecommunication	3
On-site with telecommunication meeting	0

### 3.2 Independent Directors' objection against significant events of the Company

Not applicable.

### 3.3 Important opinions and recommendations of the special committees under the Board during report period

During the report period, in accordance with the Articles of Association of the Company and the Implementation Rules of Special Committees under the Board, the audit committee, the strategy committee, the nomination committee and the remuneration and evaluation committee under the Board normally performed their respective duties, seriously attended the meetings, give their professional opinions on major affairs, such as periodic report, interested transactions, external guarantees, strategy plans in the 13th Five- Year Plan, major project investment, and remuneration and evaluation of senior officers of the Company, etc., and played a positive role in the scientific decisions of the Board and the healthy development of the Company.

### 4. Explanation by Supervisory Board on the risks of Company

The Supervisory Board made no objection against the supervision issue during the report period.

### 5. Explanation on Structural independence of the Company on business, personnel, assets, organization and finance from the holding shareholder

The Company is independent on business, personnel, assets, organization and finance from the holding shareholder.

### 6. Appraisal and incentive system for senior executives

The Company established the performance evaluation systems by which the income of senior officers was linked with their performance and operation objective. In accordance with standards and procedures of performance evaluation, the Remuneration and Evaluation Committee made evaluation on the senior officers according to 2015 operation situation, in combination with the respective duty fulfillment, business innovation and profit contribution of every senior officer and their yearly work.

The Company is exploring long-term incentive mechanism for senior officers to further optimize compensation system and incentive and restraint mechanism of the Company.

### 7. Self-evaluation report of internal control

There were not factors which have influence on evaluation conclusion of effectiveness of internal control from the benchmark date of self-evaluation report of internal control to issuance date of self-evaluation



report of internal control. For details of self-evaluation report of internal control, please see the complete report released in the website of Shanghai Stock Exchange.

#### **8. Internal control audit report**

Appointed by the Company, BDO conducted an audit on the effectiveness of internal control of financial statements, and issued a standard audit report for internal control without reserved opinions. For details of audit report for internal control, please see the complete report released in the website of Shanghai Stock Exchange.

### **Chapter 10 Relevant Situation about Corporate Bonds**

Not applicable.



## Chapter 11 Financial Report

### Auditor's Report

XinKuaiShiBaoZi[2016] No.111038

**To all the shareholders of Shang Gong Group Co., Ltd.:**

We have audited the accompanying financial statements of Shang Gong (Group) Co., Ltd. ('SHANG GONG'), including the consolidated statement of financial position and statement of financial position as of 31 December 2014, consolidated statement of comprehensive income and statement of comprehensive income, consolidated statement of changes in equity and statement of changes in equity and consolidated statement of cash flows and statement of cash flows for the year then ended, and notes to the financial statements.

#### 1. Management's responsibility for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. These responsibilities include: (1) preparing the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises to achieve a fair presentation; (2) designing, implementing and maintaining internal control that is necessary to ensure that the financial statements are free from material misstatements, whether due to frauds or errors.

#### 2. Auditors' responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with PRC Independent Standards on Audit for Certified Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### 3. Opinion

In our opinion, the financial statements of SHANG GONG are prepared in all material respects in accordance with the Accounting Standards for Business Enterprises and fairly present the consolidated financial position and the Company's financial position as at December 31, 2015 and the consolidated and the Company's operating results and cash flows for the year then ended

**BDO China ShuLun Pan**  
**Certified Public Accountants LLP**

**Certified Public Accountant of China: Li Ping**  
**Certified Public Accountant of China: Li Yue**

**Shanghai, China**

**March 18, 2015**

*This auditors' report and the accompanying notes to the financial statements are English translation of the Chinese auditors' report. In case of doubt as to the presentation of these documents, the Chinese version shall prevail.*



**SHANG GONG (Group) Co., Ltd.**  
**Consolidated Statement of Financial Position**  
**As of December 31, 2015**  
**(Presented in RMB unless otherwise specified)**

Assets	Note 5	Ending Balance	Beginning Balance
Current assets:			
Cash and cash equivalents	5.1	773,572,182.69	641,429,242.16
Deposit reservation for balance			
Lending funds			
Financial assets at fair value whose fluctuation is attributed to profit or loss for current period			
Derivative financial assets			
Notes receivable	5.2	63,502,861.92	5,152,168.94
Accounts receivable	5.3	373,164,448.57	251,736,145.27
Prepayment	5.4	27,058,587.15	18,112,338.36
Premiums receivable			
Reinsurance accounts receivable			
Provision of cession receivable			
Interest receivable	5.5		892,650.00
Dividends receivable	5.6		2,865,327.09
Other receivables	5.7	62,684,178.64	92,524,188.84
Redemptory monetary capital for sale			
Inventories	5.8	581,295,155.15	452,832,857.18
Classified as assets held for sale			
Non-current assets maturing within one year			
Other current assets	5.9	373,659,277.60	545,243,812.18
<b>Total current assets</b>		<b>2,254,936,691.72</b>	<b>2,010,788,730.02</b>
Non-current assets:			
Loans and payments on behalf			
Available-for-sale financial assets	5.10	148,716,963.61	131,031,342.17
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments			
Investment properties	5.11	105,831,480.56	112,315,359.80
Fixed assets	5.12	336,334,409.01	238,401,200.34
Construction in progress	5.13	24,088,386.74	13,702,094.72
Project materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	5.14	127,464,082.18	58,651,274.00
Development expenditures	5.15	37,111,588.93	38,666,597.30
Goodwill	5.16	65,913,195.29	87,591,587.85
Long-term deferred expenses	5.17	579,474.57	26,400.00
Deferred income tax assets	5.18	45,725,444.45	41,399,911.08
Other non-current assets			
<b>Total non-current assets</b>		<b>891,765,025.34</b>	<b>721,785,767.26</b>
<b>Total assets</b>		<b>3,146,701,717.06</b>	<b>2,732,574,497.28</b>

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Consolidated Statement of Financial Position (Continued)**  
**As of December 31, 2015**  
**(Presented in RMB unless otherwise specified)**

Liabilities and Shareholder's Equity	Note	Ending balance	Beginning balance
Current liabilities:			
Short-term loans	5.19	300,547,829.62	221,515,320.51
Borrowings from central bank			
Deposits from customers and interbank			
Borrowings from banks and other financial institutions			
Financial liabilities at fair value whose fluctuation is attributed to profit or loss for current period			
Derivative financial liabilities			
Notes payable			
Accounts payable	5.20	161,024,708.59	135,538,211.68
Receipt in advance	5.21	25,598,146.20	26,856,206.59
Financial assets sold for repurchase			
Handling charges and commissions payable			
Employee benefits payable	5.22	78,096,683.38	73,706,242.54
Taxes and surcharges payable	5.23	49,065,663.29	56,586,333.97
Interest payable	5.24	88,934.73	
Dividends payable	5.25	1,032,818.86	1,032,818.86
Other payables	5.26	171,163,174.57	227,161,793.29
Reinsurance accounts payable			
Provision for insurance contracts			
Acting trading securities			
Acting underwriting securities			
Classified as liabilities held for sale			
Non-current liabilities maturing within one year	5.27		520,000.00
Other current liabilities	5.28	319,502.32	703,838.61
<b>Total current liabilities</b>		<b>786,937,461.56</b>	<b>743,620,766.05</b>
Non-current liabilities:			
Long-term loans	5.29	29,374,120.87	50,746,265.53
Bonds payable			
Including: preference shares			
Perpetual bond			
Long-term payables	5.30	4,724,683.15	6,972,940.71
Long-term employee benefits payable	5.31	239,476,427.52	260,903,755.60
Special payables			
Estimated liabilities			
Deferred income			
Deferred income tax liabilities	5.18	35,136,271.15	34,165,928.81
Other non-current liabilities	5.32	520,000.00	
<b>Total non-current liabilities</b>		<b>309,231,502.69</b>	<b>352,788,890.65</b>
<b>Total liabilities</b>		<b>1,096,168,964.25</b>	<b>1,096,409,656.70</b>
Owners' equity			
Share capital	5.33	548,589,600.00	548,589,600.00
Other equity instruments			
Including: preference shares			
Perpetual bond			
Capital reserves	5.34	956,286,021.43	949,310,284.01
Less: treasury stock			
Other comprehensive income	5.35	-85,270,897.86	-99,466,982.70
Special reserves			
Surplus reserves	5.36	4,546,242.52	4,546,242.52
General risk reserves			
Undistributed profits	5.37	350,523,121.40	193,106,033.92
Total owners' equity attributable to the parent company		1,774,674,087.49	1,596,085,177.75
Minority equity		275,858,665.32	40,079,662.83
<b>Total owners' equity</b>		<b>2,050,532,752.81</b>	<b>1,636,164,840.58</b>
<b>Liabilities and owners' equity</b>		<b>3,146,701,717.06</b>	<b>2,732,574,497.28</b>

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min

Financial director: Li Jiaming

Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Statement of Financial Position**  
**As of December 31, 2015**  
**(Presented in RMB unless otherwise specified)**

Assets	Note 13	Ending balance	Beginning balance
Current assets:			
Cash and cash equivalents		139,839,269.51	200,504,700.28
Financial assets at fair value whose fluctuation is attributed to profit or loss for current period			
Derivative financial assets			
Notes receivable		210,000.00	752,800.00
Accounts receivable	13.1	2,768,214.13	2,760,124.84
Prepayment		532,941.05	640,092.52
Interest receivable			892,650.00
Dividends receivable			2,865,327.09
Other receivables	13.2	58,219,199.88	110,694,280.17
Inventories		4,310,781.84	16,020,073.72
Classified as assets held for sale			
Non-current assets maturing within one year			
Other current assets		351,766,361.40	520,399,275.68
<b>Total current assets</b>		<b>557,646,767.81</b>	<b>855,529,324.30</b>
Non-current assets:			
Available-for-sale financial assets		148,716,956.51	131,031,334.71
Held-to-maturity investments			
Long-term receivables		116,625,633.32	78,803,351.84
Long-term equity investments	13.3	564,142,909.37	293,459,831.73
Investment properties		86,239,724.61	91,461,092.13
Fixed assets		18,441,058.74	22,356,899.75
Construction in progress		4,740,428.42	8,596,247.15
Project materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		13,245,172.99	13,717,791.39
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets			
Other non-current assets			
<b>Total non-current assets</b>		<b>952,151,883.96</b>	<b>639,426,548.70</b>
<b>Total assets</b>		<b>1,509,798,651.77</b>	<b>1,494,955,873.00</b>

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Statement of Financial Position (Continued)**  
**As of December 31, 2015**  
**(Presented in RMB unless otherwise specified)**

Liabilities and Shareholder's Equity	Note	Ending balance	Beginning balance
Current liabilities:			
Short-term loans		348,148.62	348,148.62
Financial liabilities at fair value whose fluctuation is attributed to profit or loss for current period			
Derivative financial liabilities			
Notes payable			
Accounts payable		20,234,518.45	14,884,139.56
Receipt in advance		2,993,707.32	3,971,341.75
Employee benefits payable		4,000,000.00	56,275.00
Taxes and surcharges payable		50,849.35	139,476.84
Interest payable			
Dividends payable		1,032,818.86	1,032,818.86
Other payables		107,026,319.64	134,197,354.55
Classified as liabilities held for sale			
Non-current liabilities maturing within one year			520,000.00
Other current liabilities			
<b>Total current liabilities</b>		<b>135,686,362.24</b>	<b>155,149,555.18</b>
Non-current liabilities:			
Long-term loans		1,489,984.87	1,489,984.87
Bonds payable			
Including: preference shares			
Perpetual bond			
Long-term payables		1,611,944.32	1,611,944.32
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income			
Deferred income tax liabilities		1,197,067.41	1,197,067.41
Other non-current liabilities		520,000.00	
<b>Total non-current liabilities</b>		<b>4,818,996.60</b>	<b>4,298,996.60</b>
<b>Total liabilities</b>		<b>140,505,358.84</b>	<b>159,448,551.78</b>
Owners' equity			
Share capital		548,589,600.00	548,589,600.00
Other equity instruments			
Including: preference shares			
Perpetual bond			
Capital reserves		1,003,282,687.73	1,003,282,687.73
Less: treasury stock			
Other comprehensive income		45,068,484.49	16,789,785.05
Special reserves			
Surplus reserves		4,546,242.52	4,546,242.52
Undistributed profits		-232,193,721.81	-237,700,994.08
<b>Total owners' equity</b>		<b>1,369,293,292.93</b>	<b>1,335,507,321.22</b>
<b>Liabilities and owners' equity</b>		<b>1,509,798,651.77</b>	<b>1,494,955,873.00</b>

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Consolidated Statement of Comprehensive Incomes**  
**For the Year Ended 31 December 2015**  
**(Presented in RMB unless otherwise specified)**

Item	Note 5	Current Year	Prior Year
1. Incomes		2,314,039,610.25	1,971,244,833.88
Including: operating income	5.38	2,314,039,610.25	1,971,244,833.88
Interest income			
Premiums earned			
Income from handling charges and commissions			
2. Costs		2,146,730,340.32	1,832,480,639.53
Including: Cost of sales	5.38	1,614,750,228.46	1,368,150,933.75
Interest expenses			
Handling charges and commissions expenses			
Surrender value			
Net amount of compensation payout			
Net amount withdrawn for insurance contract reserves			
Policy dividend payment			
Reinsurance costs			
Business taxes and surcharges	5.39	6,115,310.63	4,998,647.70
Selling expenses	5.40	233,231,262.36	236,863,062.33
General and administrative expenses	5.41	255,477,642.42	201,143,590.02
Financial expenses	5.42	6,091,859.10	11,394,584.70
Losses from asset impairment	5.43	31,064,037.35	9,929,821.03
Plus: gains from changes in fair value ("- " for losses)	5.44		-177,479.87
Investment income ("- " for losses)	5.45	42,409,391.70	56,379,623.60
Including: income from investment in associates and joint ventures			159,999.49
Foreign exchange gains ("- " for losses)			
3. Operating profits ("- " for losses)		209,718,661.63	194,966,338.08
Plus: non-operating income	5.46	20,497,344.53	112,112,852.67
Including: gains from disposal of non-current assets		5,728,673.89	104,867,854.50
Less: non-operating expenses	5.47	676,214.75	15,569,535.84
Including: losses from disposal of non-current assets		348,659.64	449,483.46
4. Total profits ("- " for total losses)		229,539,791.41	291,509,654.91
Less: income tax expenses	5.48	53,282,857.16	54,757,852.97
5. Net profit ("- " for net loss)		176,256,934.25	236,751,801.94
Net profit attributable to owners of the parent company		157,417,087.48	197,616,061.21
Non-controlling interests		18,839,846.77	39,135,740.73
6. Net of tax of other comprehensive income		13,430,628.35	-39,655,787.46
Net of tax of other comprehensive income attributable to owners of the parent company		14,196,084.84	-31,587,128.19
(1) Other comprehensive income can't be reclassified to gains and losses later		-1,857,057.19	-8,758,186.10
a. Changes in net liabilities or assets due to the remeasurement and redefinition of the benefit plan		-1,857,057.19	-8,758,186.10
b. The shares in other comprehensive income of the investee that can't be reclassified to gains and losses under the equity method			
(2) Other comprehensive income to be reclassified to gains and losses later		16,053,142.03	-22,828,942.09
a. The shares in other comprehensive income of the investee that can be reclassified to gains and losses under the equity method			
b. Gains and losses from changes in fair value of available-for-sale financial assets		28,278,699.44	6,416,286.02
c. Gains and losses from the reclassification of the held-to-maturity investment to held-for-sale financial assets			
d. The effective portion of the gains and losses from cash flow hedging			
e. Translation differences of financial statements		-12,225,557.41	-29,245,228.11
f. Others			
Net of tax of other comprehensive income attributable to non-controlling shareholders		-765,456.49	-8,068,659.27
7. Total comprehensive incomes		189,687,562.60	197,096,014.48
Total comprehensive income attributable to owners of the parent company		171,613,172.32	166,028,933.02
Total comprehensive income attributable to non-controlling shareholders		18,074,390.28	31,067,081.46
8. Earnings per share			
(1) Basic earnings per share	14.2	0.2869	0.3774
(2) Diluted earnings per share	14.2	0.2869	0.3774

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Statement of Comprehensive Incomes**  
**For the Year Ended 31 December 2015**  
**(Presented in RMB unless otherwise specified)**

Item	Note 13	Current Year	Prior Year
1. Operating income	13.4	34,548,625.46	56,568,773.63
Less: Operating cost	13.4	21,121,277.36	40,131,019.07
Sales tax and surcharges		3,362,049.55	3,639,454.03
Selling expenses		4,571,117.56	1,992,719.10
General and Administration expenses		58,257,264.15	30,609,254.57
Finance expenses		-3,363,560.28	5,155,643.79
Impairment losses on assets		68,737.09	17,654,777.82
Plus: gains from changes in fair value ("- " for losses)			-177,479.87
Investment income ("- " for losses)	13.5	42,496,460.42	50,027,859.29
Including: Investment income in associates and joint ventures			
2. Operating profits ("- " for losses)		-6,971,799.55	7,236,284.67
Plus: Non-operating income		12,772,336.42	106,782,696.42
Including: gains from disposal of non-current assets		4,933,421.38	103,164,370.68
Less: non-operating expenses		293,264.60	15,184,496.44
Including: losses from disposal of non-current assets		93,264.60	93,369.01
3. Total profits ("- " for total losses)		5,507,272.27	98,834,484.65
Less: income tax expenses			
4. Net profit ("- " for net loss)		5,507,272.27	98,834,484.65
4. Net of tax of other comprehensive income		28,278,699.44	6,416,286.02
(1) Other comprehensive income can't be reclassified to gains and losses later			
a. Changes in net liabilities or assets due to the remeasurement and redefinition of the benefit plan			
b. The shares in other comprehensive income of the investee that can't be reclassified to gains and losses under the equity method			
(2) Other comprehensive income to be reclassified to gains and losses later		28,278,699.44	6,416,286.02
a. The shares in other comprehensive income of the investee that can be reclassified to gains and losses under the equity method			
b. Gains and losses from changes in fair value of available-for-sale financial assets		28,278,699.44	6,416,286.02
c. Gains and losses from the reclassification of the held-to-maturity investment to held-for-sale financial assets			
d. The effective portion of the gains and losses from cash flow hedging			
e. Translation differences of financial statements			
f. Others			
6. Total comprehensive incomes		33,785,971.71	105,250,770.67
7. Earnings per share:			
(1) Basic earnings per share			
(2) Diluted earnings per share			

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended 31 December 2015**  
**(Presented in RMB unless otherwise specified)**

Item	Note 5	Current Year	Prior Year
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods and provision of services		2,423,940,682.96	1,954,808,982.76
Net increase in customer bank deposits and placement from banks and other financial institutions			
Net increase in borrowings from central bank			
Net increase in loans from other financial institutions			
Premiums received from original insurance contracts			
Net cash received from reinsurance business			
Net increase in deposits and investments from policyholders			
Net increase from disposal of financial assets at fair value whose fluctuation is attributed to profit or loss for current period			
Cash received from interest, handling charges and commissions			
Net increase in loans from banks and other financial institutions			
Net capital increase in repurchase business			
Refunds of taxes and surcharges		70,853,762.65	65,234,058.02
Cash received from other operating activities	5.50	33,218,268.78	21,500,763.41
Sub-total of cash inflows from operating activities		2,528,012,714.39	2,041,543,804.19
Cash paid for goods purchased and services received		1,672,502,940.41	1,222,486,787.01
Net increase in loans and advances to customers			
Net increase in deposits in central bank and other banks and financial institutions			
Cash paid for original insurance contract claims			
Cash paid for interests, handling charges and commissions			
Cash paid for policy dividends			
Cash paid to and on behalf of employees		513,249,764.12	526,790,692.08
Cash paid for taxes and surcharges		93,594,469.70	36,827,752.87
Cash paid for other operating activities	5.50	197,778,676.62	153,834,612.27
Sub-total of cash outflows from operating activities		2,477,125,850.85	1,939,939,844.23
<b>Net cash flows from operating activities</b>		50,886,863.54	101,603,959.96
<b>2. Cash flows from investing activities:</b>			
Cash inflow from divestment		1,510,814,497.97	567,576,228.03
Cash inflow from investment incomes		21,180,266.62	25,598,807.69
Cash gain from disposal of fixed assets, intangible assets, and other long-term investment		70,690,557.56	150,780,933.47
Cash inflow from disposal of subsidiaries and other operating units			
Cash received from other investing activities		60,250,855.95	
Sub-total of cash inflows from investing activities		1,662,936,178.10	743,955,969.19
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		128,675,422.75	63,555,422.53
Cash paid for investments		1,320,000,000.00	1,041,050,074.64
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units		37,318,928.40	129,192,337.40
Cash paid for other investing activities	5.50		27,843,567.17
Sub-total of cash outflows from investing activities		1,485,994,351.15	1,261,641,401.74
<b>Net cash flows from investing activities</b>		176,941,826.95	-517,685,432.55
<b>3. Cash flows from financing activities</b>			
Cash received from investors		400,000.00	651,882,998.82
Including: cash received by subsidiaries from investments by non-controlling shareholders			
Cash received from loans		135,348,800.00	218,840,760.00
Cash received from bonds issuance			
Cash received from other financing activities	5.50	29,523,531.37	4,000,000.00
Sub-total of cash inflows from financing activities		165,272,331.37	874,723,758.82
Cash paid for debt repayments		115,774,173.60	218,457,961.81
Cash paid for distribution of dividends and profits or payment of interest		54,186,133.16	12,656,481.32
Including: dividends and profits paid to non-controlling shareholders by subsidiaries			
Cash paid for other financing activities	5.50	50,000,000.00	52,657,379.68
Sub-total of cash outflows from financing activities		219,960,306.76	283,771,822.81
<b>Net cash flows from financing activities</b>		-54,687,975.39	590,951,936.01
<b>4. Effect of fluctuation in exchange rate on cash and cash equivalents</b>		-10,288,945.38	-39,085,212.59
<b>5. Net increase in cash and cash equivalents</b>		162,851,769.72	135,785,250.83
Plus: beginning balance of cash and cash equivalents		581,848,889.10	446,063,638.27
<b>6. Ending balance of cash and cash equivalents</b>		744,700,658.82	581,848,889.10

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Statement of Cash Flows**  
**For the Year Ended 31 December 2015**  
**(Presented in RMB unless otherwise specified)**

