

Shang Gong Group Co., Ltd.

Annual Report 2016

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 directors of Shang Gong Group Co., Ltd. attended the meeting of the Board of Directors.

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, accuracy and integrity of the attached financial report.

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

Audited by BDO China Shu Lun Pan Certified Public Accountants LLP., the Company achieved the consolidated net profit of 161,565,335.61 yuan in 2016, of which, the net profit attributable to parent company owners is 144,231,343.84 yuan.

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 of previous year, the Company did not draw the legal accumulation fund. The current-period net profit of the parent company is 25,362,481.43 yuan; the practical profit available for distribution is -206,831,240.38 yuan at the end of 2016. Considering the parent company's profit available for distribution is negative, the profit distribution cannot be made in 2016, 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 Waring

The Company has described in detail the risks faced by the Company in this annual report. For details see “Discussion and Analysis on Business Operation” and other relevant chapters in this annual report.

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

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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.
PKFR	refers to	Shanghai Puke Flyingman Investment Co., Ltd
Pudong SASAC	refers to	State-owned Assets Supervision and Administration Commission of Shanghai Pudong New Area People's Government
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	refers to	PFAFF Industriesysteme und Maschinen GmbH Zweigniederlassung KSL
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, 2016 to December 31, 2016
Yuan, RMB	refers to	The lawful currency of the People's Republic of China
Euro, 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
Fax	021-63302939	021-63302939
Email	zhangjianguo@sgsbgroup.com	shenlj@sgsbgroup.com

3. Basic Situation Introduction

Registered address	Room A-D, 12th Floor, Orient Mansion, No. 1500, Century Avenue, China (Shanghai) Free Trade Zone
Postal code of registered address	200122
Office address	No. 1566 New Jinqiao Road, Pudong New Area, Shanghai
Postal code of office address	201206
Website	http://www.sgsbgroup.com
Email	sgsb@sgsbgroup.com

4. Information Disclosure and Place for Consulting

Newspaper selected by the Company for information disclosure	Shanghai Securities News, Hong Kong Commercial Daily
Website appointed by CSRC for publishing annual report	http://www.sse.com.cn
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.
	Address	Sixth Floor, New Huangpu Financial Plaza, No. 61, East Nanjing Road, Shanghai
	Signing name of accountants	Li Yue, Li Jinhua
Sponsor engaged by the Company to	Name	SHENWAN HONGYUAN FINANCING SERVICES CO., LTD

conduct sustained supervision during the report period	Office address	No. 2391, Changshu Road, Shanghai
	Signing name of sponsors	Huang Xuesheng, Feng Zhenyu
	Consistent supervision periods	From March 28,2014 to now

7. Main Accounting Data and Financial Index in the Last Three Years

7.1 Main Accounting Data

Unit: Yuan, Currency: RMB

Main accounting data	2016	2015	Year-on-year increase/decrease (%)	2014
Operating income	2,759,855,136.98	2,314,039,610.25	19.27	1,971,244,833.88
Net profit attributable to shareholders of listed company	144,231,343.84	157,417,087.48	-8.38	197,616,061.21
Net profit attributable to shareholders of listed company after non-recurrent account profit/loss	117,425,853.16	133,835,486.09	-12.26	74,094,778.99
Net cash flow from operating activities	99,056,912.42	50,886,863.54	94.66	101,603,959.96
	December 31, 2016	December 31, 2015	Year-on-year increase/decrease (%)	December 31, 2014
Net assets attributable to shareholders of listed company	1,916,349,381.88	1,774,674,087.49	7.98	1,596,085,177.75
Total assets	3,506,172,981.71	3,146,701,717.06	11.42	2,732,574,497.28

7.2 Main Financial Index

Main financial index	2016	2015	Year-on-year increase/decrease (%)	2014
Basic earnings per share (yuan/share)	0.2629	0.2869	-8.37	0.3774
Diluted earning per share (yuan/share)	0.2629	0.2869	-8.37	0.3774
Basic EPS after non-recurrent account profit/loss (yuan/share)	0.2141	0.2440	-12.25	0.1415
Weighted rate of return on net assets (%)	7.8098	9.3992	Decrease 1.59 percent	14.3895
Weighted rate of return on net assets after non-recurrent account profit/loss (%)	6.3584	7.9912	Decrease 1.63 percent	5.3953

8. Accounting Data Differences between Domestic and Foreign Accounting Standards

8.1 Net profit and Net Assets Attributable to Shareholders of Listed Company Disclosed in Accordance with International Accounting Standards and in Accordance with Chinese Accounting Standards in the Financial Reports

Not applicable.

8.2 Net profit and Net Assets Attributable to Shareholders of Listed Company Disclosed in Accordance

with Foreign Accounting Standards and in Accordance with Chinese Accounting Standards in the Financial Reports

Not applicable.