Item	Note	Current Year	Prior Year
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods and provision of services		34,974,046.52	55,952,332.50
Refunds of taxes and surcharges			1,499,245.00
Cash received from other operating activities		19,592,703.56	9,835,326.46
Sub-total of cash inflows from operating activities		54,566,750.08	67,286,903.96
Cash paid for goods purchased and services received		14,818,256.04	36,539,165.89
Cash paid to and on behalf of employees		19,524,656.21	23,571,950.11
Cash paid for taxes and surcharges		4,956,512.01	5,024,391.62
Cash paid for other operating activities		37,260,055.68	33,995,231.45
Sub-total of cash outflows from operating activities		76,559,479.94	99,130,739.07
<b>Net cash flows from operating activities</b>		<b>-21,992,729.86</b>	<b>-31,843,835.11</b>
<b>2. Cash flows from investing activities:</b>			
Cash inflow from divestment		1,510,814,497.97	526,460,261.91
Cash inflow from investment incomes		23,518,734.69	25,598,807.69
Cash gain from disposal of fixed assets, intangible assets, and other long-term investment		68,676,512.54	148,640,600.95
Cash inflow from disposal of subsidiaries and other operating units			
Cash received from other investing activities			88,515,700.41
Sub-total of cash inflows from investing activities		1,603,009,745.20	789,215,370.96
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		5,396,993.26	3,280,838.15
Cash paid for investments		1,580,090,000.00	1,057,350,074.64
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities		56,197,536.51	110,405,275.36
Sub-total of cash outflows from investing activities		1,641,684,529.77	1,171,036,188.15
<b>Net cash flows from investing activities</b>		<b>-38,674,784.57</b>	<b>-381,820,817.19</b>
<b>3. Cash flows from financing activities</b>			
Cash received from investors			651,882,998.82
Cash received from loans			
Cash received from bonds issuance			
Cash received from other financing activities		25,000,000.00	4,000,000.00
Sub-total of cash inflows from financing activities		25,000,000.00	655,882,998.82
Cash paid for debt repayments			123,600,000.00
Cash paid for distribution of dividends and profits or payment of interest			2,212,394.96
Cash paid for other financing activities			50,000,000.00
Sub-total of cash outflows from financing activities			175,812,394.96
<b>Net cash flows from financing activities</b>		<b>25,000,000.00</b>	<b>480,070,603.86</b>
<b>4. Effect of fluctuation in exchange rate on cash and cash equivalents</b>		<b>2,083.66</b>	<b>-4,206,120.52</b>
<b>5. Net increase in cash and cash equivalents</b>		<b>-35,665,430.77</b>	<b>62,199,831.04</b>
Plus: beginning balance of cash and cash equivalents		150,504,700.28	88,304,869.24
<b>6. Ending balance of cash and cash equivalents</b>		<b>114,839,269.51</b>	<b>150,504,700.28</b>

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min

Financial director: Li Jiaming

Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended 31 December 2015**  
**(Presented in RMB unless otherwise specified)**

Item	Current Year													
	Owners' equity attributable to the parent company											Minority equity	Total owners' equity	
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits			
		Preference shares	Perpetual bond	Others										
1. Previous year ending balance brought forward	548,589,600.00				949,310,284.01		-99,466,982.70			4,546,242.52		193,106,033.92	40,079,662.83	1,636,164,840.58
Plus: accounting policy changes														
Correction of previous-period accounting errors														
Business combination involving entities under common control														
Others														
2. Beginning balance of current year	548,589,600.00				949,310,284.01		-99,466,982.70			4,546,242.52		193,106,033.92	40,079,662.83	1,636,164,840.58
3. Increase/(decrease) for the current year ("-" for losses)					6,975,737.42		14,196,084.84					157,417,087.48	235,779,002.49	414,367,912.23
(1) Total comprehensive incomes							14,196,084.84					157,417,087.48	18,074,390.28	189,687,562.60
(2) Investment/(divestment)					6,975,737.42								199,406,922.36	206,382,659.78
a. Common shares from shareholders														
b. Investment capital from the holders of other equity instruments														
c. Amount of the share-based payment included in the owners' equity														
d. Others					6,975,737.42								199,406,922.36	206,382,659.78
(3) Distribution of profits														
a. Surplus reserves														
b. General risk reserves														
c. Distribution to owners or shareholders														
d. Others														
(4) Internal transfer of owners' equity														
a. Capital reserve turn to stock equity														
b. Surplus reserve turn to stock equity														
c. Surplus reserve to recover loss														
d. Others														
(5) Special reserves														
a. Appropriation for current year														
b. Use in current year														
(6) Others													18,297,689.85	18,297,689.85
4. Ending balance of the current year	548,589,600.00				956,286,021.43		-85,270,897.86			4,546,242.52		350,523,121.40	275,858,665.32	2,050,532,752.81

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min

Financial director: Li Jiaming

Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Consolidated Statement of Changes in Equity (Continued)**  
**For the Year Ended 31 December 2015**  
**(Presented in RMB unless otherwise specified)**

Item	Previous Year												
	Owners' equity attributable to the parent company											Minority equity	Total owners' equity
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits		
Preference shares	Perpetual bond	Others											
1. Previous year ending balance brought forward	448,886,777.00				413,337,590.08		-67,879,854.51		4,546,242.52		-2,996,568.99	133,898,177.20	929,792,363.30
Plus: accounting policy changes													-
Correction of previous-period accounting errors													-
Business combination involving entities under common control													-
Others													-
2. Beginning balance of current year	448,886,777.00	-	-	-	413,337,590.08		-67,879,854.51	-	4,546,242.52	-	-2,996,568.99	133,898,177.20	929,792,363.30
3. Increase/(decrease) for the current year ("-" for losses)	99,702,823.00		-	-	535,972,693.93	-	-31,587,128.19	-	-	-	196,102,602.91	-93,818,514.37	706,372,477.28
(1) Total comprehensive incomes							-31,587,128.19				197,616,061.21	31,067,081.46	197,096,014.48
(2) Investment/(divestment)	99,702,823.00	-	-	-	535,972,693.93	-	-	-	-	-	-	-84,272,641.11	551,402,875.82
a. Common shares from shareholders	99,702,823.00				538,186,303.88		-					-58,771,781.80	579,117,345.08
b. Investment capital from the holders of other equity instruments													-
c. Amount of the share-based payment included in the owners' equity													-
d. Others					-2,213,609.95							-25,500,859.31	-27,714,469.26
(3) Distribution of profits											-1,513,458.30	-40,612,954.72	-42,126,413.02
a. Surplus reserves													-
b. General risk reserves													-
c. Distribution to owners or shareholders													-
d. Others											-1,513,458.30	-40,612,954.72	-42,126,413.02
(4) Internal transfer of owners' equity													-
a. Capital reserve turn to stock equity													-
b. Surplus reserve turn to stock equity													-
c. Surplus reserve to recover loss													-
d. Others													-
(5) Special reserves													-
a. Appropriation for current year													-
b. Use in current year													-
(6) Others													-
4. Ending balance of the current year	548,589,600.00	-	-	-	949,310,284.01	-	-99,466,982.70	-	4,546,242.52	-	193,106,033.92	40,079,662.83	1,636,164,840.58

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



SHANG GONG (Group) Co., Ltd.  
Separate Statement of Changes in Equity  
For the Year Ended 31 December 2015  
(Presented in RMB unless otherwise specified)

Item	Current Year										
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
1. Previous year ending balance brought forward	548,589,600.00				1,003,282,687.73		16,789,785.05		4,546,242.52	-237,700,994.08	1,335,507,321.22
Plus: accounting policy changes											
Correction of previous-period accounting errors											
Others											
2. Beginning balance of current year	548,589,600.00				1,003,282,687.73		16,789,785.05		4,546,242.52	-237,700,994.08	1,335,507,321.22
3. Increase/(decrease) for the current year ("-" for losses)							28,278,699.44			5,507,272.27	33,785,971.71
(1) Total comprehensive incomes							28,278,699.44			5,507,272.27	33,785,971.71
(2) Investment/(divestment)											
a. Common shares from shareholders											
b. Investment capital from the holders of other equity instruments											
c. Amount of the share-based payment included in the owners' equity											
d. Others											
(3) Distribution of profits											
a. Surplus reserves											
b. Distribution to owners or shareholders											
c. Others											
(4) Internal transfer of owners' equity											
a. Capital reserve turn to stock equity											
b. Surplus reserve turn to stock equity											
c. Surplus reserve to recover loss											
d. Others											
(5) Special reserves											
a. Appropriation for current year											
b. Use in current year											
(6) Others											
4. Ending balance of the current year	548,589,600.00				1,003,282,687.73		45,068,484.49		4,546,242.52	-232,193,721.81	1,369,293,292.93

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG (Group) Co., Ltd.**  
**Separate Statement of Changes in Equity(Continued)**  
**For the Year Ended 31 December 2015**  
**(Presented in RMB unless otherwise specified)**

Item	Previous Year										
	Share capital	Other equity instruments	Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total owners' equity		
1. Previous year ending balance brought forward	448,886,777.00				465,096,383.85		10,373,499.03		4,546,242.52	-336,535,478.73	592,367,423.67
Plus: accounting policy changes											
Correction of previous-period accounting errors											
Others											
2. Beginning balance of current year	448,886,777.00				465,096,383.85		10,373,499.03		4,546,242.52	-336,535,478.73	592,367,423.67
3. Increase/(decrease) for the current year ("-" for losses)	99,702,823.00				538,186,303.88		6,416,286.02			98,834,484.65	743,139,897.55
(1) Total comprehensive incomes							6,416,286.02			98,834,484.65	105,250,770.67
(2) Investment/(divestment)	99,702,823.00				538,186,303.88						637,889,126.88
a. Common shares from shareholders	99,702,823.00				538,186,303.88						637,889,126.88
b. Investment capital from the holders of other equity instruments											
c. Amount of the share-based payment included in the owners' equity											
d. Others											
(3) Distribution of profits											
a. Surplus reserves											
b. Distribution to owners or shareholders											
c. Others											
(4) Internal transfer of owners' equity											
a. Capital reserve turn to stock equity											
b. Surplus reserve turn to stock equity											
c. Surplus reserve to recover loss											
d. Others											
(5) Special reserves											
a. Appropriation for current year											
b. Use in current year											
(6) Others											
4. Ending balance of the current year	548,589,600.00				1,003,282,687.73		16,789,785.05		4,546,242.52	-237,700,994.08	1,335,507,321.22

Accompanying notes to financial statements are an integral part of the financial statements.

Legal representative: Zhang Min      Financial director: Li Jiaming      Financial manager: Zhao Lixin



**SHANG GONG Group Co., Ltd.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**  
**(Amounts are expressed in RMB unless otherwise stated)**

**1. Background information**

**1.1 Company profile**

SHANG GONG Group Co., Ltd. (hereinafter referred to as SHANG GONG), a joint stock limited company with publicly issued A & B shares on the Shanghai Stock Exchange, is the first listed company in the sewing machinery industry of China. The Company was incorporated in April 1994. The registration number of its Business License for Enterprise Legal Persons is 310000400080303 (Shi Ju). The organizational form of the Company is a joint stock limited company (a Sino-foreign joint venture and a listed company) and the registered capital amounts to RMB 548,589,600.00. The registered address is Room A-D, Floor 12, Dongfang Building, No. 1500 Century Avenue, Pudong New Area, Shanghai and the head office is located in Room A-D, Floor 12, Dongfang Building, No. 1500 Century Avenue, Pudong New Area, Shanghai. The legal representative is Mr. Zhang Min.

On May 22, 2006, it was decided on the General Meeting on equity division reform by the Company that: the non-tradable equity stockholders pay partially their shares to all the tradable equity shareholders at a ratio of 10 to 6 as consideration of getting tradable rights. After the above consideration of share donation, the total number of shares remains unchanged, but consequently the equity structure has changed. As at December 31, 2013, there were 448,886,777 shares in total.

On February 28, 2014, the China Securities Regulatory Commission approved the non-public offering of A shares of the Company under the Official Reply to the Approval of Non-public Offering of Shares of SHANG GONG Group Co., Ltd. ([2014] No. 237). The number of shares issued was 99,702,823.00 and the total number of share capital after the issue was 548,589,600.00. The Company handled equity registration and escrow formalities with the CSDC Shanghai Branch; the corresponding registered capital was changed to RMB 548,589,600.00 and had been verified by the Verification Report (PCPAR [2014] No.111126) issued by BDO CHINA ShuLun Pan Certified Public Accountants LLP on March 26, 2014.

As at December 31, 2015, the total number of share capital is 548,589,600.00, including: shares without restrictive conditions for sales of 548,589,600.00 shares, accounting for 100% of the total number of shares.

The Company belongs to special equipment manufacturing industry; main operating activities of the Company are: production and sales of sewing equipment.

The Company's parent company is SHANG GONG Group Co., Ltd. and its actual controller is the State-owned Assets Supervision and Administration Commission of Shanghai Pudong New Area People's Government.

According to the decision in the twenty-sixth board meeting (7th round), the financial statements were approved by all directors of the Company for disclosure on 18 March 2016.

**1.2 Scope of the consolidated financial statements**

As at December 31, 2014, subsidiaries within the scope of the consolidated financial statements of the Company are as follows:

Subsidiaries
1. Shanghai Shanggong & Butterfly Sewing Machine Co., Ltd.
2. DAP (Shanghai) Co., Ltd
3. Shanghai SMPIC IMPORT & EXPORT CO.,LTD.
4. Shanghai SGSB Electronics Co., Ltd.
5. Shanghai SGSB Asset Management Co., Ltd.
6. Shanghai Sewing Construction Property Co., Ltd.



---

7. Dürkopp Adler Sewing Equipment (Suzhou) Co., Ltd.

8. ShangGong (Europe) Holding Corp. GmbH

9. Zhejiang SG & GEMSY Sewing Technology Co., Ltd.

10. Shanghai Shensy Enterprise Development Co., Ltd.

---

See “Note 6 Changes in the scope of consolidation” and “Note 7 Equity in other subjects” for details of the scope of consolidated financial statements in the current year and the changes thereof.

## **2. Preparation basis of financial statements**

### **2.1 Preparation basis**

The Company prepares the financial statements based on going concern, according to the transactions and events actually occurred and in accordance with the Accounting Standards for Business Enterprises - Basic Standard and various specific accounting standards, application guidance and interpretations for accounting standards for business enterprises and other relevant provisions (hereinafter collectively referred to as "Accounting Standards for Business Enterprises") promulgated by the Ministry of Finance and disclosure provisions of the Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No. 15 - General Rules on Financial Reports of the China Securities Regulatory Commission.

### **2.2 Going concern**

The Company has going-concern ability within 12 months as of the end of the reporting period and has no matters or situations that may lead to serious doubts about the Company's going-concern ability.

## **3. Principal accounting policies and accounting estimates**

The following disclosure has covered the Company's specific accounting policies and accounting estimates prepared according to the actual production and operation characteristics.

### **3.1 Statement on compliance with Accounting Standards for Business Enterprises**

The financial statements prepared by the Company meet the requirements of the Accounting Standards for Business Enterprises and truly and completely reflect the Company's financial position, operating results, cash flows and other related information in the reporting period.

### **3.2 Accounting period**

The accounting year is from January 1 to December 31 in calendar year.

### **3.3 Operating cycle**

The Company's operating cycle is 12 months.

### **3.4 Functional currency**

The Company adopts RMB as its functional currency.

### **3.5 Accounting treatment methods of business combinations under common control and not under common control**

Business combinations under common control: Assets and liabilities acquired from business combinations by the Company are measured at book value of assets and liabilities (including goodwill formed from the purchase of the acquiree by the ultimate controller) in the consolidated financial statements of the ultimate controller. Stock premium in the capital reserve should be adjusted according to the difference between the book value of net asset acquired from the combinations and that of consideration (or total face value of the shares issued) paid. In case the stock premium in the capital reserve is not enough, the retained earnings need to be adjusted.

Business combinations not under common control: Assets paid for consideration and liabilities incurred or borne by the Company on the acquisition date shall be measured at their fair values. The difference between the fair value and the book value should be included in the current profit and loss. The Company shall recognize the difference of the combination costs in excess of the fair value of the identifiable net assets acquired from the acquiree as goodwill. The Company shall include the difference of the combination costs in short of the fair value of the identifiable net assets acquired from the acquiree in the current profit and loss after review.



Intermediary service charges such as audit fee, legal service fee, appraisal and consultancy fee paid for business combinations and other directly relevant expenses are included in the current profit and loss when incurred; the transaction costs for the issuance of equity securities shall be used to offset equities.

### **3.6 Preparation methods of consolidated financial statements**

#### **3.6.1 Scope of consolidation**

The scope of consolidation of the Company's consolidated financial statements is recognized based on the control. All subsidiaries (including the divisible part of the investee controlled by the Company) should be included in the consolidated financial statements.

#### **3.6.2 Consolidation procedure**

The Company prepares consolidated financial statements based on its own financial statements and financial statements of its subsidiaries according to other relevant materials. When the Company prepares its consolidated financial statements, it shall regard the whole enterprise group as an accounting entity to reflect the overall financial position, operating results and cash flows of the enterprise group according to the requirements for recognition, measurement and presentation of the relevant Accounting Standards for Business Enterprises and the uniform accounting policies.

Accounting policies and accounting periods adopted by all subsidiaries included in the consolidation scope of the consolidated financial statements should be consistent with those of the Company. If accounting policies and accounting periods adopted by all subsidiaries are inconsistent with those of the Company, in the preparation of the consolidated financial statements, necessary adjustments shall be made according to the accounting policies and accounting periods of the Company. For the subsidiaries acquired through business combination not under common control, adjustments to their financial statements shall be made based on the fair values of net identifiable assets on the acquisition date. For the subsidiaries acquired through business combination not under common control, adjustments to their financial statements shall be made based on the fair values of their assets and liabilities (including goodwill from acquisition of the subsidiaries by the ultimate controller) in the financial statements of the ultimate controller.

The share of owner's equity, net profits and losses in the current year and comprehensive income in the current year of subsidiaries attributable to minority shareholders should separately presented under the item of owner's equity of the Consolidated Balance Sheet, the item of net profit of the Consolidated Income Statement and the item of total comprehensive income. The difference formed by the loss in the current year shared by minority shareholders of the subsidiaries in excess of the share of minority shareholders in the owner's equity at the beginning of the year of the subsidiaries should be used to offset the minority equity.

##### **(1) Increase in subsidiaries or business**

In the reporting period, if the Company increased subsidiaries or business from business combinations under common control, then the beginning amount of the Consolidated Balance Sheet should be adjusted; the incomes, expenses and profits from the combinations of the subsidiaries and business from the beginning of the current year to the end of the reporting period shall be included in the Consolidated Income Statement; cash flows from the combinations of the subsidiaries and business from the beginning of the current year to the end of the reporting period shall be included in the Consolidated Cash Flow Statement. At the same time, the Company should adjust the relevant items of the comparative statements and deem that the reporting entity already exists when the ultimate controller starts its control.

Where the Company can control the investee under common control from additional investments, it should deem that parties involved in the combination have make adjustments at the current state when the ultimate controller starts its control. Equity investments held before the Company controls the acquiree, the relevant profit and loss recognized during the period from the later of the date when the Company obtains the original equity and the date when the acquirer and the acquiree are under common control, other comprehensive income and changes in other net assets shall be used to offset the retained earnings at the beginning of the year or the current profit and loss in the period of the comparative statements.

In the reporting period, if the Company increased subsidiaries or business from business combinations not



under common control, then the beginning amount of the Consolidated Balance Sheet should not be adjusted; the incomes, expenses and profits from the subsidiaries and business from the acquisition date to the end of the reporting period shall be included in the Consolidated Income Statement; cash flows from the subsidiaries and business from the acquisition date to the end of the reporting period shall be included in the Consolidated Cash Flow Statement.

Where the Company can control the investee not under common control from additional investments, it shall re-measure equity of the acquiree held before the acquisition date at the fair value of such equity on the acquisition date and include the difference of the fair value and book value in the investment income in the current year. Where equity of the acquiree held before the acquisition date involves in other comprehensive income accounted for under equity method and other changes in owner's equity other than net profit and loss, other comprehensive income and profit distribution, the relevant other comprehensive income and other changes in owner's equity shall be transferred to investment income in the current year which the acquisition date falls in, except for other comprehensive income from changes arising from re-measurement of net liabilities or net assets of defined benefit plan.

(2) Disposal of subsidiaries or business  
a. General treatment methods

In the reporting period, if the Company disposed subsidiaries or business, then the incomes, expenses and profits from the subsidiaries and business from the beginning of the year to the disposal date shall be included in the Consolidated Income Statement; cash flows from the combinations of the subsidiaries and business from the beginning of the year to the disposal date shall be included in the Consolidated Cash Flow Statement.

When the Company losses the control over the original subsidiary due to disposal of partial equity investments or other reasons, the remaining equity investments after the disposal will be re-measured at the fair value at the date of loss of the control. The difference of total amount of the consideration from disposal of equities plus the fair value of the remaining equities less the shares calculated at the original shareholding ratio in net assets of the original subsidiary which are continuously calculated as of the acquisition date is included in the investment income of the period at the loss of control. Other comprehensive income associated with the original equity investments of the subsidiary and other changes in owner's equity other than net profit and loss, other comprehensive income and profit distribution are transferred into investment income in the current year when the control is lost, except for other comprehensive income from changes arising from re-measurement of net liabilities or net assets of defined benefit plan.

b. Disposal of subsidiary by stages

Where the Company disposes the equity investments in subsidiary through multiple transactions and by stages until it loses the control, if the effect of the disposal on the terms and conditions of all transactions of equity investments in subsidiary and economic effect meet one or more of the following circumstance, it usually indicates that the multiple transactions should be accounted for as a package deal:

- i. These transactions are concluded at the same time or under the consideration of mutual effect;
- ii. These transactions as a whole can reach a complete business results;
- iii. The occurrence of a transaction depends on the occurrence of at least one other transaction;
- iv. A single transaction is uneconomical but it is economical when considered together with other transactions.

Where various transactions of disposal of equity investments in subsidiaries until loss of the control belong to a package deal, accounting treatment shall be made by the Company on the transactions as a transaction to dispose subsidiaries and lose the control; however, the difference between each disposal cost and net asset share in the subsidiaries corresponding to each disposal of investments before loss of the control should be recognized as other comprehensive income in the consolidated financial statements and should be transferred into the current profit or loss at the loss of the control.

Where various transactions of disposal of equity investments in subsidiaries until loss of the control do not belong to a package deal, before the loss of the control, accounting treatment shall be made according to the relevant policies for partial disposal of equity investments in the subsidiary without losing control; at the loss



of the control, accounting treatment shall be made according to general treatment methods for disposal of subsidiaries.

(3) Purchase of minority interest of subsidiaries

The difference between long-term equity investments newly acquired by the Company through purchase of minority interest and the subsidiary's identifiable net assets attributable to the Company calculated continuously from the acquisition date (or the combination date) in accordance with the newly increased shareholding ratio shall be charged against stock premium within capital reserves in the consolidated balance sheet; when stock premium within capital reserves is insufficient to offset, the retained earnings shall be adjusted.

(4) Partial disposal of equity investments in the subsidiary without losing control

The difference between the proceeds from partial disposal of equity investments in the subsidiary and the share of identifiable net assets of the subsidiary attributable to the Company which are calculated continuously from the acquisition date (or the combination date) and which are corresponding to the disposal of long-term equity investments without losing control shall be charged against stock premium within capital reserves in the consolidated balance sheet; when stock premium within capital reserves is insufficient to offset, the retained earnings shall be adjusted.

### 3.7 Cash and cash equivalents

In preparing the cash flow statement, cash on hand and the unrestricted deposits of the Company are recognized as cash. Short-term (maturing within three months as of the acquisition date) and highly liquid investments held by the Company that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value are recognized as cash equivalents.

### 3.8 Foreign currency transactions and translation of foreign currency statements

#### 3.8.1 Foreign currency transactions

Foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates at the dates of the transactions.

The balance of foreign currency monetary items is adjusted and translated into functional currency at balance sheet date using the spot exchange rate. Regarding the year-end differences of translation in foreign currency, except those special borrowing accounts under the acquisition, building or production of assets to be capitalized are capitalized and accounted into related assets cost, all the other differences are accounted into current profits and losses. The foreign currency non-monetary items at historical cost are translated using the spot exchange rate. And the foreign currency non-monetary items at fair value are adjusted and translated into measurement currency at adoption date of fair value using the spot exchange rate. The difference of translation between different currencies is accounted into current profits and losses or capital reserves.

#### 3.8.2 Translation of foreign currency statements

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the balance sheet date. The equity items, excluding "Retained earning", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting exchange differences are recognized in a separate component of equity.

Upon entire/partial disposal of a foreign operation, the entire/partial cumulative amount of the exchange differences recognized in equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

### 3.9 Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

#### 3.9.1 Classification of financial instruments

At the initial recognition, financial assets and financial liabilities are classified as: financial assets or financial liabilities measured at fair value through current profit and loss, including financial assets or financial



liabilities held for trading, and financial assets or financial liabilities that are directly to be measured at fair value through current profit and loss, held-to-maturity investments, accounts receivable, available-for-sale financial assets and other financial liabilities, etc.

### 3.9.2 Recognition basis and measurement method of financial instruments

(1) Financial assets (financial liabilities) measured at fair value through current profit and loss.

Financial assets (financial liabilities) are initially recorded at fair values when acquired (deducting cash dividends that have been declared but not distributed and bond interest that has matured but not been drawn). Relevant transaction expenses are included in the current profit and loss.

The interest or cash dividends to be received during the holding period is or are recognized as investment income. Change in fair values is included in the current profit and loss at the end of the period.

Upon the disposal, difference between the fair value and the initial book-entry value is recognized as investment income; meanwhile, adjustment is made to gains or losses from changes in fair values.

(2) Held-to-maturity investments

Held-to-maturity investments are initially recorded at the sum of fair values (less the bond interest that has matured but not been drawn) and relevant transaction expenses when acquired.

During the period of holding the investment, the interest income is calculated and recognized according to the amortized costs and effective interest rate, and included in the investment income. The effective interest rates are determined upon acquisition and remain unchanged during the expected remaining period, or a shorter period if applicable.

Difference between the proceeds and the book value of the investment is recognized as investment income upon disposal.

(3) Receivables

For creditor's rights receivable arising from external sales of goods or rendering of service by the Company and creditor's rights of other enterprises (excluding creditor's right quoted in the active market) held by the Company, including accounts receivable, other receivables, the initial recognition amount shall be the contract price or agreement price receivable from the purchasing party; for those with financing nature, they are initially recognized at their present values.

The difference between the amount received and the book value of accounts receivable is included in the current profit and loss upon the recovery or disposal.

(4) Available-for-sale financial assets

Available-for-sale financial assets are initially recorded at the sum of fair values (deducting cash dividends that have been declared but not distributed and bond interest that have matured but not been drawn) and relevant transaction costs when acquired.

The interest or cash dividends to be received during the holding period is or are recognized as investment income. Available-for-sale financial assets are measured at fair value at the end of the year and the changes in fair value are included in other comprehensive income. However, equity instrument investments that have no quoted price in the active market and of which fair values cannot be measured reliably and derivative financial assets that relate to such equity instruments and that shall be settled through the delivery of such equity instruments shall be measured at cost.

Difference between the proceeds and the book value of the financial assets is recognized as investment income upon disposal; meanwhile, amount of disposal corresponding to the accumulated change in fair value which is originally and directly included in other comprehensive income shall be transferred out and recognized as the current profit and loss.

(5) Other financial liabilities

Other financial liabilities are initially recognized at fair values plus related transaction costs. The subsequent



measurement is based on amortized costs.

### 3.9.3 Recognition and measurement of transfer of financial assets

Upon occurrence of transfer of a financial asset, the Company shall de-recognize the transfer of the financial asset if nearly all the risks and rewards associated with the ownership of the financial assets have been transferred to the transferee; and shall not de-recognize the transfer of the financial asset if nearly all the risks and rewards associated with the ownership of the financial assets are retained.

The principle of substance over form is adopted to determine whether a financial asset meets the above de-recognition conditions for the financial asset. The transfer of a financial asset of the Company is classified into the entire transfer and the partial transfer of financial asset. If the entire transfer of financial asset satisfies the criteria for de-recognition, the difference between the amounts of the following two items shall be included in the current profit and loss:

(1) The book value of the transferred financial asset;

(2) The sum of the consideration received from the transfer and the accumulated amount of the changes in fair value originally and directly included in shareholders' equity (the situation where the financial asset transferred is an available-for-sale financial asset is involved in).

If the partial transfer of financial asset satisfies the criteria for de-recognition, the entire book value of the transferred financial asset shall be split into the derecognized part and recognized part according to their respective fair value and the difference between the amounts of the following two items shall be included in the current profit and loss:

(1) The book value of derecognized part;

(2) The sum of the consideration for the derecognized part and the portion of de-recognition corresponding to the accumulated amount of the changes in fair value originally and directly included in owners' equity (the situation where the financial asset transferred is an available-for-sale financial asset is involved in).

If the transfer of financial assets does not meet the de-recognition criteria, the financial assets shall continue to be recognized and the consideration received will be recognized as a financial liability.

### 3.9.4 Derecognition criteria of financial liabilities

A financial liability shall be wholly or partly derecognized if its present obligations are wholly or partly dissolved. Where the Company enters into an agreement with a creditor so as to substitute the existing financial liabilities with any new financial liability, and the new financial liability is substantially different from the contractual stipulations regarding the existing financial liability, it shall derecognize the existing financial liability, and shall at the same time recognize new financial liability.

Where substantial revisions are made to some or all of the contractual stipulations of the existing financial liability, the Company shall derecognize the existing financial liability wholly or partly, and at the same time recognize the financial liability with revised contractual stipulations as a new financial liability.

Upon whole or partial derecognition of financial liabilities, the difference between the book value of the financial liabilities derecognized and the consideration paid (including non-cash assets surrendered or new financial liabilities assumed) shall be included in the current profit and loss.

Where the Company redeems part of its financial liabilities, it shall, on the redemption date, allocate the entire book value of financial liabilities according to the comparative fair value of the part that continues to be recognized and de-recognized part. The difference between the book value allocated to the derecognized part and the considerations paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in the current profit and loss.

### 3.9.5 Determination method of fair value of financial assets and financial liabilities

Where there is an active market for financial instruments, the fair values shall be determined according to quoted prices in active markets. Where there is no active market, the fair values shall be determined using reasonable valuation techniques. At the time of valuation, the Company adopted valuation techniques applicable in the current situation and supported by enough available data and other information, select input values consistent with the features of assets or liabilities considered by market participants in the transaction related to the assets or liabilities, and give priority to using the relevant observable input values. Only when it



is unable or impracticable to obtain the relevant observable input values, unobservable input values can be used.

### 3.9.6 Test method and accounting treatment of depreciation of financial assets (excluding receivables)

Except for the financial assets measured at fair values through current profit and loss, the book value of financial assets on the balance sheet date should be checked. If there is objective evidence that a financial asset is impaired, provision for impairment shall be made.

(1) Provision for impairment of available-for-sale financial assets:

If the fair value of available-for-sale financial assets has significantly declined at the end of the period, or it is expected that the trend of decrease in value is non-temporary after considering of various relevant factors, the impairment shall be recognized, and accumulated losses from decreases in fair value originally and directly included in owners' equity shall be all transferred out and recognized as impairment loss.

For available-for-sale debt instruments whose impairment losses have been recognized, if their fair values rise in the subsequent accounting period and such rise is objectively related to the matters occurring after the recognition of impairment loss, the previously recognized impairment loss shall be reversed and recorded into the current profit and loss.

Impairment losses on available-for-sale equity instruments should not be reversed through profit and loss.

Criteria of the Company for "serious" decline of fair value of investments in available-for-sale equity instruments: In general, for highly liquid equity investments that are actively traded in the market, over 50% of the decline is considered to be a serious fall. Criteria for "non-temporary" decline of fair value: In general, if a continuous decline lasts for more than six months, it is considered as "non-temporary decline."

(2) Provision for impairment of held-to-maturity investments:

Measurement of provision for impairment loss on held-to-maturity investments is treated in accordance with the measurement method of impairment loss on accounts receivable.

### 3.10 Provision for bad debts of receivables

#### 3.10.1 Receivables that are individually significant but with provision for bad debts made on an individual basis:

Assessment basis or standard of amount individually significant: Top five biggest balance accounts.

Method of provision for bad debts of receivables that are individually significant:

An impairment test shall be separately made and provision for bad debts shall be made according to the difference between the present value of estimated future cash flows lower than the book value and should be included in the current profit and loss. For short-term receivables, the difference between expected future cash flows and the present value is too small to discount the expected future cash flows when recognizing the relevant impairment losses.

#### 3.10.2 Provision for bad debts of receivables made on credit risk characteristics portfolio basis:

Methods of provision for bad debts made on credit risk characteristics portfolio basis	
Portfolio	Balances of receivables other than accounts receivable subject to provisions for bad debts on an individual basis and other receivables
Methods of provision for bad debts made on the basis of portfolio	
Portfolio	Aging analysis method

Provision for bad debts made at aging analysis method in the portfolio:

Aging	Proportion of provision for accounts receivable (%)	Proportion of provision for other receivables (%)
Within 1 year (including 1 year)	5	5
1 to 2 years	20	20
2 to 3 years	50	50
Over 3 years	100	100



### **3.10.3 Receivables that are individually insignificant but with provision for bad debts made on an individual basis:**

Reason for bad debt provision provided on an individual basis: Receivables of a particular object.

Method of provision for bad debts: An impairment test should be separately made. When there is objective evidence suggesting that receivables are impaired, provision for bad debts shall be made at the difference of present value of estimated future cash flows in short of their book values and should be included in the current profit and loss.

## **3.11 Inventories**

### **3.11.1 Classification of inventories**

Inventories are classified into Materials in transit, raw materials, revolving materials, stock commodities, goods in progress, dispatched goods, consigned processing materials labor cost and others.

### **3.11.2 Measurement method of dispatched inventories**

Inventories are measured with weighted average method when dispatched. The percentage matches method of the labor cost and labor revenue. One-off amortization method is adopted for low-cost consumables when they are consumed.

### **3.11.3 Recognition basis for net realizable values of inventories of different categories**

In normal operation process, for merchandise inventories for direct sale, including finished goods, stock commodities and materials for sale, their net realizable values are determined at the estimated selling prices minus the estimated selling expenses and relevant taxes and surcharges; in normal operation process, for material inventories that need further processing, their net realizable values are determined at the estimated selling prices of finished goods minus estimated costs to completion, estimated selling expenses and relevant taxes and surcharges; for inventories held to execute sales contract or service contract, their net realizable values are calculated on the basis of contract price. If the quantities of inventories specified in sales contracts are less than the quantities held by the Company, the net realizable value of the excess portion of inventories shall be based on general selling prices.

At the end of the period, provisions for inventory depreciation reserve are made on an individual basis. For inventories with large quantity and low unit price, the provisions for inventory depreciation reserve are made on a category basis. For inventories related to the product portfolios manufactured and sold in the same area, and of which the final usage or purpose is identical or similar thereto, and which is difficult to separate from other items for measurement purposes, the provisions for inventory depreciation reserve shall be made on a portfolio basis.

Except that there is clear evidence that the market price is abnormal on the balance sheet date, the net realizable value of inventory items shall be recognized at the market price on the balance sheet date.

Net realizable value of inventory items at the end of the year is recognized at the market price on the balance sheet date.

### **3.11.4 Inventory system**

Perpetual inventory system is adopted.

### **3.11.5 Amortization method of low-cost consumables and packaging materials**

- (1) One-off amortization method is adopted for low-cost consumables;
- (2) One-off amortization method is adopted for packaging materials.

## **3.12 Long-term equity investments**

### **3.12.1 Criteria for judgment of common control and significant influence**

The term 'common control' refers to the joint control, according to the relevant provisions, over an arrangement, of which the relevant activities should be agreed and decided by the participants that share the control. Where the Company and other investors exert common joint control over the investee and the



Company is entitled to net assets of the investee, the investee is the joint venture of the Company.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties. Where the Company is able to exert significant influence over the investee, the investee is its associate.

### 3.12.2 Recognition of initial investment costs

#### (1) Long-term equity investments acquired from business combination

Business combination under common control: if the Company makes payment in cash, transfers non-cash assets or bears debts and issues equity securities as the consideration for the business combination, the book value of the owner's equity of the acquiree in the consolidated financial statements of the ultimate controller is recognized as the initial cost of the long-term equity investment on the combination date. In case the Company can exercise control over the investee under common control for additional investment or other reasons, the initial investment cost of long-term equity investments is recognized at the share of book value of net asset of the acquiree after the combination in the consolidated financial statements of the ultimate controller on the combination date. The stock premium should be adjusted at the difference between the initial investment cost of long-term equity investments on the combination date and the book value of long-term equity investments before the combination plus the book value of consideration paid for additional shares; if there is no sufficient stock premium for write-downs, the retained earnings are adjusted.

Business combination not under common control: The Company recognizes the combination cost determined on the combination date as the initial cost of long-term equity investments. Where the Company can exercise control over the investee not under common control for additional investments or other reasons, the initial investment cost changed to be accounted for under the cost method should be recognized at the book value of originally held equity investments plus costs of additional investments.

#### (2) Long-term equity investment acquired by other means

For a long-term equity investment acquired through making payments in cash, its initial cost is the actually paid purchase cost.

For a long-term equity investment acquired from issuance of equity securities, its initial cost is the fair value of the issued equity securities.

If the exchange of non-monetary assets has commercial substance and the fair values of assets traded out and traded in can be measured reliably, the initial cost of long-term equity investment traded in with non-monetary assets are determined based on the fair values of the assets traded out and the relevant taxes and surcharges payable unless there is any conclusive evidence that the fair values of the assets traded in are more reliable; if the exchange of non-monetary assets does not meet the above criteria, the book value of the assets traded out and the relevant taxes and surcharges payable are recognized as the initial cost of long-term equity investment traded in.

For a long-term equity investment acquired from debt restructuring, its initial cost is determined based on the fair value.

### 3.12.3 Subsequent measurement and recognition of gains and losses

#### (1) Long-term equity investment accounted for under the cost method

Long-term equity investments in subsidiaries are accounted for under the cost method. Except for the actual price paid for acquisition of investment or the cash dividends or profits contained in the consideration which have been declared but not yet distributed, the Company recognizes the investment income in the current year at the cash dividends or profits declared by the investee.

#### (2) Long-term equity investments accounted for under the equity method

Long-term equity investments in associates and joint ventures are accounted for under the equity method. If the cost of initial investment is in excess of the proportion of the fair value of the net identifiable assets in the investee when the investment is made, the difference will not be adjusted to the initial cost of the long-term



equity investments; if the cost of initial investment is in short of the proportion of the fair value of the net identifiable assets in the investee when the investment is made, the difference will be included in the current profit and loss.

The Company shall recognize the investment income and other comprehensive income at the shares of net profit and loss and other comprehensive income realized by the investee which the Company shall enjoy or bear and adjust the book value of long-term equity investments at the same time; the Company shall calculate the shares according to profits or cash dividends declared by the investee and correspondingly reduce the book value of long-term equity investments; the book value of long-term equity investments shall be adjusted according to the investee's other changes in owner's equity other than net profit and loss, other comprehensive income and profit distribution, which should be included in owner's equity.

The share of the investee's net profit or loss should be recognized after adjustments are made to net profit of the investee based on the fair value of identifiable net assets of the investee upon acquisition of investments and according to accounting policies and accounting period of the Company. When holding the investment, the investee should prepare the consolidated financial statements, it shall account for the investment income based on the net profit, other comprehensive income and the changes in other owner's equity attributable to the investee.

When the Company recognizes its share of loss incurred to the investee, treatment shall be done in following sequence: firstly, the book value of the long-term equity investment shall be reduced. Secondly, where the book value thereof is insufficient to cover the share of losses, investment losses are recognized to the extent of book value of other long-term equities which form net investment in the investee in substance and the book value of long term receivables shall be reduced. Finally, after all the above treatments, if the Company is still responsible for any additional liability in accordance with the provisions stipulated in the investment contracts or agreements, provisions are recognized and included into current investment loss according to the obligations estimated to undertake.

### (3) Disposal of long-term equity investments

For disposal of long-term equity investment, the difference between its book value and the actual price shall be included in the current profit and loss.

For long-term equity investments accounted for under the equity method, when the Company disposes such investments, accounting treatment should be made to the part that is originally included in other comprehensive income according to the corresponding proportion by using the same basis for the investee to directly dispose the relevant assets or liabilities. Owner's equity recognized at the changes in the investee's other owner's equity other than net profit or loss, other comprehensive income and profit distribution shall be transferred to the current profit and loss according to the proportion, except for other comprehensive income from changes arising from re-measurement of net liabilities or net assets of defined benefit plan.

In case the joint control or significant influence over the investee is lost for disposing part of equity investments or other reasons, the remaining equity will be changed to be accounted for according to the recognition and measurement principles of financial instruments. The difference between the fair value and the book value on the date of the loss of joint control or significant influence should be included in the current profit and loss. For other comprehensive income recognized from accounting of the original equity investments under the equity method, accounting treatment should be made by using the same basis for the investee to directly dispose the relevant assets or liabilities when the equity method is no longer adopted. Owner's equity recognized from the investee's changes in other owner's equity other than net profit or loss, other comprehensive income and profit distribution should all transferred to the current profit and loss when the equity method confirmed is no longer adopted.

In case the control over the investee is lost for disposing part of equity investments or other reasons, when the Company prepares the individual financial statements, where the remaining equity after the disposal can exercise joint control or significant effect on the investee, then such equity will be changed to be accounted for under the equity method and the remaining equity is deemed to have been adjusted under the equity method on acquisition; where the remaining equity after the disposal cannot exercise joint control or significant effect on the investee, then accounting treatment shall be changed to be made according to the relevant provisions on the



recognition and measurement principles of financial instruments. The difference between the fair value and the book value on the date of the loss of joint control or significant influence should be included in the current profit and loss.

In case the disposed equity is acquired from additional investments or other reasons, when the Company prepares the individual financial statements, where the remaining equity after the disposal is accounted for under the cost method or the equity method, other comprehensive income and other owner's equity recognized from the accounting of equity investments held before the acquisition date under the equity method shall be transferred according to the proportion; where accounting treatment of the remaining equity after the disposal is changed to be made according to the recognition and measurement principles of financial instruments, all of other comprehensive income and other owner's equity shall be transferred.

### 3.13 Investment property

Investment properties are properties to earn rentals or for capital appreciation or both. Examples include land leased out under operating leases, land held for long-term capital appreciation, buildings leased out under operating leases, (including buildings that have been constructed or developed for future lease out under operating leases, and buildings that are being constructed or developed for future lease out under operating leases).

The Company adopts the cost model to measure all current investment properties. The Company adopts the same depreciation policy for the investment property measured at cost model - building for renting as that for the Company's fixed assets and the same amortization policy of land use right for renting as that for the Company's intangible assets.

### 3.14 Fixed assets

#### 3.14.1 Recognition criteria for fixed assets

Fixed assets refer to tangible assets held for the purpose of producing commodities, providing services, renting or business management with useful lives exceeding one accounting year. Fixed assets will only be recognized when all the following criteria are satisfied:

- (1) It is probable that the economic benefits relating to the fixed assets will flow into the Company; and
- (2) The costs of the fixed asset can be measured reliably.

#### 3.14.2 Depreciation method

Depreciation of fixed assets is provided on a category basis using the straight-line method. The depreciation rates are determined according to the categories, estimated useful lives and estimated net residual rates of fixed assets. If the components of a fixed asset have different useful lives or cause economic benefit for the Company in different ways, different depreciation rate or method shall be adopted for depreciation on an individual component basis.

Depreciation of fixed assets, depreciation period, residual rate and annual depreciation rates are as follows:

Category	Depreciation life (years)	Residual rate (%)	Annual depreciation rate (%)
Buildings and constructions	5-50	0-10	2.00-25.00
Machinery equipment	3-15	0-10	6.00-33.33
Transportation equipment	3-14	0-10	6.43-33.33
Electronic equipment	3-14	0-10	6.43-33.33
Renovations of fixed assets	5-15	0	6.67-20.00
Other equipment	3-14	0-10	6.43-33.33

### 3.15 Construction in progress

The book values of the construction in progress are stated at total expenditures incurred before reaching working condition for their intended use. For construction in progress that has reached working condition for intended use but relevant budgets for the completion of projects have not been completed, the estimated values of project budgets, prices, or actual costs should be included in the costs of relevant fixed assets, and



depreciation should be provided according to relevant policies of the Company when working condition is reached. After the completion of budgets needed for the completion of projects, the estimated values should be substituted by actual costs, but depreciation already provided is not adjusted.

### **3.16 Borrowing costs**

#### **3.16.1 Recognition criteria for capitalization of borrowing costs**

Borrowing costs include the interest on borrowings, the amortization of discount or premium, auxiliary expenses, exchange differences incurred by foreign currency borrowings, etc.

The borrowing costs incurred to the Company and directly attributable to the acquisition and construction or production of assets eligible for capitalization should be capitalized and recorded into asset costs; other borrowing costs should be recognized as costs according to the amount incurred and be included into current profit and loss.

Assets eligible for capitalization refer to fixed assets, investment property, inventories and other assets which may reach their intended use or sale status only after long-time acquisition and construction or production activities.

Borrowing costs may be capitalized only when all the following conditions are met at the same time:

- (1) The asset disbursements have already incurred, which shall include the cash paid, non-cash assets transferred or interest bearing debts undertaken for the acquisition and construction or production activities for preparing assets eligible for capitalization;
- (2) The borrowing costs has already incurred; and
- (3) Purchase, construction or manufacturing activities that are necessary to prepare the asset for its intended use or sale have already started.

#### **3.16.2 Capitalization period of borrowing costs**

Capitalization period refers to the period from commencement of capitalization of borrowing costs to its cessation; period of suspension for capitalization is excluded.

When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased.

When some projects among the acquired and constructed or produced assets eligible for capitalization are completed and can be used separately, the capitalization of borrowing costs of such projects should be ceased.

Where construction for each part of assets purchased, constructed or manufactured has been completed separately but can be used or sold only after the entire assets have been completed; capitalization of attributable borrowing costs should cease at the completion of the entire assets.

#### **3.16.3 Period of capitalization suspension**

If the acquisition and construction or production activities of assets eligible for capitalization are interrupted abnormally and this condition lasts for more than three months, the capitalization of borrowing costs should be suspended; if the interruption is necessary for the acquisition and construction or production to prepare the assets for their intended use or sale, the capitalization of borrowing costs should continue. The borrowing costs incurred during interruption are recognized in the current profit and loss, and the capitalization of borrowing costs continues after the restart of the acquisition and construction or production activities of the assets.

#### **3.16.4 Capitalization rate and measurement of capitalized amounts of borrowing costs**

As for special borrowings borrowed for acquiring and constructing or producing assets eligible for capitalization, the to-be-capitalized amount shall be determined at interest expense of special borrowing actually incurred in the current period less the interest income of the borrowings unused and deposited in bank or return on temporary investment.



As for general borrowings used for acquiring and constructing or producing assets eligible for capitalization, the to-be-capitalized amount should be calculated by multiplying the weighted average of asset disbursements of the part of accumulated asset disbursements exceeding special borrowings by the capitalization rate of used general borrowings. The capitalization rate is calculated by using the weighted average interest rate of general borrowings.

### 3.17 Intangible assets

#### 3.17.1 Measurement of intangible assets

(1) The Company initially measures intangible assets at cost on acquisition

The costs of external purchase of intangible assets comprise their purchase prices, related taxes and surcharges and any other directly attributable expenditure incurred to prepare the asset for its intended use. If payments for the purchase of intangible assets are extended beyond the normal credit terms with financing nature, the costs of intangible assets are determined on the basis of present values of the purchase prices.

For intangible assets obtained from debtors in settlement of his liabilities in case of debt restructuring, they should be initially stated at their fair values. Differences between the book values and the fair values of the intangible assets are charged to profit or loss for the current period.

If the exchange of non-monetary assets has commercial substance, and the fair values of these assets can be measured reliably, the book-entry values of intangible assets traded in are based on the fair values of the intangible assets traded out unless there is any conclusive evidence that the fair values of the assets traded in are more reliable. If the exchange of non-monetary assets does not meet the above criteria, the costs of the intangible assets traded in should be the book values of the assets traded out and relevant taxes and surcharges paid, and no profit or loss shall be recognized.

(2) Subsequent measurement

The useful lives of the intangible assets are analyzed and determined on their acquisition.

As for intangible assets with limited useful life, straight-line amortization method is adopted in the period when the intangible assets generate economic benefit for enterprise; if the period when the intangible assets generate economic benefit for enterprise cannot be forecasted, the intangible assets shall be deemed as those with indefinite useful life and shall not be amortized.

#### 3.17.2 Estimate of the useful life of the Intangible assets with finite useful lives

Item	Estimated useful lives
Land use right	50 years
Right to use trade mark	10 years
Patent and non-patent technology	4-8 years
Computer software	3-10 years

The useful lives and amortization methods of intangible assets with limited useful lives are reviewed at each year end.

Upon review, the useful lives and amortization method of the intangible assets as at the end of the year were not different from those estimated before.

#### 3.17.3 Specific criteria divided the research stage and development stage

Expenditure internal research and development project is divided into research expenditures and development expenditures.

Research stage: the planned investigation and research activities to acquire and understand new scientific or technological knowledge.

Development stage: before commercial production and use, the research findings or other knowledge are applied in some plan or design to produce new or substantially improved materials, devices, products, etc.

#### 3.17.4 Specific criteria to fulfill for development costs to be capitalized

If it can be reliably estimated that future economic benefits will flow to the entity, and that the purchase and production costs can be reliably measured, the development cost should be capitalized. The measurement of



production cost of internally generated intangible assets is based on direct cost, indirect cost and amortization.

If it can be clearly defined that newly developed products or methods are technically feasible, and that they are intended for private use or sale, the development cost should be capitalized. The capitalized development cost should be amortized within a product's expected 5 to 8 years' life cycle, using a straight-line method. If the value in use cannot be recognized, impairment and amortization should be carried out. Research cost and the development cost which cannot be capitalized should be expense when it occurs.

### **3.18 Impairment of long-term assets**

The Company will conduct the impairment test if any evidence suggests that the long assets, such as the long-term equity investment and the investment property, fixed assets, construction in progress and intangible assets, are impaired on the balance sheet date. If impairment test results indicate that the recoverable amounts of the assets are lower than their carrying amounts, the provision for impairment is made based on the differences which are recognized as impairment losses. The recoverable amounts of intangible assets are the higher of their fair values less costs to sell and the present values of the future cash flows expected to be derived from the assets. The provision for assets impairment is calculated and recognized by the individual asset. If it is difficult to estimate the intangible amount of an individual asset, the Company shall estimate the recoverable amount of the asset portfolio that the individual asset belongs to. The asset portfolio is the minimum asset group that can independently generate the cash inflow.

At least the impairment test is conducted at the year-end in respect of the goodwill.

The Company conducts an impairment test for the goodwill. The book value of goodwill arising from business combinations is amortized to relevant asset groups with a reasonable method since the date of acquisition; or amortized to relevant combination of asset groups if it is difficult to be amortized to relevant asset groups. The book value of goodwill is amortized to relevant asset groups or combinations of asset groups according to the proportion of the fair value of such asset groups or combinations of asset groups in the total fair value of relevant asset groups or combinations of asset groups. Where the fair value cannot be reliably measured, it should be amortized according to proportion of the book value of each asset group or combination of asset group in the total book value of relevant asset groups or combinations of asset groups.

When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any indication shows that the asset groups or combinations of asset groups related to the goodwill may be impaired, the Company shall first conduct an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount and compare it with the relevant book value to recognize the corresponding impairment loss. Then the Company shall conduct an impairment test on the asset groups or combinations of asset groups containing goodwill, and compare the book value of these asset groups or combinations of asset groups (including the book value of the goodwill apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant asset groups or combinations of asset groups is lower than the book value thereof, the Company shall recognize the impairment loss of the goodwill.

The above impairment loss is not reversed in the future accounting period once recognized.

### **3.19 Employee compensation**

#### **3.19.1 Accounting treatment of short-term remuneration**

During the accounting period in which employees provide service to the Company, the short-term remuneration actually incurred is recognized as liabilities and charged to the current profit or loss or the relevant assets cost.

The medical insurance premium, work-related injury insurance premium and the housing provident fund paid by the Company for its employees, together with the labor union expenditures and employee education are used to calculate and determine the relevant employee compensation amount based on the prescribed accrual basis and accrual proportion.

The non-monetary benefits for employees that can be measured reliably are measured at fair value.



### 3.19.2 Accounting treatment of benefits paid after departure

#### (1) Defined withdrawal plan

The basic endowment insurance premium and unemployment insurance premium paid by the Company for its employees in accordance with relevant provisions of the local government are recognized as liabilities and charged to the current profit or loss or the relevant assets cost, with the payable amount calculated based on the local prescribed payment base and percentage, during the accounting period in which the employees provide services to the Company.

In addition to the basic endowment insurance, the Company also builds the enterprise annuity payment system (supplementary pension insurance) in accordance with relevant national policies for enterprise annuity system. The Company pays a certain percentage of the total employee compensation to the local social institution, and record the relevant expenditures into the current profit or loss or the relevant assets cost.

#### (2) Defined benefit plan

The Company attributes the welfare obligation arising from the defined benefit plan to the period during which the employees provide services, in accordance with the formula determined under the estimated accumulated welfare unit method, and records the same into the current profit or loss or the relevant asset cost.

A net liability or net asset in relation to the defined benefit plan is recognized at the present value of the obligation under the defined benefit plan less the deficit or surplus arising out of the fair value of the assets in relation to the defined benefit plan. Where the defined benefit plan has any surplus, the Company will determine the net assets in relation to the defined benefit plan at the lower of the surplus of the defined benefit plan or the asset cap.

The obligations under the defined benefit plan, including the estimated payment obligation within 12 months following the annual report period during which the employees provide service, are discounted to the present value at the market return of the national debt of which the term and currency match those of the obligation under the defined benefit plan on the balance sheet date, or of the high-quality corporate debt in an active market.

The service cost incurred by the defined benefit plan, together with the net interest on the net liability or net asset in relation to the defined benefit plan, are charged to the current profit or loss or the relevant asset cost; the change arising from the re-measurement of the net liability or net asset in relation to the defined benefit plan are recorded into other comprehensive income and are not reversed to the profit or loss in the subsequent accounting period.

The gains or losses on the settlement in respect of the defined benefit plan are recognized at the difference between the present value and the settlement price of the obligation under the defined benefit plan on the settlement date.

### 3.19.3 Accounting treatment of dismissal welfare

Where the Company cannot unilaterally withdraw the dismissal welfare offered in view of the cancellation of the labor relation plan or the layoff proposal, or recognizes the cost or expenses as to the restructuring involving the payment of dismissal welfare (whichever is earlier), the employee compensation arising from the dismissal welfare should be recognized as the liabilities and charged to the current profit or loss.

## 3.20 Estimated liabilities

### 3.20.1 Recognition criteria for estimated liabilities

The Company should recognize an obligation in relation to contingencies as an estimated liability, such as the litigation, debt guarantee, loss-making contract or restructuring, when all the following conditions are satisfied:

- (1) That obligation is a present obligation of the Company;
- (2) The performance of such obligation is likely to result in outflow of economic benefits from the Company;



(3) The amount of the obligation can be measured reliably.

### **3.20.2 Measurement of estimated liabilities**

The estimated liabilities of the Company are initially measured as the best estimate of expenses required for the performance of relevant present obligations.

The risks, uncertainties, time value of money, and other factors relating to the contingencies. If the time value of money is significant, the best estimates shall be determined after discount of relevant future cash outflows.

The best estimates shall be treated as follows in different circumstances:

If there is continuous range (or interval) for the necessary expenses, and probabilities of occurrence of all the outcomes within this range are equal, the best estimate shall be determined at the average amount of upper and lower limits within the range.

Given the fact that there is no continuous range (or interval) for the necessary expenses, or probabilities of occurrence of all the outcomes within this range are unequal despite such a range exists, in case that the contingency involves a single item, the best estimate shall be determined at the most likely outcome; if the contingency involves two or more items, the best estimate should be determined according to all the possible outcomes with their relevant probabilities.

When all or part of the expenses necessary for the settlement of an estimated liabilities are expected to be compensated by a third party or other parties, the compensation shall be separately recognized as an asset only when it is virtually certain that the compensation will be received. The amount recognized for the compensation shall not exceed the book value of the estimated liabilities.

## **3.21 Revenues**

### **3.21.1 Timing for recognition of revenues from sales of goods**

Revenues from sales of goods are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuous management rights associated with ownership of the goods sold nor effective control over the goods sold; the relevant amount of revenue can be measured reliably; it is highly likely that the economic benefits associated with the transaction will flow into the Company; and the relevant amount of cost incurred or to be incurred can be measured reliably.

### **3.21.2 Recognition of the revenues from transfer of assets use right**

When the economic benefit related to the transaction is probably to flow into the Company and the relevant revenue can be reliably measured, the revenue from transfer of the assets use right is determined as follows:

- (1) measured based on the length of time for which the Company's monetary funds is used by others and the applicable interest rate; or
- (2) amount of royalties revenues, which shall be measured according to the period and method of charging as stipulated in the relevant agreements or contracts.

### **3.21.3 Measurement principles and methods of completion stage where revenues from rendering of labor are recognized under percentage-of-completion method**

If the outcome of transactions can be estimated reliably at the balance sheet date, revenues from rendering of labor services are recognized under the percentage-of-completion method. The percentage of completion is determined by measurement of completed work as a percentage of total estimated costs.

Revenues from rendering of labor services are determined by prices stated in the contracts or agreements, whether already received or to be received, unless such relevant prices are unfair. The current revenue from the rendering of labor services is recognized at the amount of multiplying the total revenue from the rendering of labor services by completion progress and deducting the accumulated revenue from the rendering of labor



services recognized in previous accounting periods on the balance sheet date; meanwhile, the current cost of labor services is carried forward by the amount of multiplying the total costs of the rendering of labor services by completion progress and deducting the accumulated revenue from the rendering of labor services recognized in previous accounting periods.

When the outcome of transactions involving the rendering of services cannot be estimated reliably, revenues shall be recognized and measured at the balance sheet date as follows:

- (1) if the service costs incurred are expected to be fully recoverable, the amounts equal to the labor costs incurred shall be recognized as revenues and the equivalent amounts of labor costs shall be carried forward;
- (2) if the service costs incurred are not expected to be fully recoverable, the labor costs incurred shall be included in the current profit and loss, with no revenue from the rendering of labor services not recognized.

### **3.22 Government subsidies**

#### **3.22.1 Types**

Government grants refer to the monetary or non-monetary assets obtained by the Company from the government for free. Government subsidies are classified into government subsidies related to assets and government subsidies related to income.

Government grants relating to purchase or construction of long-term assets, such as fixed assets and intangible assets, etc., shall be recognized as deferred income and amortized over the useful lives of assets constructed or purchased and charged to non-operating income by stage. Government subsidies related to income refer to those other than the government subsidies related to assets.

The Company divides the government subsidies into those related to assets according to the following specific standards: the government subsidies acquired by the Company to acquire, construct or otherwise form the long-term assets;

The Company divides the government subsidies into those related to income according to the following specific standards: the government subsidies other than those related to assets;

If the targets of subsidies are not specified in the government documents, the basis for the Company to determine the classification of the subsidies related to assets or income is: Whether such government subsidies are used to acquire, construct or otherwise form the long-term assets

#### **3.22.2 Accounting treatment**

Government subsidies relating to assets shall be recognized as deferred income and amortized over the useful lives of assets constructed or purchased and charged to non-operating income by stage;

If government subsidies related to income are used to compensate the Company's relevant expenses or losses in future periods, such government subsidies should be recognized as deferred income on acquisition and be included into the current non-operating income in the period of recognizing relevant expenses; if government subsidies related to income are used to compensate the enterprise's relevant expenses or losses incurred, such government subsidies are directly included into the current non-operating income on acquisition.

### **3.23 Deferred income tax assets and deferred income tax liabilities**

Deferred income tax assets shall be recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets should be recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Taxable temporary differences are recognized as deferred income tax liabilities except in special circumstances.



Special circumstances in which deferred income tax assets or deferred income tax liabilities shall not be recognized include: the initial recognition of goodwill; other transactions or events excluding business combinations, which affect neither accounting profits nor the taxable income (or deductible losses) when occurred.

If the Company has the legal right of netting and intends to settle in net amount or to obtain assets and discharge liabilities simultaneously, the income tax assets and income tax liabilities of the Company for the current period shall be presented based on the net amount after offset.

When the Company has the legal rights to balance income tax assets and income tax liabilities for the current period with net settlement, and deferred income tax assets and deferred income tax liabilities are related to the income tax which are imposed on the same taxpaying subject by the same tax collection authority or on different tax paying subjects, but, in each important future period in connection with the reverse of deferred income tax assets and liabilities, the involved taxpaying subject intends to balance income tax assets and liabilities for the current period with net settlement at the time of obtaining assets and discharging liabilities, deferred income tax assets and deferred income tax liabilities shall be presented based on the net amount after offset.

### **3.24 Lease**

#### **3.24.1 Accounting Treatment of operating lease**

(1) Lease fees paid by the Company for leased asset shall be amortized at straight-line method over the whole lease period (including rent-free period) and shall be included in the current expenses. Initial direct costs relating to lease transactions incurred by the Company shall be recognized as the current expenses.

If the expense related to the lease which shall be paid by the Company is assumed by the lessor of the asset, then such expenses shall be deducted from total lease fees, and the balances shall be amortized over the lease terms and charged to the current expenses.

(2) The lease fees received for the assets acquired under lease shall be recognized as current expenses over the lease terms (including rent-free periods) on a straight-line basis. The initial direct costs related to lease transactions paid by the Company, included in the current expenses; if a larger amount is to be capitalized, according to confirm the same basis throughout the period of the lease installments related to the lease income is recognized in profit gains.

If expenses relating to leases which should be borne by the lessee of the assets are paid by the Company, they shall be deducted from the total lease income and the balances shall be amortized over the lease terms by the Company.

### **3.25 Discontinued operation**

Discontinued operation is the component that meets any of the following conditions, is disposed or classified as the held-for-sale one and can be separately distinguished at the time of preparation of financial statements:

- (1) such component represents an independent primary business or a major business area;
- (2) such component is part of the disposition plan for an independent primary business or a major business area;
- (3) such component is a subsidiary acquired for just re-sale.

### **3.26 Adjustment for changes in principal accounting policies and accounting estimates**

#### **3.26.1 Adjustment for changes in accounting policies**

There were no changes in the accounting policies in the current reporting period.

#### **3.26.2 Adjustment for changes in principal accounting estimates**

There were no changes in the accounting estimates in the current reporting period.

## **4 Tax**

### **Main taxes and tax rates applicable to the Company**



Tax type	Basis of tax assessment	Tax rate
Value-added tax (VAT)	The output tax is calculated based on the revenue from sales of goods and the provision of taxable labor services according to tax law, and value added tax payable should be the balance of the output tax for the period after deducting the deductible input tax for the period.	6%, 7%, 13%, 11%, 17%, 19%
Business tax	Levied based on the taxable income	5%, 7%
Enterprise income tax	Levied based on the taxable income	16%-38%, 25%
Urban maintenance and construction tax	Levied based on the actual payment of business tax, VAT and consumption tax	1%, 7%
Education surtax and local education surtax	Levied based on the actual payment of business tax, VAT and consumption tax	2%, 3%

Note: The tax rate applicable to ShangGong (Europe) Holding Corp, GmbH, the subsidiary of the Company, and other companies in the scope of consolidation varies in a range from 16% to 38%. The VAT rate is 19%

## 5 Notes to the items of consolidated financial statements

### 5.1 Cash and cash equivalents

Item	Ending balance	Beginning balance
Cash on hand	1,454,927.52	907,883.87
Bank deposit	759,297,757.06	578,453,080.34
Other cash and cash equivalents	12,819,498.11	62,068,277.95
Total	773,572,182.69	641,429,242.16
Including: Total amount abroad deposit	445,777,843.66	341,487,207.49

Details of cash and cash equivalents restricted for use due to mortgage, pledge or freezing are as follows:

Item	Ending balance	Beginning balance	Remark
L/C deposit	744,130.00	1,519,500.00	Note 1
Fixed term deposit used for guarantee	25,000,000.00	55,206,282.76	Note 2
Security deposit	3,127,393.87	2,854,570.30	Note 3
Total	28,871,523.87	59,580,353.06	

[Note 1]: The L/C deposit represents the deposit for the letter of credit issued with China Construction Bank, No.4 Sub-branch in Shanghai for Shanghai SMPIC Import & Export Co., Ltd, the subsidiary of the Company.

[Note 2]: The counter guarantee was provided by the Company for Commerzbank AG, Shanghai Branch by means of pledge of fixed-term deposit, amounting to RMB 25,000,000.00, in order to acquire the working capital borrowed from Commerzbank AG, Bielefeld Branch for ShangGong (Europe) Holding Co., GmbH, the subsidiary of the Company.

[Note 3]: The deposit, amounting to EUR 440,776.00, were pledged by ShangGong (Europe) Holding Co., GmbH to the Commerzbank Germany, and this amount were equivalent to RMB 3,127,393.87.

### 5.2 Notes receivable

#### 5.2.1 Presentation of notes receivable by category

Item	Ending balance	Beginning balance
Bank acceptance bills	48,897,695.47	3,588,868.48
Commercial acceptance bills	14,605,166.45	1,563,300.46
Total	63,502,861.92	5,152,168.94

#### 5.2.2 Notes that were endorsed by the Company to other companies but did not come due as at the



end of the period had an amount of RMB 2,176,500.00.

**5.2.3 Notes receivable pledged as at the end of period: None.**

**5.2.4 Notes receivable transferred to accounts receivable due to the issuer's performance failure: None.**



## 5.3 Accounts receivable

### 5.3.1 Disclosure of accounts receivable by category

Type	Ending balance					Beginning balance				
	Book balance		Provision for bad debt		Book value	Book balance		Provision for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable with significant single amount and individual provision for bad debts	59,416,103.38	12.38	17,844,428.00	30.03	41,571,675.38	50,452,045.20	13.84	18,750,834.00	37.17	31,701,211.20
Accounts receivable with provision for bad debts accrued by credit risk features portfolio:	139,096,685.51	28.97	74,788,750.49	53.77	64,307,935.02	127,784,815.37	35.04	78,824,950.80	61.69	48,959,864.57
Accounts receivable with individually insignificant amount and individual provision for bad debt	281,547,899.02	58.65	14,263,060.85	5.07	267,284,838.17	186,393,907.59	51.12	15,318,838.09	8.22	171,075,069.50
Total	480,060,687.91	100.00	106,896,239.34	22.27	373,164,448.57	364,630,768.16	100.00	112,894,622.89	30.96	251,736,145.27

EUR501,537.91 (equivalent to RMB 3,558,511.78) of the ending balance of accounts receivable was restricted, and this was the deposit for the letter of guarantee from Deutsche Bank by Keilmann Special Machinery Manufacturing Co., Ltd., the subsidiary of ShangGong (Europe) Holding Co., GmbH by virtue of the accounts receivable.

#### Accounts receivable with individually significant amount and individual provision for bad debt as at the end of period

Accounts receivable (by unit)	Ending balance			Reason for provision
	Accounts receivable	Provision for bad debt	Proportion of provision	
No.1	17,844,428.00	17,844,428.00	100.00%	Impaired according to the separate test
No.2	16,755,449.40			Unimpaired according to the separate test
No.3	13,398,213.30			Unimpaired according to the separate test
No.5	11,418,012.68			Unimpaired according to the separate test
Total	59,416,103.38	17,844,428.00		



Bad-debt provision made under the aging analysis method in the portfolio

Aging	Ending balance		
	Accounts receivable	Provision for bad debt	Proportion of provision
Within 1 year	61,261,367.15	3,063,068.36	5.00%
1-2 years	6,055,185.48	1,211,037.10	20.00%
2-3 years	2,530,975.70	1,265,487.85	50.00%
Over 3 years	69,249,157.18	69,249,157.18	100.00%
Total	139,096,685.51	74,788,750.49	

Accounts receivable with individually insignificant amount and individual provision for bad debt as at the end of period

Accounts receivable (by unit)	Ending balance			
	Accounts receivable	Provision for bad debt	Proportion of provision	Reason for provision
Other insignificant accounts receivable (Note 1)	1,017,561.29	1,017,561.29	100.00%	Impaired according to the separate test
Other insignificant accounts receivable (Note 2)	21,242,190.18	6,803,300.24	32.03%	Impaired according to the separate test
Other insignificant accounts receivable (Note 3)	478,333.80	478,333.80	100.00%	Impaired according to the separate test
Other insignificant accounts receivable (Note 4)	11,610.00	11,610.00	100.00%	Impaired according to the separate test
Other insignificant accounts receivable (Note 5)	180,821,529.19	5,952,255.52	3.29%	Impaired according to the separate test
Other insignificant accounts receivable (Note 6)	71,785,598.22			Unimpaired according to the separate test
Other insignificant accounts receivable (Note 7)	6,191,076.34			Unimpaired according to the separate test
Total	281,547,899.02	14,263,060.85	5.07%	



[Note 1]: It represents the accounts receivable of the subsidiary Shanggong Butterfly Sewing Machines Co., Ltd., for which the provision for impairment is made based on the separate test.

[Note 2]: It represents the accounts receivable of the subsidiary DAP (Shanghai) Co., Ltd., for which the provision for impairment is made based on the separate test.

[Note 3]: It represents the accounts receivable of the subsidiary Shanghai SMPIC Import & Export Co., Ltd, for which the provision for impairment is made based on the separate test.

[Note 4]: It represents the accounts receivable of the subsidiary Shanghai SGSB Electronics Co., Ltd, for which the provision for impairment is made based on the separate test.

[Note 5]: It represents the accounts receivable of the subsidiary ShangGong (Europe) Holding Co., GmbH, for which the provision for impairment is made based on the separate test.

[Note 6]: It represents the accounts receivable of the subsidiary Shanghai Shensy Enterprise Development Co., Ltd, for which the provision for impairment is made based on the separate test.

[Note 7]: It represents the accounts receivable of the subsidiary Zhejiang SG & GEMSY Sewing Technology Co., Ltd, for which the provision for impairment is made based on the separate test.

### 5.3.2 Provision for bad debts and their reversal or recovery in the current period

The provision for bad debts in the current period was RMB 5,472,300.88. The amount reversed due to the recovery of accounts receivable was RMB 4,297,602.41.

### 5.3.3 Actual write-off of accounts receivable in the current period

RMB 6,360,620.08 was written off in the current period due to long age. All of them are unrecoverable due to deregistration/cancellation of the customers.

### 5.3.4 No amount was due from shareholders with 5% or more of voting shares of the Company among the accounts receivables as at the end of period.

### 5.3.5 Top five accounts receivable in terms of their ending balance

Company name	Ending balance		
	Accounts receivable	Proportion in total accounts receivable ratio (%)	Provision for bad debt
No.1	17,844,428.00	3.72	17,844,428.00
No.2	16,755,449.40	3.49	
No.3	13,398,213.30	2.79	
No.4	11,530,775.39	2.40	11,530,775.39
No.5	11,418,012.68	2.38	
Total	70,946,878.77	14.78	29,375,203.39

### 5.3.6 See Note 9.5 for details of accounts receivable due from related parties.

## 5.4 Prepayment

### 5.4.1 Presentation of prepayments by aging

Aging	Ending balance		Beginning balance	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	24,526,404.72	90.64	16,907,888.22	93.35
1-2 years	1,330,069.97	4.92	59,337.22	0.33
2-3 years	56,999.54	0.21	147,045.26	0.81



Over 3 years	1,145,112.92	4.23	998,067.66	5.51
Total	27,058,587.15	100.00	18,112,338.36	100.00

#### 5.4.2 Top five advances to suppliers in terms of their ending balance

Supplier	Ending balance	Proportion in total ending balance of advances to suppliers (%)
No.1	7,366,357.64	27.22
No.2	2,430,000.00	8.98
No.3	2,074,412.31	7.67
No.4	1,237,216.28	4.57
No.5	907,415.00	3.36
Total	14,015,401.23	51.80

#### 5.4.3 Provision for bad debts and their reversal or recovery in the current period

No provision for bad debts was reversed or recovered in the current period.

**5.4.4 No amount was due from shareholders with 5% or more of voting shares of the Company among the advances to suppliers as at the end of period. See Note 9.5 for details of receivables and payables due from related parties.**

#### 5.5 Interests receivable

##### Classification of interest receivable

Item	Ending balance	Beginning balance
Term deposits		892,650.00
Total		892,650.00

#### 5.6 Dividends receivable

##### 5.6.1 Details of dividends receivable

Investee/organization	Ending balance	Beginning balance
Shanghai Shensy Enterprise Development Co., Ltd.		2,865,327.09
Total		2,865,327.09





## 5.7 Other receivables

### 5.7.1 Classified disclosure of other receivables

Type	Ending balance					Beginning balance				
	Book balance		Provision for bad debt		Book value	Book balance		Provision for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Other receivables with individually significant amount and individual provision for bad debts	39,127,176.28	42.80	11,881,666.00	30.27	27,245,510.28	31,313,552.65	25.35	11,198,029.00	35.76	20,115,523.65
Other receivables with provision for bad debts accrued by credit risk features portfolio:	24,148,336.32	26.42	16,797,190.17	69.56	7,351,146.15	84,139,120.12	68.11	19,761,637.89	23.49	64,377,482.23
Other receivables with individually insignificant amount and individual provision for bad debt	28,139,602.21	30.78	52,080.00	0.19	28,087,522.21	8,083,262.96	6.54	52,080.00	0.64	8,031,182.96
Total	91,415,114.81	100.00	28,730,936.17	31.43	62,684,178.64	123,535,935.73	100.00	31,011,746.89	25.10	92,524,188.84

#### Other receivable with individually significant amount and individual provision for bad debt as at the end of period

Other receivable (by unit)	Ending balance			Reason for provision
	Other receivables	Provision for bad debt	Proportion of provision	
Export tax refund receivable (Note 1)	14,465,510.28			Unimpaired according to the separate test
No.2 customer	11,881,666.00	11,881,666.00	100.00%	Impaired according to the separate test
No.3 customer	4,700,000.00			Unimpaired according to the separate test
No.4 customer	4,630,000.00			Unimpaired according to the separate test
No.5 customer	3,450,000.00			Unimpaired according to the separate test
Total	39,127,176.28	11,881,666.00		

[Note 1]: It represents the export tax refund receivable arising from the export sale by the subsidiary, which was unimpaired according to the separate impairment test.



Other receivables for which bad-debt provision is made under the aging analysis method in the portfolio

Aging	Ending balance		
	Other receivables	Provision for bad debt	Proportion of provision
Within 1 year	4,686,781.13	234,339.06	5.00%
1-2 years	3,577,802.64	715,560.53	20.00%
2-3 years	72,923.95	36,461.98	50.00%
Over 3 years	15,810,828.60	15,810,828.60	100.00%
Total	24,148,336.32	16,797,190.17	

Other receivables with individually insignificant amount and individual provision for bad debt at the end of period

Content of other receivables	Book balance	Provision for bad debt	Proportion of provision (%)	Reason for provision
Other insignificant receivables (Note 1)	3,902,443.80			Unimpaired according to the separate test
Other insignificant receivables (Note 2)	2,080.00	2,080.00	100.00	Impaired according to the separate test
Other insignificant receivables (Note 3)	1,269,970.04			Unimpaired according to the separate test
Other insignificant receivables (Note 4)	394,414.02			Unimpaired according to the separate test
Other insignificant receivables (Note 5)	22,520,694.35			Unimpaired according to the separate test
Other insignificant receivables (Note 6)	50,000.00	50,000.00	100.00	Impaired according to the separate test
Total	28,139,602.21	52,080.00		

[Note 1]: It represents the other receivable of the subsidiary ShangGong (Europe) Holding Co., GmbH, and this amount was unimpaired according to the separate test.

[Note 2]: It represents the other receivable of the subsidiary Shanggong Butterfly Sewing Machines Co., Ltd., and the provision for impairment is made based on the separate test.

[Note 3]: It represents the other receivable of Duerkopp PFAFF Trading (Shanghai) Co., Ltd., and the provision for impairment is made based on the separate test.

[Note 4]: It represents the other receivable of Zhejiang SG & GEMSY Sewing Technology Co., Ltd., and the provision for impairment is made based on the separate test.

[Note 5]: It represents the other receivable of Shanghai Shensy Enterprise Development Co., Ltd., and the provision for impairment is made based on the separate test.

[Note 6]: It represents the other receivable of the subsidiary SGSB Electronics Co., Ltd., and the provision for impairment is made based on the separate test.

#### 5.7.2 Provision for bad debts and their reversal or recovery in the current period

The provision for bad debts in the current period had an amount of RMB 1,344,299.71; the amount of provision for bad debts reversed or recovered was RMB 3,576,683.02.

#### 5.7.3 Actual write-off of other receivable in the current period

RMB 519,612.47 of accounts receivable was actually written off in total during the current reporting period, which was mainly due to bankruptcy cancellation the customer applied for. All the customers from whom other receivables written off were due were non-related third parties.

#### 5.7.4 Top five other receivables in terms of their ending balance



Company name	Nature	Ending balance	Aging	Proportion in the ending balance of total other receivable (%)	Provision for bad debt Ending balance
Export tax refund receivable	Export tax refund receivable	14,465,510.28	Within 1year	15.82	
No.2	Current account	11,881,666.00	Within 1year	13.00	11,881,666.00
No.3	Current account	4,700,000.00	Within 1year	5.14	
No.4	Current account	4,630,000.00	Within 1year	5.07	
No.5	Current account	3,450,000.00	Within 1year	3.77	
Total		39,127,176.28		42.80	11,881,666.00

**5.7.5 No amount was due from shareholders with 5% or more of voting shares of the Company among the other receivables as at the end of period.**

## 5.8 Inventories

### 5.8.1 Classification of inventories

Item	Balance as at December 31, 2015			Balance as at January 1, 2015		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	238,545,363.19	43,490,629.95	195,054,733.24	208,357,455.81	42,645,678.28	165,711,777.53
Revolving materials	4,677,820.47	2,254,846.51	2,422,973.96	3,739,665.27		3,739,665.27
consigned processing materials	1,806,944.86		1,806,944.86	2,629,586.84		2,629,586.84
Goods in progress	136,221,003.08	28,022,238.05	108,198,765.03	129,707,847.01	31,025,012.77	98,682,834.24
Finished goods	225,253,531.44	33,480,586.14	191,772,945.30	203,356,508.10	27,509,182.96	175,847,325.14
Consignments	13,451,415.73		13,451,415.73	6,221,668.16		6,221,668.16
Material purchase	87,404.47		87,404.47			
Labor costs	68,499,972.56		68,499,972.56			
Others	2,166,889.90	2,166,889.90		2,166,889.90	2,166,889.90	
Total	690,710,345.70	109,415,190.55	581,295,155.15	556,179,621.09	103,346,763.91	452,832,857.18

### 5.8.2 Inventory provision

Item	Balance as at January 1, 2015	Increase in 2015		Decrease in 2015		Balance as at December 31, 2015
		Provision	Others	Reversal or write-off	Others	
Raw materials	42,645,678.28	7,199,885.17		3,206,161.0 3	3,148,772.4 7	43,490,629.95
Revolving materials		2,254,846.51				2,254,846.51
Consigned processing materials						
Goods in progress	31,025,012.77	38,745.61		679,094.22	2,362,426.1 1	28,022,238.05
Finished goods	27,509,182.96	6,531,661.00	2,674,618.0 2	1,541,639.5 8	1,693,236.2 6	33,480,586.14



Item	Balance as at January 1, 2015	Increase in 2015		Decrease in 2015		Balance as at December 31, 2015
		Provision	Others	Reversal or write-off	Others	
Consignment s						
Material purchase						
Labor costs						
Others	2,166,889.90					2,166,889.90
Total	103,346,763.91	16,025,138.2 9	2,674,618.0 2	5,426,894.8 3	7,204,434.8 4	109,415,190.55

### 5.9 Other current assets

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Held-to-maturity investments	10,163,252.89	10,913,103.93
Input tax to be credited	11,845,579.89	11,422,190.04
Rentals and insurance fees	1,638,714.56	2,908,518.21
Overpaid enterprise income tax	11,730.26	
Financial products	280,000,000.00	520,000,000.00
Structured deposit	70,000,000.00	
Total	373,659,277.60	545,243,812.18

### 5.10 Available-for-sale financial assets

#### 5.10.1 Available-for-sale financial assets

Item	Balance as at December 31, 2015			Balance as at January 1, 2015		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Available for sale debt instruments						
Available for sale equity instruments	150,415,095.52	1,698,131.91	148,716,963.61	132,729,474.08	1,698,131.91	131,031,342.17
Including: measured at fair value	118,127,307.02		118,127,307.02	89,648,607.58		89,648,607.58
Measured at cost	32,287,788.50	1,698,131.91	30,589,656.59	43,080,866.50	1,698,131.91	41,382,734.59
Total	150,415,095.52	1,698,131.91	148,716,963.61	132,729,474.08	1,698,131.91	131,031,342.17

#### 5.10.2 Available-for-sale financial assets measured at fair value as at December 31, 2015

Classification of available-for-sale financial assets	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Cost of equity instruments	73,058,822.53		73,058,822.53
Fair value	118,127,307.02		118,127,307.02
Changes in fair value accumulated included in other comprehensive income	45,068,484.49		45,068,484.49
Provision for impairment provided			



### 5.10.3 Available-for-sale financial assets measured at cost as at December 31, 2015

Investee	Book balance				Provision for impairment				Shareholding ratio in investee (%)	Cash dividend in 2015
	As at January 1, 2015	Increase in 2015	Decrease in 2015	As at December 31, 2015	As at January 1, 2015	Increase in 2015	Decrease in 2015	As at December 31, 2015		
Shanghai Fuji Xerox Co., Ltd.	29,140,749.49			29,140,749.49					15.92	12,734,720.00
Shanghai Hirose Precision Industrial Co., Ltd. (Note 1)									30.00	850,000.00
Shanghai Shensy Enterprises Development Co., Ltd.	10,593,077.64		10,593,077.64							7,295,645.53
Bank of Shanghai Co., Ltd.	951,400.00			951,400.00					<5	
ChangshuQixingElec-plating Co., Ltd.									90.00	
Shanghai Huazhijie Plastic Co., Ltd. (Note 2)	736,283.66			736,283.66	736,283.66			736,283.66	23.04	
Shanghai Hualian Sewing Machinery Co., Ltd. (Note 3)	400,000.00			400,000.00					21.74	
Shanghai Xingguang Underwear (South Africa)	308,033.99			308,033.99	308,033.99			308,033.99	14.30	
Shenyin&Wanguo Securities Co., Ltd.	200,000.00		200,000.00							
Wuxi Shanggong Sewing Machines Co., Ltd (Note 4)	153,814.26			153,814.26	153,814.26			153,814.26	80.00	
China Perfect Machinery Co., Ltd.	90,000.00			90,000.00					<5	
Shanghai Baoding Investment Co., Ltd.	7,500.00			7,500.00					<5	2,875.50
Shanghai ShanggongJiarong Sewing Machine Trade Co., Ltd.	500,000.00			500,000.00	500,000.00			500,000.00	12.50	
Pfaff Industrial Iberica S.A.U.	7.46		0.36	7.10					49.00	
Total	43,080,866.50		10,793,078.00	32,287,788.50	1,698,131.91			1,698,131.91		20,883,241.03

[Note 1]: SHANG GONG Group Co., Ltd. holds 30% shares of Shanghai Hirose Precision Industrial Co., Ltd. According to the articles of association, SHANG GONG Group Co., Ltd. obtains guaranteed minimum revenue each year. In addition, it does not participate in the decision-making process of daily operations, and does not have significant influence on the invested enterprise. Therefore, it adopts cost accounting to measure its revenue from its shares of Shanghai Hirose Precision Industrial Co., Ltd.

[Note 2]: SHANG GONG Group Co., Ltd. holds 23.04% shares of Shanghai Huazhijie Plastic Co., Ltd. According to the articles of association, SHANG GONG Group Co., Ltd. does not have facto control over the invested enterprise. In addition, it does not participate in the decision-making process of daily operations, and does not have significant influence on the invested enterprise. Therefore, it adopts cost accounting to measure its revenue from its shares of Shanghai Huazhijie Plastic Co., Ltd.

[Note 3]: SHANG GONG Group Co., Ltd. holds 23.04% shares of Shanghai Hualian Sewing Machinery Co., Ltd. According to the articles of association, SHANG GONG Group Co., Ltd. does not have facto control over the invested enterprise. In addition, it does not participate in the decision-making process of daily operations, and does not have significant influence on the invested enterprise. Therefore, it adopts cost accounting to measure its revenue from its shares of Shanghai Hualian Sewing Machinery Co., Ltd.

[Note 4]: SHANG GONG Group Co., Ltd. holds 23.04% shares of Wuxi Shanggong Sewing Machines Co., Ltd. According to the articles of association, SHANG GONG



Group Co., Ltd. does not have facto control over the invested enterprise. In addition, it does not participate in the decision-making process of daily operations, and does not have significant influence on the invested enterprise. Therefore, it adopts cost accounting to measure its revenue from its shares of Wuxi Shangong Sewing Machines Co., Ltd.



#### 5.10.4 Changes in available-for-sale financial assets for this year

Classification of available-for-sale financial assets	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Balance of provision for impairment provided as at January 1, 2014	1,698,131.91		1,698,131.91
Provision in 2014			
Including: transfer-in from other comprehensive income			
Decrease in 2014			
Including: reversal due to the increase in post balance sheet fair value			
Balance of provision for impairment provided as at December 31, 2014	1,698,131.91		1,698,131.91

#### 5.11 Investment properties

##### 5.11.1 Investment property measured at cost

Item	Use right of leased land	Leasehold improvement	Buildings and constructions	Total
1. Total original book value				
(1) Balance as at January 1, 2015	50,523,752.24	2,583,492.92	154,028,309.73	207,135,554.89
(2) Increase in 2015				
- Outsourcing				
- Inventories \ fixed assets \ transfer-in from construction in progress				
- Increase due to business combinations				
(3) Decrease in 2015			2,403,839.90	2,403,839.90
- Reclassification to fixed assets				
- Exchange rate fluctuation			2,403,839.90	2,403,839.90
(4) Balance as at December 31, 2015	50,523,752.24	2,583,492.92	151,624,469.83	204,731,714.99
2. Total accumulated depreciation and accumulated amortization				
(1) Balance as at January 1, 2015	12,655,624.71	172,232.88	74,603,852.96	87,431,710.55
(2) Increase in 2015	1,250,677.20	172,232.88	4,047,527.04	5,470,437.12
- Provision or amortization	1,250,677.20	172,232.88	4,047,527.04	5,470,437.12
(3) Decrease in 2015			1,033,242.11	1,033,242.11
- Reclassification to fixed assets				
- Exchange rate fluctuation			1,033,242.11	1,033,242.11
(4) Balance as at December 31, 2015	13,906,301.91	344,465.76	77,618,137.89	91,868,905.56
3. Provision for impairment				
(1) Balance as at January 1, 2015			7,388,484.54	7,388,484.54
(2) Increase in 2015				
- Provision				
(3) Decrease in 2015			357,155.67	357,155.67
- Disposal				
- Exchange rate fluctuation			357,155.67	357,155.67
(4) Balance as at December 31, 2015			7,031,328.87	7,031,328.87
4. Book value				
(1) Book value as at December 31, 2015	36,617,450.33	2,239,027.16	66,975,003.07	105,831,480.56
(2) Book value as at January 1, 2015	37,868,127.53	2,411,260.04	72,035,972.23	112,315,359.80



## 5.12 Fixed assets

### 5.12.1

Item	Buildings and constructions	Machinery equipment	Transportation equipment	Electronic equipment	Other equipment	Total
1.Total original book value						
(1) Balance as at January 1, 2015	344,819,134.54	301,319,332.51	10,897,328.80	3,804,003.14	222,171,734.90	883,011,533.89
(2) Increase in 2015	96,209,324.14	29,976,634.40	6,847,172.06	1,603,314.40	17,015,730.55	151,652,175.55
- Acquisition	39,926,293.23	24,220,151.27	1,367,526.23	395,078.64	13,546,375.23	79,455,424.60
-Transfer-in from construction in progress		4,464,742.22			802,286.91	5,267,029.13
- Increase due to business combinations	56,283,030.91	1,291,740.91	5,454,348.83	1,185,056.66	2,551,697.56	66,765,874.87
Increase due to exchange rate fluctuation				16,472.39	19,221.50	35,693.89
-Other			25,297.00	6,706.71	96,149.35	128,153.06
(3) Decrease in 2015	13,451,199.97	22,444,101.35	2,122,989.16	1,288,824.21	16,718,609.93	56,025,724.62
- Disposal or write-off	21,285.60	14,819,552.03	2,117,692.16	1,203,422.43	8,376,380.81	26,538,333.03
- Exchange rate fluctuation	13,429,914.37	7,597,842.61			8,342,229.12	29,369,986.10
Other		26,706.71	5,297.00	85,401.78		117,405.49
(4) Balance as at December 31, 2015	427,577,258.71	308,851,865.56	15,621,511.70	4,118,493.33	222,468,855.52	978,637,984.82
2.Total accumulated depreciation						
(1) Balance as at January 1, 2015	203,302,037.29	225,373,275.80	7,404,130.39	3,233,029.15	198,020,682.82	637,333,155.45
(2) Increase in 2015	10,207,068.12	18,493,798.64	3,429,254.66	391,794.76	13,630,916.88	46,152,833.06
- Depreciation	7,816,385.76	17,688,481.14	1,223,806.10	384,438.55	11,141,807.18	38,254,918.73
- Increase due to business combinations	2,390,682.36	674,873.98	2,200,693.92		2,344,847.78	7,611,098.04
- Exchange rate fluctuation				7,356.21	30,211.30	37,567.51
Other		130,443.52	4,754.64		114,050.62	249,248.78
(3) Decrease in 2015	8,934,316.00	19,786,889.30	1,771,475.46	1,215,165.35	17,577,004.87	49,284,850.98
- Disposal or write-off		10,884,648.90	1,611,064.87	1,136,458.79	8,214,138.67	21,846,311.23
- Exchange rate fluctuation	8,934,316.00	8,902,240.40			9,362,866.20	27,199,422.60
Other			160,410.59	78,706.56		239,117.15
(4) Balance as at December 31, 2015	204,574,789.41	224,080,185.14	9,061,909.59	2,409,658.56	194,074,594.83	634,201,137.53
3. Provision for impairment						



Item	Buildings and constructions	Machinery equipment	Transportation equipment	Electronic equipment	Other equipment	Total
(1) Balance as at January 1, 2015	4,913,777.92	2,239,862.87	48,170.70	37,818.61	37,548.00	7,277,178.10
(2) Increase in 2015		784,741.65		21,886.74	18,631.79	825,260.18
- Provision		784,741.65		21,886.74	18,631.79	825,260.18
(3) Decrease in 2015						
- Disposal or write-off						
(4) Balance as at December 31, 2015	4,913,777.92	3,024,604.52	48,170.70	59,705.35	56,179.79	8,102,438.28
4. Book value						
(1) Book value as at December 31, 2015	218,088,691.38	81,747,075.90	6,511,431.41	1,649,129.42	28,338,080.90	336,334,409.01
(2) Book value as at January 1, 2015	136,603,319.33	73,706,193.84	3,445,027.71	533,155.38	24,113,504.08	238,401,200.34

Note: Among the above balance of fixed assets as at December 31, 2015, the buildings and constructions of RMB131,332,243.56 (Include EUR 13,352,093.77 in RMB 94,735,775.72) are used to obtain a loan from banks; see the Note 10.1 Commitments and Contingencies for information on mortgage loans and credit extension.

#### 5.12.2 There were no idle fixed assets as at December 31, 2015.

#### 5.12.3 There were no held-for-sale fixed assets as at December 31, 2015.

#### 5.12.4 There were no fixed assets without certificate of title as at December 31, 2015.

Item	Book value	Reason for failure in completing the formalities for obtaining certificates of title	Expected date of completion of the formalities for obtaining the certificates of title
Buildings and constructions (Note 1)	1,943,450.80	Self-built housing, the certificates are in the process	
Buildings and constructions (Note 2)	334,298.62	Self-built housing, the certificates are in the process	
Total	2,277,749.42		

**Note 1** Self-built housing for Shanghai SGSB Asset Management Co., Ltd.

**Note 2** Self-built housing for SHANG GONG Group Co., Ltd.

### 5.13 Construction in progress

#### 5.13.1 Construction in progress

Item	Balance as at December 31, 2015			Balance as at January 1, 2015		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Sewing Equipment Engineering	3,917,373.59		3,917,373.59	6,871,251.40		6,871,251.40
Sewing unit and electronic control	2,856,279.73		2,856,279.73			



Item	Balance as at December 31, 2015			Balance as at January 1, 2015		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
ERP project	1,629,852.20		1,629,852.20	20,754.71		20,754.71
SMPIC building decoration	280,881.22		280,881.22	2,492,380.56		2,492,380.56
SMPIC building air condition						
Entrustment of PFAFF for product development				4,317,708.05		4,317,708.05
Nanxiang office renovation						
Nanxiang factory elevator						
Zhangjiagang manufacture base project	854,000.00		854,000.00			
Information management system	14,550,000.00		14,550,000.00			
Total	24,088,386.74		24,088,386.74	13,702,094.72		13,702,094.72

#### 5.14.2 Major changes in construction in progress for the current year

Project Name	Budget	Balance as at January 1, 2015	Increase in 2015	Amount transferred in the fixed assets for the current year	Other decreases in 2015	Balance as at December 31, 2015	Proportion of the accumulated investment in project in budget (%)	Construction in progress	Accumulated amount of interest capitalization	Including: amount of interest capitalization in 2015	Interest capitalization rate in 2015(%)	Source of fund
Sewing equipment project		6,871,251.40	1,731,228.80	4,484,166.40	200,940.21	3,917,373.59						Self-owned fund
Sewing unit and electronic control			6,402,551.53	637,748.20	2,908,523.60	2,856,279.73						Raised fund
ERP project		20,754.71	1,662,720.13		53,622.64	1,629,852.20						Raised fund
SMPIC building decoration-household multifunctional sewing machine		1,362,906.29	911,852.09	29,729.91	1,964,147.25	280,881.22						Raised fund
SMPIC building air conditioner		1,129,474.27			1,129,474.27							Raised fund
Entrustment of KSL for product development		4,317,708.05	18,821,937.69		23,139,645.74							Raised fund
Nanxiang office renovation			169,349.00		169,349.00							Self-owned fund
Nanxiang factory elevator			135,000.00	115,384.62	19,615.38							Self-owned fund
Zhangjiagang manufacture base project			854,000.00			854,000.00						Self-owned fund
Information management system			14,550,000.00			14,550,000.00						Self-owned fund
Total		13,702,094.72	45,238,639.24	5,267,029.13	29,585,318.09	24,088,386.74						

Note: Information management system is included because the subsidiary, Shanghai Shensy Enterprise Development Co., Ltd., is consolidated.



## 5.14 Intangible assets

Item	Land use right	Trademark right of use	Computer software	Patent and non-patent technology	Others	Total
1. Original book value						
(1) Balance as at January 1, 2015	18,452,093.00	20,161,268.51	507,942.03	77,782,113.87	5,913,781.92	122,817,199.33
(2) Increase in 2015	72,337,183.04		2,577,516.21	5,399,447.20		80,314,146.45
- Acquisition	21,377,867.55		825,136.70	5,399,447.20		27,602,451.45
-Increase due to consolidation	50,959,315.49		1,752,379.51			52,711,695.00
- Exchange rate fluctuation						
-Others						
(3) Decrease in 2015	128,855.81		3,339.33	3,806,292.89	285,869.28	4,224,357.31
- Disposal	128,855.81			2,213,702.40		2,342,558.21
-Decrease due to consolidation						
- Exchange rate fluctuation			3,339.33	1,592,590.49	285,869.28	1,881,799.10
-Others						
(4) Balance as at December 31, 2015	90,660,420.23	20,161,268.51	3,082,118.91	79,375,268.18	5,627,912.64	198,906,988.47
2. Total accumulated amortization						
(1) Balance as at January 1, 2015	4,734,301.61	20,161,268.51	390,957.79	32,965,615.50	5,913,781.92	64,165,925.33
(2) Increase in 2015	889,763.53		1,438,906.12	8,758,947.60		11,087,617.25
- Provision	889,763.53		80,833.43	8,758,947.60		9,729,544.56
-Increase due to consolidation			1,358,072.69			1,358,072.69
- Exchange rate fluctuation						
-Others						
(3) Decrease in 2015	34,278.91		2,826.39	3,487,661.71	285,869.28	3,810,636.29
- Disposal	34,278.91			2,213,702.40		2,247,981.31
-Decrease due to consolidation						
- Exchange rate fluctuation			2,826.39	1,273,959.31	285,869.28	1,562,654.98
-Others						
(4) Balance as at December 31, 2015	5,589,786.23	20,161,268.51	1,827,037.52	38,236,901.39	5,627,912.64	71,442,906.29
3. Provision for impairment						
(1) Balance as at January 1, 2015						
(2) Increase in 2015						
- Provision						
- Exchange rate fluctuation						
-Others						
(3) Decrease in 2015						
- Disposal						
- Exchange rate fluctuation						
-Others						
(4) Balance as at December 31, 2015						
4. Book value						
(1) Book value as at December 31, 2015	85,070,634.00		1,255,081.39	41,138,366.79		127,464,082.18
(2) Book value as at January 1, 2015	13,717,791.39		116,984.24	44,816,498.37		58,651,274.00

## 5.15 Development expenditures

Item	Balance as at January 1, 2015	Increase in 2015	Transfer-out in 2015		(4) Balance as at December 31, 2015
			Included in the current profit and loss	Recognized as intangible assets	
WeChat platform		374,528.29			374,528.29
Freight platform		1,203,773.57			1,203,773.57
Sewing equipment	38,666,597.30	10,314,552.04	13,447,862.27		35,533,287.07
Total	38,666,597.30	11,892,853.90	13,447,862.27		37,111,588.93

[Note] Balances as at January 1, 2015 and December 31, 2015 of WeChat and Freight platform represent the



development costs of Shanghai Shensy Enterprise Development Co., Ltd. And balances as at January 1, 2015 and December 31, 2015 of sewing equipment represent the development costs of ShangGong (Europe) Holding Corp. GmbH.

## 5.16 Goodwill

### 5.16.1 Book value of goodwill

Name of investee or goodwill formation events	Balance as at January 1, 2015	Increase in 2015	Decrease in 2015	Balance as at December 31, 2015
		Formation due to business combinations	Exchange rate fluctuation	
PFAFF Industriesysteme und Maschinen AG	6,588,783.24	62,672,466.45	3,348,054.40	65,913,195.29
KSL KeilmannSondermaschinen GmbH, Germany	62,672,466.45	-62,672,466.45		
Beisler	21,722,636.16		1,050,061.44	20,672,574.72
Total	90,983,885.85		4,398,115.84	86,585,770.01

[Note] In 2015, KSL KeilmannSondermaschinen GmbH, Germany was merged by PFAFF Industriesysteme und Maschinen AG.

### 5.16.2 Provision for impairment of goodwill

Name of investee or goodwill formation events	Balance as at January 1, 2015	Increase in 2015		Decrease in 2015	Balance as at December 31, 2015
		Provision	Exchange rate fluctuation	Disposal	
Beisler	3,392,298.00	17,010,069.96	270,206.76		20,672,574.72
Total	3,392,298.00	17,010,069.96	270,206.76		20,672,574.72

## 5.17 Long-term deferred expenses

Item	Balance as at January 1, 2015	Increase in 2015	Amortization in 2015	Other decreases in 2015	Balance as at December 31, 2015
Mailbox rental	26,400.00				26,400.00
Network brand registration fee		339,622.67	18,920.00		320,702.67
Landscape engineering		244,602.00	12,230.10		232,371.90
Total	26,400.00	584,224.67	31,150.10		579,474.57

[Note] In 2015, the amortized amount of long-term deferred expenses is RMB 31,150.10, with RMB 8,900.00 went to selling expenses and the rest went to overhead expenses.

## 5.18 Deferred income tax assets and deferred income tax liabilities

### 5.18.1 Deferred income tax assets

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Provision for asset impairment	9,183,493.71	4,416,584.02
Unrealized profits of internal transactions	6,301,546.87	4,197,287.97
Deductible losses	305,975.02	80,624.41
Pension (Europe)	29,934,428.85	32,705,414.68
Total	45,725,444.45	41,399,911.08

### 5.18.2 Deferred income tax liabilities

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Appreciation of assets evaluation due to business combinations not under common control	31,520,487.16	32,555,861.47
Others	3,615,783.99	1,610,067.34
Total	35,136,271.15	34,165,928.81

Appreciation of assets evaluation due to business combinations not under common control is formed mainly due to the acquisition of subsidiaries overseas by ShangGong (Europe) Corp. GmbH.



### 5.19 Short-term loans

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
mortgage loans	18,589,424.00	19,533,672.00
Guaranteed loans	271,341,134.57	201,618,563.71
Credit loans	10,617,271.05	363,084.80
Total	300,547,829.62	221,515,320.51

Note 1: The Company subsidiaries ShangGong (Europe) Holding Corp. GmbH Co., a subsidiary of Dürkopp Adler book value of RMB 94,735,775.72 (13,352,093.77 euros) of fixed assets as collateral to borrow money in the German Commercial Bank Co., Ltd. total 65,062,984.00 yuan (9,170,000.00 euros). The loans Up December 31, 2015 total repaid 18,589,424.00 yuan (2,620,000.00 euros) Ending balance 46,473,560.00 yuan (6,550,000.00 euros), of which RMB 18,589,424.00 (2,620,000.00 euros) are short-term loans, RMB 27,884,136.00 (3,930,000.00 euros) are long-term loans.

Note 2: The guaranteed loans which the Company's wholly-owned subsidiary ShangGong (Europe) Holding Corp. GmbH to borrow money from the Germany Bielefeld Commercial Bank branches and the Company's wholly-owned subsidiary PFAFF Industrial Systems and Machinery Co., Ltd. to borrow the money from the German commercial Bank branch Kaiserslautern borrowing, guarantees related to the above matters refer to Note "X. commitments and matter" and "(b) Contingencies" and "Note 1, 2,

Note 3&4: Expect the guaranteed loans above; other guaranteed loans which the Company's wholly-owned subsidiary Shanghai Shensy Enterprise Development Co., Ltd to borrow RMB 18,000,000.00 from China Construction Bank Shanghai Baoshan Baogang Branch and RMB 5,000,000.00 from Bank of Communications Shanghai Branch of Baoshan, the guarantee company which was the Shanghai Shensy Kaile Internet of Things Co., Ltd.

### 5.20 Accounts payable

#### 5.20.1. Presentation of accounts payable

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Payables to suppliers	161,024,708.59	135,538,211.68
Total	161,024,708.59	135,538,211.68

**5.20.2 No amount was due to shareholders holding more than 5% (inclusive) voting shares of the Company among amounts as at December 31, 2015.**

**5.20.3 Please refer to the Note 9.6 for details on amounts due to related parties among accounts payable as at December 31, 2015.**

**5.20.4. There were no accounts payable with aging of more than one year and large amount among amounts as at December 31, 2015.**

### 5.21 Receipt in advance

#### 5.21.1 Presentation of advances from customers

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Advances on sales	25,598,146.20	26,856,206.59
Total	25,598,146.20	26,856,206.59

**5.21.2 There were no advances from shareholders holding more than 5% (inclusive) voting shares of the Company among amounts as at December 31, 2015.**

**5.21.3 There were no advances from related parties among amounts as at December 31, 2015.**

**5.21.4. There were no advances from customers with aging of more than one year and large amount among amounts as at December 31, 2015.**



## 5.22 Employee compensation payable

### 5.22.1 Presentation of employee compensation payable

Item	Balance as at January 1, 2015	Increase in 2015	Decrease in 2015	Balance as at December 31, 2015
Short-term remuneration	46,746,205.46	489,862,912.47	480,432,000.93	56,177,117.00
Post-employment benefits - defined benefit plans	43,230.90	11,922,357.81	11,537,705.99	427,882.72
Dismissal welfare	1,273,780.61	103,523.00	958,363.95	418,939.66
Defined benefit plan maturing within one year	25,643,025.57	17,300,370.64	21,870,652.21	21,072,744.00
Total	73,706,242.54	519,189,163.92	514,798,723.08	78,096,683.38

Note: the defined benefit plan maturing within one year refers to the employee compensation payable relating to the subsidiary, ShangGong (Europe) Holding Corp. GmbH

### 5.22.2 Presentation of short-term remuneration

Item	Balance as at January 1, 2015	Increase in 2015	Decrease in 2015	Balance as at December 31, 2015
(1) Salary, bonus, allowance and subsidy	46,665,456.96	402,574,473.37	393,511,732.57	55,728,197.76
(2) Employee welfare	56,804.00	77,629,127.23	77,597,239.44	88,691.79
(3) Social insurance expenses	23,944.50	6,046,978.86	5,824,050.67	246,872.69
Including: medical insurance premium	21,062.40	5,001,099.80	4,815,453.17	206,709.03
Work-related injury insurance premium	960.70	341,092.87	323,708.00	18,345.57
Maternity insurance premium	1,921.40	414,233.15	394,336.46	21,818.09
Other		290,553.04	290,553.04	
(4) Housing provident funds		2,496,361.45	2,386,140.65	110,220.80
(5) Labor union expenditures and employee education expenses		1,115,971.56	1,112,837.60	3,133.96
(6) Short-term paid absences				
(7) short-term profit-sharing plan				
Total	46,746,205.46	489,862,912.47	480,432,000.93	56,177,117.00

### 5.22.3 Presentation of defined benefit plans

Item	Balance as at January 1, 2015	Increase in 2015	Decrease in 2015	Balance as at December 31, 2015
Basic endowment insurance premium	40,348.80	10,650,278.25	10,297,302.97	393,324.08
Unemployment insurance premium	2,882.10	667,788.65	636,112.11	34,558.64
Payment of annuity		604,290.91	604,290.91	
Total	43,230.90	11,922,357.81	11,537,705.99	427,882.72

## 5.23 Taxes and surcharges payable

Tax and surcharge items	Balance as at December 31, 2015	Balance as at January 1, 2015
Value-added tax	1,627,575.29	929,973.39
Business tax	47,864.23	308,697.48
Enterprise income tax	42,415,008.13	50,902,952.68
Individual income tax	4,473,566.06	4,377,641.19
Urban maintenance and construction tax	88,576.02	38,193.56



Tax and surcharge items	Balance as at December 31, 2015	Balance as at January 1, 2015
Property tax	179,294.70	
Educational surtax	73,626.10	23,071.31
River management fee	14,725.17	5,804.36
Foundation for water construction	24,237.67	
Use tax of land	121,189.92	
Total	49,065,663.29	56,586,333.97

Overseas subsidiaries were subject to the statutory tax rates in accordance with the corresponding countries' tax law.

#### 5.24 Interest payable

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Short-term loan interest payable	88,934.73	
Total	88,934.73	

#### 5.25 Dividends payable

Company name	Balance as at December 31, 2015	Balance as at January 1, 2015	Reasons for failure to pay for more than one year
Light Industrial Holding Group Co., Ltd	959,269.79	959,269.79	long aging, unable to pay
Privately-owned corporate shares	73,549.07	73,549.07	long aging, unable to pay
Total	1,032,818.86	1,032,818.86	

#### 5.26 Other payables

##### 5.26.1 Presentation of other payables by nature of accounts

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Other payables:	171,163,174.57	227,161,793.29

5.26.2 No amount was due to shareholders holding more than 5% (inclusive) voting shares of the Company among amounts as at December 31, 2015.

5.26.3 Please refer to the Note 9.6 for details on amounts due to related parties among accounts payable as at December 31, 2015.

#### 5.27 Non-current liabilities maturing within one year

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Long-term borrowings maturing within one year		520,000.00

#### 5.28 Other current liabilities

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Interest and rentals	319,502.32	703,838.61
Total	319,502.32	703,838.61

#### 5.29 Long-term loans

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Mortgage loans	27,884,136.00	49,256,280.66
Credit loans	1,489,984.87	1,489,984.87
Total	29,374,120.87	50,746,265.53

Note: the relevant matters of the mortgage loan above see note "5. Notes to the items of consolidated financial statements" and "5.19 short-term loans note 1."

#### 5.30 Long-term payables

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Others	4,724,683.15	6,972,940.71



Total	4,724,683.15	6,972,940.71
-------	--------------	--------------

### 5.31 Long-term employee compensation payable

#### 5.31.1 Presentation of long-term employee compensation payable

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
1. Post-employment benefits - net liability of defined benefit plan	237,994,365.76	259,279,480.67
2. Dismissal welfare		
3. Other long-term benefits	1,482,061.76	1,624,274.93
Total	239,476,427.52	260,903,755.60

#### 5.31.2 Changes in defined benefit plan liabilities

##### (i) Present value of defined benefit plan liabilities

Item	Year 2015	Year 2014
1. Beginning Balance	284,922,506.24	315,489,788.98
2. Defined benefit cost included in P&L		
(1) Cost in current period	837,147.58	775,741.50
(2) Cost in prior period		
(3) Gain (+) / Loss (-)		
(4) Net Interests	5,299,628.45	9,660,023.10
3. Defined benefit cost included in OCI		
(1) Actuarial gain (+) / loss (-)	2,696,176.00	19,302,548.40
4. Other changes		
(1) Payment in settlement		-636,924.60
(2) Benefit paid	-20,548,167.75	-24,880,887.90
(3) Changes in exchange rate	-14,140,180.76	-34,787,783.24
5. Ending Balance	259,067,109.76	284,922,506.24

(ii) Defined benefit plan of ShangGong (Europe) Holding Co., GmbH, is based on supporting commitment.

The base of measuring supporting liability is on actuarial and hypothesis, not only consider known and possessed right to draw defined benefit plan, but the increase of future payroll and defined benefit plan. By the end of 2015, the weighted average period of defined benefit plan liability is 10.32 year. (10.36 year by the end of 2014). Assumed payment of defined benefit plan in 2016 is the same as in 2015.

##### (iii) The significant actuarial assumptions

The method used to calculate pension obligations is actuarial. The computation basis includes life expectancy, developed rate, changes in pension, and developed payroll trends.

In 2015, actuarial assumptions are below, compared with 2014

Item	Year 2015	Year 2014
Actuarial rate	2.00% or 2.10%	2.10% or 2.20%
Rate of payroll increase	2.00%	2.00%
Rate of pension increase	1.50%	1.50%

##### (iv) Sensitivity analysis

On Dec 31, 2015, sensitivity analysis was executed based on rational judgment possible changes in assumptions. Other assumptions remain unchanged.

Item	PV of defined benefit plan liability increase	PV of defined benefit plan liability decrease
------	---	---



Discount rate (changed by 0.5%)	14,247,161.60	-12,927,454.40
Increase in payroll (changed by 0.5%)	276,712.80	-269,617.60
Increase in pension (changed by 0.5%)	11,834,793.60	-11,011,750.40
Life expectancy (changed by 1 year)	21,292,695.20	

The sensitivity analysis above may not reflect the actual change of present value of defined benefit plan.

### 5.32 Other non-current liabilities

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
Other long-term loan	520,000.00	
Total	520,000.00	

### 5.33 Share capital

Item	Balance as at January 1, 2015	Increase (+) and decrease (-) for the current year			Balance as at December 31, 2015
		Issuance of new shares	Others	Sub-total	
Total shares	548,589,600.00				548,589,600.00

### 5.34 Capital reserves

Item	Balance as at January 1, 2015	Increase in 2015	Decrease in 2015	Balance as at December 31, 2015
Stock premium	851,345,853.61			851,345,853.61
Other capital reserves	97,964,430.40	6,975,737.42		104,940,167.82
Total	949,310,284.01	6,975,737.42		956,286,021.43

Note 1: the changes in capital reserve of subsidiaries within the combination scope were the reason for the increase in other capital reserves in 2015.



### 5.35 Other comprehensive income

Item	Balance as at January 1, 2015	Year 2015					Balance as at December 31, 2015
		Accrual before income tax for the current year	Less: recognized as other comprehensive income for previous years and transferred in the profit or loss for the current year	Less: income tax expenses	Attributable to owners of the parent company	Attributable to minority shareholders	
1. Other comprehensive income that cannot be reclassified in the loss and gain in the future	-49,154,975.40	-2,696,176.00		-756,095.61	-1,857,057.19	-83,023.20	-51,095,055.79
Including: change in re-measurement of the net liabilities and net assets under defined benefit plan	-49,154,975.40	-2,696,176.00		-756,095.61	-1,857,057.19	-83,023.20	-51,095,055.79
A share in other comprehensive income of investee that cannot be reclassified in the losses and gains under the equity method							
2. Other comprehensive income that will be reclassified in the loss and gain in the future	-71,505,731.67	15,370,708.74			16,053,142.03	-682,433.29	-56,135,022.93
Including: a share in other comprehensive income of investee that will be reclassified in the loss and gain under the equity method							
Losses and gains on the change in fair value of available-for-sale financial assets	16,789,785.05	28,278,699.44			28,278,699.44		45,068,484.49
Held-to-maturity investments reclassified as losses and gains on available-for-sale financial assets							
Effective portion of losses and gains on cash flow hedges							
Foreign currency translation differences	-88,295,516.72	-12,907,990.70			-12,225,557.41	-682,433.29	-101,203,507.42
Total other comprehensive income	-120,660,707.07	12,674,532.74		-756,095.61	14,196,084.84	-765,456.49	-107,230,078.72



### 5.36 Surplus reserves

Item	Balance as at January 1, 2015	Increase in 2015	Decrease in 2015	Balance as at December 31, 2015
Statutory surplus reserves	2,273,121.26			2,273,121.26
Discretionary surplus reserves	2,273,121.26			2,273,121.26
Total	4,546,242.52			4,546,242.52

### 5.37 Retained earnings

Item	Year 2015	Year 2014
Adjustments to retained earnings as at December 31, 2014	193,106,033.92	-2,996,568.99
Adjustments to total retained earnings as at January 1, 2015 ("+" for increase, "-" for decrease)		
Adjusted retained earnings as at January 1, 2015	193,106,033.92	-2,996,568.99
Plus: net profit attributable to owners of the parent company for 2015	157,417,087.48	197,616,061.21
Less: withdrawal of statutory surplus reserves		
Withdrawal of discretionary surplus reserves		
Withdrawal of general risk reserves in 2015		
Ordinary share dividends payable		
Ordinary share dividend transferred to share capital (paid-in capital)		
Other transfer-out		1,513,458.30
Adjustments to retained earnings as at December 31, 2015	350,523,121.40	193,106,033.92

### 5.38 Operating income and operating costs

Item	Year 2015		Year 2014	
	Income	Cost	Income	Cost
Primary business	2,260,456,212.19	1,577,574,082.65	1,922,600,370.89	1,340,263,101.28
Other businesses	53,583,398.06	37,176,145.81	48,644,462.99	27,887,832.47
Total	2,314,039,610.25	1,614,750,228.46	1,971,244,833.88	1,368,150,933.75

### 5.39 Business taxes and surcharges

Item	Year 2015	Year 2014
Business tax	1,679,642.73	1,123,091.60
Urban maintenance and construction tax	1,135,588.26	932,380.62
Educational surtax	950,832.41	434,614.79
Others	2,349,247.23	2,508,560.69
Total	6,115,310.63	4,998,647.70

### 5.40 Selling expenses

Item	Year 2015	Year 2014
Employee compensation	96,546,655.69	101,000,573.52
Fix and after-sale service charges	17,213,323.86	14,367,427.01
Office expenses	2,715,458.14	3,664,937.56
Travelling expenses	13,714,875.35	13,245,752.44
Transportation cost	18,224,966.53	18,841,260.53
Advertising expense	5,163,436.61	3,773,124.02
Commission	22,738,387.55	39,752,613.13



Item	Year 2015	Year 2014
Leasing and storage charges	7,023,480.02	5,856,961.84
Insurance premium	1,471,044.93	1,272,426.19
Conference fees	3,069,708.59	1,316,894.97
Depreciation costs	801,739.84	811,792.14
Exhibition fees	3,829,967.91	1,779,059.05
Samples, printing materials and scraps	8,759,310.16	9,453,624.13
Business entertainment expense	2,408,047.25	
Online retail fee	1,454,397.05	
Others	28,096,462.88	21,726,615.80
Total	233,231,262.36	236,863,062.33

#### 5.41 General and administrative expenses

Item	Year 2015	Year 2014
Employee compensation	118,229,442.75	103,505,187.44
Office expenses	9,298,355.85	8,031,749.90
Utility bills	555,379.88	1,414,353.97
Entertainment expenses	3,497,508.54	2,177,292.08
Property insurance premium	1,959,199.76	2,132,323.07
Conference fees	182,653.16	180,356.51
Travelling expenses	7,252,530.39	6,412,024.13
Depreciation costs	7,746,387.90	6,206,795.03
Repair charges	738,092.06	594,720.88
Transportation cost	2,123,236.75	1,430,260.91
Rental fees	8,972,272.86	7,988,385.13
Costs of board meetings and supervisors' meetings	452,564.30	489,502.38
Agency fees and advisory expenses	12,081,241.13	9,360,144.38
Litigation cost	189,767.32	313,109.83
New product development expenses	71,828,659.40	43,697,065.40
Taxes and surcharges	1,118,433.43	561,231.48
Amortization of intangible assets	2,196,274.28	2,406,892.77
Long-term deferred expenses	22,250.10	
Others	7,033,392.56	4,242,194.73
Total	255,477,642.42	201,143,590.02

#### 5.42 Financial expenses

Type	Year 2015	Year 2014
Interest expenses	14,591,904.92	22,390,529.63
Less: interest income	5,432,888.28	5,783,229.20
Gains and losses on exchange	-5,699,202.02	-5,742,752.11
Others	2,632,044.48	530,036.38
Total	6,091,859.10	11,394,584.70

#### 5.43 Losses from asset impairment



Item	Year 2015	Year 2014
Losses from bad debts	-1,057,684.84	9,173,174.52
Losses from inventory impairment	14,286,392.05	756,646.51
Losses from long-term investment impairment	825,260.18	
Losses on impairment of goodwill	17,010,069.96	
Total	31,064,037.35	9,929,821.03

#### 5.44 Gains from changes in fair value

Reasons for gains from changes in fair value	Year 2015	Year 2014
Financial assets measured at fair value through current profit and loss		-177,479.87
Including: gains from changes in fair value of derivate financial instruments		
Financial liabilities measured at fair value through current profit and loss		
Investment property measured at fair value		
Total		-177,479.87

#### 5.45 Investment income

Item	Year 2015	Year 2014
Long-term equity investments measured under equity method		159,999.49
Investment income from disposal of long-term equity investments		
Investment income from financial assets measured at fair value through current profit and loss during the	1,071,204.85	
Investment income from disposal of financial assets measured at fair value through current profit and loss		556,294.29
Investment income from holding of held-to-maturity investments		
Investment income from holding of available-for-sale financial assets	18,275,165.03	10,943,588.06
Investment income from disposal of available-for-sale financial assets	2,228,941.34	24,445,302.07
Gains from re-measurement of residual equity at fair value after the loss of control right		
Others	20,834,080.48	20,274,439.69
Total	42,409,391.70	56,379,623.60

Note: "others" mainly refer to the gains of RMB 7,913,567.12 from finance products among other current assets and the investment income of RMB 12,898,055.35 from yield enhancement products.

#### 5.46 Non-operating income

Item	Year 2015	Year 2014	Amounts included in the non-recurrent profit and loss for the current year
Total gains from disposal of non-current assets	5,728,673.89	104,867,854.50	5,728,673.89
Including: gains from disposal of fixed assets	5,728,673.89	1,760,948.34	5,728,673.89
Gains on disposal of intangible assets		103,106,906.16	
Gains from debt restructuring			
Gains from exchange of non-monetary assets/Gains from transaction of non-currency assets			
Donation accepted			
Government subsidies	6,668,426.57	2,718,674.99	6,668,426.57
Penalty revenue	100.00		100.00
Others	6,800,294.85	2,596,297.71	6,800,294.85
Payables unable to pay	1,299,849.22	1,930,025.47	
Total	20,497,344.53	112,112,852.67	19,197,495.31



Government subsidies included in current profit and loss

Item	Year 2015	Year 2014	Asset-related / income-related
Governmental financial subsidies for Pudong New Area	399,000.00	1,386,000.00	Income-related
Vocational training subsidies for employees of enterprises in Pudong New Area		113,245.00	Income-related
Special funds of Shanghai Municipality for overseas investment cooperation	1,214,100.00		Income-related
Special funds for the "Fastening Shanghai Independent Brand Building" Plan		100,000.00	Income-related
Special funds for the Plan of Innovative Development of Entrepreneurs' Leadership		39,200.00	Income-related
Funds of the Hongkou District Finance Bureau of Shanghai Municipality for Supporting the Development of Enterprises	120,000.00	149,000.00	Income-related
Special funds for construction of the independent brand "Butterfly"		500,000.00	Income-related
Funds of the Minhang District Finance Bureau of Shanghai Municipality for Supporting the Development of Enterprises	130,000.00	70,000.00	Income-related
Subsidies for dyeing out of yellow-label cars	10,000.00	11,000.00	Income-related
Subsidies for Management of Old Public Houses in Shanghai Municipality	222,543.19	350,229.99	Income-related
Development zone subsidies	4,566,783.38		Income-related
Subsidies for small and medium sized enterprises international market FSC certification	6,000.00		Income-related
Total	6,668,426.57	2,718,674.99	

5.47 Non-operating expenses

Item	Year 2015	Year 2014	Amounts included in the non-recurrent profit and loss for the current year
Total losses from disposal of non-current assets	348,659.64	449,483.46	348,659.64
Including: losses from disposal of fixed assets	348,659.64	449,483.46	348,659.64
Losses from disposal of intangible assets			
Losses from debt restructuring			
Losses from exchange of non-monetary assets			
Donations made	200,000.00	200,000.00	200,000.00
Amercement and overdue fine outlay	127,555.11	28,924.95	127,555.11
Extraordinary losses		14,781,287.01	
Others		109,840.42	
Total	676,214.75	15,569,535.84	676,214.75

5.48 Income tax expenses

Item	Year 2015	Year 2014
Current income tax calculated according to the tax law and relevant provisions	55,356,116.31	61,747,475.21
Deferred income tax expenses	-2,073,259.15	-6,989,622.24
Total	53,282,857.16	54,757,852.97

5.49 Items of the statement of cash flows

5.49.1 Cash received from other operating activities

Item	Year 2015	Year 2014
Current accounts and advances withdrawn	13,467,371.42	12,994,883.09
Special subsidies and grants	6,514,074.10	2,067,843.48
Interest income	5,927,147.86	3,230,161.12



Non-operating income:	7,193,338.62	594,144.07
Other income	116,336.78	2,613,731.65
Total	33,218,268.78	21,500,763.41

#### 5.49.2 Cash paid for other operating activities

Item	Year 2015	Year 2014
Current accounts paid	53,926,015.62	27,185,203.18
Selling expenses	87,959,171.04	74,215,479.91
General and administrative expenses	55,612,388.75	52,210,030.29
Non-operating expenses	281,101.21	223,898.89
Total	197,778,676.62	153,834,612.27

#### 5.49.3 Cash received from other investing activities

Item	Year 2015	Year 2014
Cash paid for investing	60,250,855.95	
Total	60,250,855.95	

#### 5.49.4 Cash paid for other investing activities

Item	Year 2015	Year 2014
Payment for acquiring assets of the acquiree		27,843,567.17
Total		27,843,567.17

#### 5.49.5 Cash received from other financing activities

Item	Year 2015	Year 2014
Guarantee deposit	29,523,531.37	4,000,000.00
Total	29,523,531.37	4,000,000.00

#### 5.49.6 Cash paid for other financing activities

Item	Year 2015	Year 2014
Directiaonal seasoned offering and the relevant expenses	50,000,000.00	
Mortgage and pledge (e.g. certificate of term deposit, security deposit)		50,657,379.68
Capital reduction of minority shareholder		2,000,000.00
Total	50,000,000.00	52,657,379.68

### 5.50 Supplementary information to the statement of cash flows

#### 5.50.1 Supplementary information to the statement of cash flows

Supplementary information:	Year 2015	Year 2014
1. Net profit adjusted to cash flows from operating activities		
Net profit	176,256,934.25	236,751,801.94
Plus: provision for assets impairment	31,064,037.35	9,929,821.03
Depreciation of fixed assets and others	43,725,355.85	37,108,959.76
Amortization of intangible assets	9,729,544.56	11,107,304.86
Amortization of long-term deferred expenses	31,150.10	6,600.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-5,380,014.25	-104,418,371.04
Losses on write-off of fixed assets ("-" for gains)		
Losses from changes in fair value ("-" for gains)		177,479.87
Financial expenses ("-" for income)	24,880,850.30	61,475,742.22
Investments losses ("-" for gains)	-42,409,391.70	-56,379,623.60
Decreases in the deferred income tax assets ("-" for increases)	-3,974,648.75	-6,873,470.73
Increases in the deferred income tax liabilities ("-" for decreases)	970,342.34	-15,285,181.98
Decreases in inventories ("-" for increases)	-74,102,597.39	-39,321,980.92
Decreases in operating payables ("-" for increases)	-28,937,336.74	-40,822,641.53
Increases in operating payables ("-" for decreases)	-80,967,362.38	8,147,520.08



Supplementary information:	Year 2015	Year 2014
Others		
Net cash flows from operating activities	50,886,863.54	101,603,959.96
2. Significant investment and financing activities involving no cash receipts and payments		
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
3. Net change in cash and cash equivalents:		
Balance of cash as at December 31, 2014	744,700,658.82	581,848,889.10
Less: balance as at January 1, 2014 of cash	581,848,889.10	446,063,638.27
Plus: balance as at December 31, 2014 of cash equivalents		
Less: balance as at January 1, 2014 of cash equivalents		
Net increase in cash and cash equivalents	162,851,769.72	135,785,250.83

#### 5.50.2 Net cash paid to acquire subsidiaries for the current year

Item	Amount
Cash or cash equivalents paid in the current year for the business combinations occurred in the current year	
None	
Less: cash and cash equivalents held on the date of acquisition of subsidiaries	
None	
Plus: cash or cash equivalents paid in the current year for business combinations occurred in the previous years	37,511,488.51
Including: KSL GmbH	37,511,488.51
Net cash paid to acquire subsidiaries	37,511,488.51

Note: In 2015, KSL GmbH merged with PFAFF Industriesysteme und Maschinen GmbH which is the wholly owned subsidiary by SHANG GONG Group Co., Ltd.

#### 5.50.3 Breakdowns of cash and cash equivalents

Item	Balance as at December 31, 2015	Balance as at January 1, 2015
1. Cash	744,700,658.82	581,848,889.10
Including: cash on hand	1,454,927.52	907,883.87
Unrestricted bank deposit	731,170,363.19	578,453,080.34
Other unrestricted monetary funds	12,075,368.11	2,487,924.89
Deposit in central bank available for payment		
Deposits with banks and other financial institutions		
Loans from banks and other financial institutions		
2. Cash equivalents		
Including: bond investments maturing within three months		
3. Balance of cash and cash equivalents as at December 31, 2015	744,700,658.82	581,848,889.10
Including: cash and cash equivalents restricted for use by the parent company or subsidiaries within the group		

Note: Cash and cash equivalents restricted for use for more than three months by the parent company or subsidiaries within the group were not included in cash and cash equivalents

#### 5.51 Monetary items in foreign currency

##### 5.51.1 Monetary items in foreign currency

Item	balance of foreign currency as at December 31, 2015	Exchange rate	Balance of conversion into RMB as at December 31, 2015
------	---	---------------	--



Item	balance of foreign currency as at December 31, 2015	Exchange rate	Balance of conversion into RMB as at December 31, 2015
Cash and cash equivalents	66,516,592.36		463,136,246.67
Including: HKD	910,204.28	0.8378	762,569.14
USD	1,402,188.92	6.4936	9,105,254.65
EUR	63,758,716.59	7.0952	452,380,845.95
JPY	255,000.00	0.0539	13,738.13
SGD	190,482.57	4.5875	873,838.80

#### 5.51.2 Description of overseas operating entities

The domicile of primary operation of the Company's subsidiary, ShangGong (Europe) Holding Corp. GmbH is in Germany, with Euro as functional currency for it is the applicable currency for the operation region.



## 6. Change in the scope of consolidation

### 6.1 Business combinations not under common control

#### 6.1.1 Business combinations not under common control in 2015

Acquiree	Acquisition time	Acquisition cost	Proportion of equity acquired (%)	Way of acquisition	Acquisition date	Basis for determination of the acquisition date	Income of acquiree during the period from the acquisition date to December 31, 2015	Net profit of acquiree during the period from the acquisition date to December 31, 2015
Shanghai Shensy Enterprise Development Co., Ltd.	November 26, 2004	10,593,077.64	10.59	Pay in cash	November 26, 2004	The registered capital subscribed in cash	-	-
	April 30, 2015	75,490,000.00	34.11	Pay in cash	April 30, 2015	Having a control right over the acquiree	381,143,146.87	12,226,821.05

NOTE: After increasing capital to Shanghai Shensy Enterprise Development Co., Ltd., our pre-existing shareholding acquired in 2004 has been diluted from 10.59% to 5.92%. Counting in the capital increase of 34.11% this time, our shareholding reached 40.03% at April 30, 2015.

Upon the Company increases the equity of the Shanghai Shensy Enterprise Development Co., Ltd.(hereby referred to as "Shensy"), the Company and Shanghai Pudong New Industrial Investment Co., Ltd which are acting in concert had the vote right over 50.00% together, there were 4 out of 7 vote right in the Board. Chairman and Chief financial Officer dispatched by the company, thereby Shanghai Shensy Enterprise Development Co., Ltd shall be included in the consolidation scope since 30 April 2015..



## 6.2 Other changes in the scope of consolidation

Where the Company and Zhejiang Gensy Electromechanical Co., Ltd. (hereby referred to as the "GEMSY") set up Zhejiang SG & GEMSY Sewing Technology Co., Ltd. on Sep 2, 2015 (hereby referred to as "Shanggong GEMSY"), in which: the Company monetary investment RMB 129,600,000.00, constituting 60.00% of the share capital; GEMSY invested RMB86,400,000.00, which including physical assets invested RMB 86,000,000.00 and monetary invested RMB 400,000.00, constituting 40.00% of the share capital, there are 60.00% vote right in the Board by the Company, in addition, Chairman, President and Chief Financial Officer dispatched by the Company, thereby Zhejiang Shanggong GEMSY Sewing Technology Co., Ltd shall be included in the consolidation scope in the current period.

### 6.2.1 Cost of consolidation and goodwill

Shanghai Shensy Enterprise Development Co., Ltd.

Cost of consolidation	
- Cash	75,490,000.00
- The fair value of non-cash assets	
- The fair value of issued of assumed liabilities	
- The fair value of issued equity securities	
- The fair value of contingent consideration	
- The fair value on the acquisition date of equity held before the acquisition date	10,593,077.64
- Others	
Total costs of consolidation	86,083,077.64
Less: the fair value of the identifiable net assets acquired from the acquiree	86,083,077.64
The difference of the fair value of the identifiable net assets acquired from the acquiree in excess of goodwill/combination costs	

The method to the fair value of the identifiable net assets acquired: appraisal price.

The different between the appraisal price and the book value of the identifiable net assets was small, thereby, ultimately to the acquiree's book value of the identifiable net assets as the fair value of the identifiable net assets.

### 6.2.2 The identifiable assets and liabilities of the acquiree on the acquisition date

Shanghai Shensy Enterprise Development Co., Ltd.

Item	The fair value on the acquisition date	The book value on the purchase date
Cash and cash equivalents	135,740,855.95	135,740,855.95
Notes receivable	50,505,773.40	50,505,773.40
Accounts receivable	79,945,710.91	79,945,710.91
Prepayment	3,658,235.88	3,658,235.88
Other receivables	40,207,107.08	40,207,107.08
Inventories	64,116,275.81	64,116,275.81
Fixed assets	22,128,033.64	22,128,033.64
Construction in process	14,500,000.00	14,500,000.00
Defer tax asset	350,884.62	350,884.62
Short-term loan	44,260,000.00	44,260,000.00
Accounts payable	26,995,866.61	26,995,866.61
Employee compensation payable	1,805,340.14	1,805,340.14
Tax payable	1,312,884.38	1,312,884.38
Interest payable	121,550.46	121,550.46
Dividends payable	44,681,552.05	44,681,552.05
Other payable	14,268,551.23	14,268,551.23



Item	The fair value on the acquisition date	The book value on the purchase date
Long-term loan	6,000,000.00	6,000,000.00
Bonds payable	51,569,527.68	51,569,527.68
Net assets	220,137,604.74	220,137,604.74
Less: minority equity	134,054,527.10	134,054,527.10
Net assets acquired	86,083,077.64	86,083,077.64

The method to recognize the acquiree's identifiable asset and liabilities: appraisal price.

If the different between the appraisal price and the acquiree's book value of the identifiable assets or liability at acquisition date was small, we use the acquiree's book value of the identifiable assets and liabilities as its fair value.

The contingent liability assumed through business combination: None.

### 6.2.3 Gains or losses from re-measurement of equity held before the acquisition date at fair value

Acquiree	The book value on the acquisition date of equity held before the acquisition date	The fair value on the acquisition date of equity held before the acquisition date	Gains or losses from re-measurement of equity held before the acquisition date at fair value	Amount of other comprehensive income relating to original equity held before the acquisition date transferred in the investment income
Shanghai Shensy Enterprise Development Co., Ltd.	10,593,077.64	12,822,018.98	2,228,941.34	

## 7. Equity in other entities

### 7.1 Equity in subsidiaries

Name of subsidiary	Domicile of primary operation	Registered place	Business nature	Shareholding ratio (%)		Way of acquisition
				Direct	Indirect	
Shanghai Shangong Butterfly Sewing Machines Co., Ltd	Shanghai	Shanghai	Production and sales of sewing machines	100.00		Investment
DAP (Shanghai) Co., Ltd.	Shanghai	Shanghai	Sales of sewing machines	60.00	40.00	Investment
Shanghai SMPIC Imp. & Exp. Co., Ltd.	Shanghai	Shanghai	Sales of office equipment	100.00		Investment
Shanghai Shangong SMPIC Electronics Co., Ltd.	Shanghai	Shanghai	Production and sales of electronic equipment	100.00		Investment
Shanghai SGSB Asset-management Co., Ltd.	Shanghai	Shanghai	Asset and property management	100.00		Investment
Shanghai Fengjian Property Co., Ltd.	Shanghai	Shanghai	Property Management	100.00		Business combination under common control
Durkopp Adler Sewing	Suzhou	Suzhou	Production	51.00	49.00	Business



Name of subsidiary	Domicile of primary operation	Registered place	Business nature	Shareholding ratio (%)		Way of acquisition
				Direct	Indirect	
Machines Suzhou Co., Ltd.			and sales of sewing machines			combination not under common control
ShangGong (Europe) Holding Corp. GmbH	Europe	Europe	Production and sales of sewing machines	100.00		Investment
Zhejiang SG & GEMSY Sewing Technology Co., Ltd.	Taizhou	Taizhou	Production and sales of sewing machines	60.00		Investment
Shanghai Shensy Enterprise Development Co., Ltd.	Shanghai	Shanghai	Physical distribution	40.03		Business combination not under common control

## 8. Disclose of fair value

The input value used for measuring fair value is divided into three levels:

- The input value of the first level is the unadjusted quotation of similar assets and liabilities that can be obtained in an active market on the measurement date.
- The input value of second level is the directly and indirectly observable input value of the relevant assets or liabilities other than the input value of the first level.
- The input value of the third level is the unobservable input value of the relevant assets or liabilities.

The level of the result of measurement of fair value is the lowest level that the input value which is significantly meaningful for the overall measurement of fair value belongs to.

### 8.1 The fair value as at December 31, 2015 of assets and liabilities measured at fair value

Item	Fair value as at December 31, 2015			
	Measured at the fair value of the first level	Measured at the fair value of the second level	Measured at the fair value of the third level	Total
<b>1. Measurement at fair value based on going concern</b>				
(1) Financial assets measured at fair value through current profit and loss				
A. Financial assets held for trading				
a. Investment in debt instruments				
b. Investments in equity instruments				
c. Derivative financial assets				
B. Financial assets designated to be measured at fair value through current profit and loss				
a. Investment in debt instruments				
b. investments in equity instruments				
(2) Available-for-sale financial assets	118,127,307.02			118,127,307.02
a. Investment in debt instruments				



Item	Fair value as at December 31, 2015			
	Measured at the fair value of the first level	Measured at the fair value of the second level	Measured at the fair value of the third level	Total
b. Investments in equity instruments	118,127,307.02			118,127,307.02
c. Others				
(3) Investment property				
A. Use right of leased land				
B. Leased buildings				
C. Land use right held for transfer upon appreciation				
<b>Total amount of assets measured at fair value based on going concern</b>	118,127,307.02			118,127,307.02
(4) Financial liabilities held for trading				
Including: issued bonds held for trading				
Derivative financial liabilities				
Others				
(5) Designated financial liabilities measured at fair value through current profit and loss				
<b>Total amount of liabilities measured at fair value based on going concern</b>				
<b>2. Measurement at fair value based on going concern</b>				
(1) Assets held for trading				
<b>Total amount of assets measured at fair value not based on going concern</b>				
<b>Total amount of liabilities measured at fair value not based on going concern</b>				

## 8.2 Basis for determination of market price for measurement of fair value of the first level based on going concern and not based on going concern.

The fair value as at December 31, 2015 of available-for-sale financial assets was determined on the basis of the closing price of Shenzhen Securities Exchange and Shanghai Securities Exchange on December 31, 2015.

## 9. Related party and related party transaction

### 9.1 The parent company of the Company

Name of the parent company	Registered place	Business nature	Registered capital	Shareholding ratio in the Company (%)	Voting ratio in the Company (%)
State-owned Assets Supervision and Administration Commission in Shanghai Pudong New District.	Shanghai	State-owned		19.21	19.21

Notes to the parent company of the Company:

The parent company of the Company is the Pudong New Area State-owned Assets Supervision and Administration Commission of Shanghai Municipality, which specializes in managing the state-owned assets of Pudong New Area under the authorization of the Pudong New Area People's Government of Shanghai Municipality;

The ultimate controller of the Company is the Pudong New Area State-owned Assets Supervision and



Administration Commission of Shanghai Municipality.

## 9.2 The subsidiaries of the Company

See the Note 7 Equity in Other Entities for the details of subsidiaries of the Company

## 9.3 Other related parties of the Company

Name of other related parties	Relationship with the Company
Shanghai Hirose Precision Industrial Co., Ltd.	Investee
Shanghai Fuji Xerox Co., Ltd.	Investee
Shanghai Kaile Investment Management Co., Ltd.	The shareholder of subsidiary
Zhejiang Gensy Electromechanical Co., Ltd.	The shareholder of subsidiary

## 9.4 Related party transactions

### (1) Purchase and sale of goods, and rendering and receipt of services

Table of purchase of goods / receipt of services

Related party	Content of related transaction	Year 2015	Year 2014
Zhejiang Gensy Electromechanical Co., Ltd.	Purchase of fix assets	4,146,840.60	
Zhejiang Gensy Electromechanical Co., Ltd.	Purchase of goods	58,086,315.17	

Table of sales of goods/rendering of services

Related party	Content of related transaction	Year 2015	Year 2014
Shanghai Fuji Xerox Co., Ltd.	Sales of goods	37,539,189.14	38,032,283.56
Shanghai Fuji Xerox Co., Ltd.	Rendering of service	230,666.62	178,766.63
Zhejiang Gensy Electromechanical Co., Ltd.	NET Sales of goods	4,196.58	

### (2) Leasing

The Company acted as lessor

(Monetary unit: RMB'0,000)

Name of leasee	Type of leased asset	Rental recognized in 2015	Rental recognized in 2014
Shanghai Hirose Precision Industrial Co., Ltd.	Machinery equipment	25.00	25.00

### (3) Remuneration of key management members

(Monetary unit: RMB'0,000)

Item	Year 2015	Year 2014
Remuneration of key management members	366.77	288.11

Note: The remunerations of the Company's key management: the total remunerations of key management members of the Company for 2015 amounted to RMB3.6677 million (vs. RMB2.8811 million for 2014). The key management members of the Company in 2015 included directors, supervisors, general managers, deputy general managers and secretaries of the Board, 17 persons in total (19 persons in 2014).

### (4) Other related transactions

None.

## 9.5 Accounts due from/to the related parties

### 9.5.1 Accounts receivable

Item	Related party	Balance as at December 31, 2015		Balance as at January 1, 2015	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Shanghai Fuji Xerox Co., Ltd.	3,413,421.14	170,671.06	3,337,712.71	166,885.64
Other receivables					



	Zhejiang Gemsy Electromechanical Co., Ltd.	481,669.48			
prepayment					
	Zhejiang Gemsy Electromechanical Co., Ltd.	7,366,357.64			

### 9.5.2 Accounts payable

Item	Related party	Balance as at December 31, 2015	Balance as at January 1, 2015
Other payables			
	Zhejiang Gemsy Electromechanical Co., Ltd.	814,068.18	
	Shanghai Kaile Investment Management Co., Ltd.	900,000.00	
Receipt in advance			
	Zhejiang Gemsy Electromechanical Co., Ltd.	90.00	

## 10. Commitments or contingencies

### 10.1 Major commitment events

#### Mortgage loans and credit extension

Mortgages/Collaterals	Estimated use	Amount of borrowing	Borrower
Bank deposits of RMB25,000.00 thousands	Guaranty		ShangGong (Europe) Holding Corp. GmbH
Bank deposits of EUR328.20thousands	Surety margin		ShangGong (Europe) Holding Corp. GmbH
Bank deposits of EUR112.60 thousands	Surety margin		ShangGong (Europe) Holding Corp. GmbH
Accounts receivable of EUR501.50 thousands	Surety margin		ShangGong (Europe) Holding Corp. GmbH
Fixed assets of EUR13,352.10 thousands	Surety margin of credit line	EUR6,550,000.00	ShangGong (Europe) Holding Corp. GmbH
Fixed assets of RMB36,596.50 thousand	Guaranty		ShangGong (Europe) Holding Corp. GmbH

### 10.2 Contingencies

#### 10.2.1 The contingent liabilities arising from the provision of debt guarantees by the Company for its subsidiary, ShangGong (Europe) Holding Co., GmbH as at December 31, 2015

Guarantee	Guarantee amount	Commencement date of guarantee	Expiration date of guarantee	Whether the guarantee has been fulfilled or not	Remark
Shanghai Branch of the Commerzbank	The equivalent of RMB58.00 million in EUR	2014/03/25		No	Note 1
Shanghai Branch of the Commerzbank	EUR8.00 million	2014/07/01		No	Note 2
Shanghai Branch of the Commerzbank	EUR12.00 million	2015/10/08		No	Note 3
Shanghai Branch of the Commerzbank	EUR10.00 million	2015/08/28		No	Note 4
Industrial and Commercial bank Shanghai Hongkou	EUR7.878 million	2015/12/21	2020/12/21	No	Note 5



Branch				
--------	--	--	--	--

Note 1: on March 25, 2014, the Company's wholly-owned subsidiary, ShangGong (Europe) Holding Corp. GmbH, applied to the Bielefeld Branch of the Commerzbank for a current fund loan of not more than the equivalent of RMB58 million in EUR, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued a corporate letter of guarantee for payment of RMB70 million as counter guarantee for the abovementioned financing guarantee letter.

Note 2: on June 30, 2014, the Company's wholly owned subsidiary, Shanggong (Europe) Holding Co., GmbH, applied to the Bielefeld Branch of the Commerzbank for a current fund loan of EUR8 million, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for payment of EUR8.8 million as counter guarantee for the abovementioned financing guarantee letter.

Note 3: on October 8, 2015, the Company's wholly owned subsidiary, Shanggong (Europe) Holding Co., GmbH, applied to the Bielefeld Branch of the Commerzbank for a short-term credit loan of EUR12 million, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for payment of EUR10.50 million and provided a pledge in cash of RMB25.00 million as counter guarantee for the abovementioned financing guarantee letter. The pledge cash and interest on restricted cash.

Note 4: on August 28, 2015, the Company's wholly owned subsidiary, PFAFF Industrial Systems and Machinery Co., Ltd., applied to the Kaiserslautern Branch of the Commerzbank for a loan of EUR10.00 million, the Shanghai Branch of the Commerzbank issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for payment of EUR11.00 million as counter guarantee for the abovementioned financing guarantee letter.

Note 5: on December 21, 2015, the Company's wholly owned subsidiary, Shanggong (Europe) Holding Co., GmbH, applied to the Frankfurt Branch of the Commerzbank for a limit loan of EUR7.878 million, in order to Shanggong (Europe) Holding Co., GmbH. Pay the acquisition fee to Stoll Co., Ltd. Industrial and Commercial bank Shanghai Hongkou Branch issued a financing guarantee letter for the funds, and the Company issued an unconditionally irrecoverable corporate letter of guarantee for self-using fix assets where No.603 Dapu Road as counter guarantee for the abovementioned financing guarantee letter.

#### 10.2.2 The agreement to increase capital to Shanghai Shensy Enterprise Development Co., Ltd.

According to our new capital increase agreement with Shanghai Shensy Enterprise Development Co., Ltd., by 30 June 2018, if Shensy has not realized IPO and listed independently in A shares market, the persons acting in concert, Shanghai Pudong new Industrial Investment Co., Ltd., will be entitled to require our company and another shareholder, Zhang Ping, to repurchase all or some of the shares that Shanghai Pudong new Industrial Investment Co., Ltd. holds in cash, within 3 months after it requests in writing. And we should assist it in the approval process of state-owned Assets Supervision and Administration Commission, commercial registration, etc. Per the agreement, our company and Zhang Ping will assume 50% of the above mentioned amount, respectively, and our company bears unconditional joint responsibility to repurchase the shares that Shanghai Pudong new Industrial Investment Co., Ltd. holds.

If Shanghai Pudong new Industrial Investment Co., Ltd. has not listed in A shares market by 30 June 2018, it has 6 months (e.g. before 31 December 2018) to request our company and Zhang Ping to repurchase the shares which it holds in Shanghai Shensy Enterprise Development Co., Ltd.. If not, our company and Zhang Ping will not assume the above mentioned repurchase responsibility.

### 11. Events after the reporting period

#### 11.1 Invest in H.Stoll AG&Co.KG

Our company's wholly-owned subsidiary, ShangGong (Europe) Holding Corp. GmbH (referred to as "SG (Europe)") invest in H.Stoll AG & Co.KG (referred to as "Stoll Company"), increasing its share capital by € 28,500,000, after the capital increase, SG (Europe) became a limited partner, holding 26% shares of Stoll



company. The initial installment, Euro 22,999,181 was paid on the settlement day on January 11, 2016. And Stoll's relevant registration document has applied for modification.

### 11.2 Collateral

ShangGong (Europe) Holding Corp. GmbH uses its holding of 500 thousand shares of Dürkopp Adler as collateral to obtain two pieces of € 2,750,000 bank letter(the guarantee period is from 7 January 2016 to 30 July 2017 and from 7 January 2016 to 30 July 2018, respectively), issued by German commercial bank. ShangGong (Europe) Holding Corp. GmbH guarantees that it will pay the consideration of share purchase to the seller of German H.Stoll AG & Co.KG.

### 11.3 Offshore borrowing

On 4 January 2016, the Company's wholly owned subsidiary, ShangGong (Europe) Holding Corp. GmbH Borrow € 7,878,000 from China Industrial and Commercial Bank Frankfurt Branch to cover the consideration paid to acquire 26% shares of H.Stoll AG & Co.KG.

### 11.4 Profit distribution

According to the decision in the twenty-sixth board meeting (7th round) on 18 March 2016, no dividends will be distributed.

### 11.5 Other post balance sheet events

#### The major asset restructuring stock suspension

Because the controlling shareholders and actual controllers which Pudong New Area State-owned Assets Supervision and Administration Commission is planning major issues related to the Company, the Company may constitute a major asset restructuring, the Company stock suspension since February 18 2016. These matters with uncertainty, in order to ensure fair information disclosure, to maintain the interests of investors, to avoid abnormal stock price volatility; the Company applies the company's stock since February 25, 2016 is expected not to exceed one month suspension.

At the end of report publish, the related events still on the research, and the Company will be follow-up suspended. During the suspension period the Company will perform the information disclosure obligation base on the progress of major event, progress publish every five days once related matters.

## 12. Other significant events

None.



### 13. Notes to mains items of the financial statements of the parent company

#### 13.1 Accounts receivable

##### 13.1.1 Disclosure of classification of accounts receivable

Type	Balance as at December 31, 2015					Balance as at January 1, 2015				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable with significant single amount and provision for bad debt made on an individual basis										
Accounts receivable with provision for bad debt made on a portfolio with similar risk credit characteristics basis	62,209,774.91	100.00	59,441,560.78	95.55	2,768,214.13	68,535,577.99	100.00	65,775,453.15	95.97	2,760,124.84
Accounts receivables with insignificant single amount and provision for bad debt made on an individual basis										
Total	62,209,774.91	100.00	59,441,560.78	95.55	2,768,214.13	68,535,577.99	100.00	65,775,453.15	95.97	2,760,124.84



Accounts receivable with provision for bad debt made using the aging analysis method among the portfolios

Aging	Balance as at December 31, 2015		
	Accounts receivable	Provision for bad debts	Provision ratio
Within 1 year	2,745,866.80	137,293.34	5.00%
1 to 2 years	185,192.09	37,038.42	20.00%
2 to 3 years	22,974.00	11,487.00	50.00%
Over 3 years	59,255,742.02	59,255,742.02	100.00%
Total	62,209,774.91	59,441,560.78	

### 13.1.2 Accounts receivables provided, reversed or recovered in the report year

The provision for bad debts for the current year amounted to RMB 15,862.85; there is RMB 97,187.88 provision for bad debts recovered or reversed in the current year.

### 13.1.3 Accounts receivable actually written off for the current year

The write-off of receivables amounted to RMB 6,252,567.34, representing those receivables with long ageing. All of them are unrecoverable due to deregistration/cancellation of the customers.

### 13.1.4 Top five accounts receivable by the balance as at December 31, 2015 of the borrowers

Company name	Balance as at December 31, 2015		
	Accounts receivable	Proportion in total accounts receivable (%)	Provision for bad debts
Customer A	11,530,775.39	18.54	11,530,775.39
Customer B	7,480,189.67	12.02	7,480,189.67
Customer C	4,679,327.49	7.52	4,679,327.49
Customer D	1,908,507.44	3.07	95,425.38
Customer E	1,687,149.74	2.71	1,687,149.74
Total	27,285,949.73	43.86	25,472,867.67



## 13.2 Other receivables

### 13.2.1 Disclosure of classification of other receivables

Type	Balance as at December 31, 2015					Balance as at January 1, 2015				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Other receivables with significant single amount and provision for bad debt made on an individual basis	55,927,851.11	42.24	55,927,851.11	100.00		53,050,119.13	28.64	53,050,119.13	100.00	
Other receivables with provision for bad debt made on a portfolio with similar risk credit characteristics basis	76,488,791.16	57.76	18,269,591.28	23.89	58,219,199.88	132,211,153.78	71.36	21,516,873.61	16.27	110,694,280.17
Other receivables with insignificant single amount and provision for bad debt made on an individual basis										
Total	132,416,642.27	100.00	74,197,442.39	56.03	58,219,199.88	185,261,272.91	100.00	74,566,992.74	40.25	110,694,280.17



Other receivables with significant single amount and provision for bad debts made on an individual basis as at December 31, 2015

Other receivables (by entity)	Balance as at December 31, 2015			
	Other receivables	Provision for bad debts	Proportion of Provision	Reason for provision
Shanghai SGSB Asset-management Co., Ltd.	44,046,185.11	44,046,185.11	100.00%	Not expected to recover
Shanghai Xinxing Sewing Plant	11,881,666.00	11,881,666.00	100.00%	Not expected to recover
Total	55,927,851.11	55,927,851.11	100.00%	

Other receivables with provision for bad debts made using the aging analysis method among those portfolios

Aging	Balance as at December 31, 2015		
	Other receivables	Provision for bad debts	Proportion of Provision
Within 1 year	61,244,446.24	3,062,222.31	5.00%
1 to 2 years	42,469.94	8,493.99	20.00%
2 to 3 years	6,000.00	3,000.00	50.00%
Over 3 years	15,195,874.98	15,195,874.98	100.00%
Total	76,488,791.16	18,269,591.28	

### 13.2.2 Provision for bad debts provided, reversed or recovered in the report year

The provision for bad debts provided in the current year amounted to RMB 729,942.93; there are RMB 579,880.81 provision for bad debts recovered or reversed in the current year.

### 13.2.3 Other receivables actually written off during the reporting period

The total other receivables actually written off in the current reporting period amounted to RMB 519,612.47; the key reason for write-off was that the customers have filed an applied for bankruptcy and deregistration.

### 13.2.4 Top five other receivables by the balance as at December 31, 2015 of the borrowers

Company name	Nature of fund	Balance as at December 31, 2015	Aging	Proportion in total other receivables (%) Proportion in total accounts receivable (%)	Balance of provision for bad debts as at December 31, 2015
Customer A	Current accounts	46,500,185.11	Within 1 year or over 3 years	35.12	46,168,885.11
Customer B	Current accounts	20,449,125.00	Within 1 year	15.44	1,022,456.25
Customer C	Current accounts	17,760,996.06	Within 1 year	13.41	888,049.80
Customer D	Current accounts	11,881,666.00	Over 3 years	8.97	11,881,666.00
Customer E	Current accounts	10,568,502.38	Within 1 year	7.98	528,425.12
Total		107,160,474.55		80.92	60,489,482.28



### 13.3 Long-term equity investments

Item	Balance as at December 31, 2015			Balance as at January 1, 2015		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	569,142,909.37	5,000,000.00	564,142,909.37	298,459,831.73	5,000,000.00	293,459,831.73
Investments in joint operation and joint ventures						
Total	569,142,909.37	5,000,000.00	564,142,909.37	298,459,831.73	5,000,000.00	293,459,831.73

#### Among which, details on investments in subsidiaries

Investee	Balance as at January 1, 2015	Increase in 2015	Decrease in 2015	Balance as at December 31, 2015	Provision for impairment provided in the current year	Balance of provision for impairment as at December 31, 2015
ShangGong (Europe) Holding Corp. GmbH	142,370,693.64			142,370,693.64		
Shanghai Shanggong Butterfly Sewing Machines Co., Ltd	79,000,000.00			79,000,000.00		
DAP (Shanghai) Co., Ltd.	24,403,443.11			24,403,443.11		
Shanghai Shanggong SMPIC Electronics Co., Ltd.	20,000,000.00			20,000,000.00		
Durkopp Adler Sewing Machines Suzhou Co., Ltd	15,685,694.98			15,685,694.98		
SMPIC Imp. & Exp. Co., Ltd.	12,000,000.00			12,000,000.00		
Shanghai SGSB Asset-management Co., Ltd.	5,000,000.00	55,000,000.00		60,000,000.00		5,000,000.00
Shanghai Fengjian Property Co., Ltd.						
Zhejiang SG & GEMSY Sewing Technology Co., Ltd.		129,600,000.00		129,600,000.00		
Shanghai Shensy Enterprise Development Co., Ltd.		86,083,077.64		86,083,077.64		
Total	298,459,831.73	270,683,077.64		569,142,909.37		5,000,000.00



### 13.4 Operating income and operating costs

Item	Year 2015		Year 2014	
	Income	Cost	Income	Cost
Primary business	12,496,983.24	10,738,637.59	34,375,771.73	31,724,483.86
Other businesses	22,051,642.22	10,382,639.77	22,193,001.90	8,406,535.21
Total	34,548,625.46	21,121,277.36	56,568,773.63	40,131,019.07

### 13.5 Investment income

Item	Year 2015	Year 2014
Long-term equity investment measured by cost method	6,768,786.51	854,854.92
Long-term equity investment measured by equity method		
Investment income from disposal of long-term equity investments		
Investment income from holding of financial assets measured at fair value through current profit and loss	1,071,204.85	
Investment income from disposal of financial assets measured at fair value through current profit and loss		556,294.29
Investment income from holding of available-for-sale financial assets	13,844,846.59	10,943,588.06
Investment income from holding of available-for-sale financial assets		
Investment income from disposal of available-for-sale financial assets		24,445,302.07
Gains from re-measurement of residual equity at fair value after the loss of control right		
Others	20,811,622.47	13,227,819.95
Total	42,496,460.42	50,027,859.29

Note: "others" mainly refer to the gains of RMB 7,913,567.12 from financing product and RMB 12,898,055.35 from structured deposits.

## 14. Supplementary information

### 14.1 Extraordinary profit or loss for the current year

Item	Amount	Remark
Profits or losses from disposal of non-current assets	5,380,014.25	
Tax returns, deduction and exemption approved beyond the authority or without official approval documents	-	
Government grants included in current profits and losses (except for government grants closely related to the enterprise business, obtained by quota or quantity at unified state standards)	6,668,426.57	
Payment for use of state funds received from non-financial institutions recorded in current profits and losses	-	
Gains from the difference between the investment costs of acquisition of subsidiaries, associates and joint ventures and share in the net fair value of the identifiable assets of the investee when investing	-	
Gains or losses from non-monetary asset exchange	-	
Gains or losses from entrusting the investments or management of asset	-	
Impairment provision for force majeure such as natural calamities	-	
Gains or losses from debt restructuring	-	
Restructure expenses, such as the compensation for employee relocation and integration costs	-	
Gains or losses from transactions with obvious unfair transaction price	-	
Year-to-date net profits or losses of subsidiaries arising from business combinations under common control	-	
Profits or losses arising from contingencies not related to the company's normal business	-	



Item	Amount	Remark
Except for effective hedging business related to the normal business of the company, profits or losses from fair value changes in held-for-trading financial assets and held-for-trading financial liabilities, and investment income from disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets	9,448,774.70	
Reversal of the impairment provision for receivables subject to separate impairment test	-	
Profits or losses from entrusted loans	-	
Profits or losses from fair value changes in investment property subsequently calculated with the fair value mode	-	
Impacts of one-time adjusting the current profits or losses in accordance with requirements of tax and accounting laws and regulations on the current profits and losses	-	
Custodian income from entrusted management	-	
Other non-operating income and expenditure except for the above items	6,472,839.74	
Other profits or losses which can be deemed as non-recurring profits or losses		
Income tax effects	-1,775,949.45	
Minority interest effects	-2,612,504.42	
Total	23,581,601.39	

#### 14.2 Yield rate of net assets and earnings per share

Profit for the current year	Yield rate of net weighted average assets (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	9.3992	0.2869	0.2869
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring gains and losses	7.9912	0.2440	0.2440

#### 14.3 Others

None.



## Chapter 12 For Reference

1. Financial Statements signed by the legal representative, chief accountant and accounting manager and sealed by the Company.
2. Original audit report signed by the certified public accountants and sealed by the accounting firm.
3. Original documentation and announcements about the Company, published in the newspaper appointed by China Security Regulatory Committee within the report year.

Shang Gong Group Co., Ltd.  
Chairman of Board of Directors: Zhang Min  
March 18, 2016

**IF THIS ENGLISH VERSION OF THIS ANNUAL REPORT INVOLVES ANY DIFFERENCES FROM THE CHINESE VERSION, THE LATTER SHALL BE EFFECTIVE.**