8.3 Explanation of Differences between Chinese Accounting Standards and Foreign Accounting Standards

Not applicable.

9. Main Accounting Data of Each Quarter in 2016

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)
Operating income	634,241,973.20	725,100,556.25	686,647,873.41	713,864,734.12
Net profit attributable to shareholders of listed company	42,192,782.33	58,971,935.37	56,125,040.93	-13,058,414.79
Net profit attributable to shareholders of listed company after non-recurrent account profit/loss	40,583,276.90	55,342,569.94	52,151,959.85	-30,651,953.53
Net cash flow from operating activities	-54,247,776.05	8,304,690.34	46,050,004.24	98,949,993.89

9. Items and Amount of Non-recurring Profit and Loss

Unit: Yuan, Currency: RMB

Item	2016	2015	2014
Profits and losses from disposal of non-current assets	3,529,785.81	5,380,014.25	104,418,371.04
Government subsidies recorded in the current profit and loss	11,190,319.23	6,668,426.57	2,718,674.99
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	4,708,383.25	9,448,774.70	28,259,539.60
Other non-operating income and expenditure except the above-said items	17,172,464.17	6,472,839.74	-10,606,002.10
Impact on minority interests	-6,050,593.20	-2,612,504.42	
Impact on income tax	-3,744,868.58	-1,775,949.45	-1,269,301.31
Total	26,805,490.68	23,581,601.39	123,521,282.22

10. Items for Adopting Fair Value Measurement

Unit: Yuan, Currency: RMB

Item	Opening balance	Ending balance	Current change	Influence on current profit
Trading financial		4,000.00	4,000.00	11,448.29

assets				
Financial assets for sale	118,127,307.02	107,980,989.31	-10,146,317.71	396,721.07
Total	118,127,307.02	107,984,989.31	-10,142,317.71	408,169.36

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 2016, the overall economic situation faced by China's sewing machinery industry is still complex and grim. Downstream textile and garment industry investment growth fell significantly. The growth momentum of domestic and overseas market is weak, and the demand is generally weak. In view of this situation, the industry enterprises on the one hand take the initiative to cut production and inventory, stabilize business development, on the other hand clutch the international manufacturing transfer opportunities, and actively explore overseas markets, accelerate technological innovation, stimulate new market demand by intelligent

manufacturing, promote the smooth development of the industry, accelerate the conversion of industry growth power.

China Sewing Machinery Association statistics show that total industrial output value of the industry's top 100 backbone machine manufacturers in 2016 is 14.19 billion yuan, an increase of 3.09%; cumulative production of sewing machine machine products is 5.044 million units, down 3.61%. Industry production scale has been reduced. The cumulative production of industrial sewing machine of industry's top 100 backbone machine manufacturers in 2016 is 337 million units, an increase of 0.47%. Cumulative production of household sewing machine is 1,473 thousand units, down 11.5%. Among them, the production of ordinary household sewing machine is 659 thousand units, down 18.07% year on year; production of multi-functional household sewing machine is 813 thousand, down by 5.38%. The market situation of China Sewing Machinery Industry in 2016 has improved year on year. The total operating income of industry's top 100 backbone machine manufacturers is 15.32 billion yuan, an increase of 5.62%. The cumulative sales of sewing machine machine products is 51.69 million units, down 1.04%, of which industrial sewing machine sales is 3.538 million units, up 5.35%; household sewing machine sales of 1.451 million units, down 12.02%. Household sewing machine market is still continuing to decline, the situation is grim.

2. Description of Major Changes in the Main Assets of the Company during the Report Period

Not applicable.

3. Core Competitiveness Analysis in the Report Period

The Company is the first listed company with the longest history in the domestic sewing equipment industry, and has more than 50 years experience in sewing equipment production. The Company successfully purchased and controlled German Dürkopp Adler AG in 2005, one of the famous sewing machine manufacturing companies in the world with more than 150 years history. In 2013, the Company successfully controlled German PFAFF Industriesysteme und Maschinen AG, a famous sewing equipment manufacturer with 150 years history, and KSL GmbH and its affiliates, a company with the world's top sewing technology. In the report period, the Company promoted the integration of global resources continuously. The Company completed the investment in STOLL KG which expand the Company's industrial chain and supplement the Company's business and products. The core competence of the Company is mainly shown in the following aspects:

(1) 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.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

Chapter 4 Discussion and Analysis on Business Operation

1. Discussion and Analysis of Operations

In 2016, the world saw the lowest economic and trade growth in seven years, growing volatility in global financial markets, and sudden and frequent regional and global challenges. The European integration process has suffered serious setbacks due to factors such as Brexit, refugee crisis and terrorism, and has had an impact on European security and economic interests. Domestically, the economy has registered a slower but stable performance with good momentum for growth. GDP reached 74.4 trillion yuan, representing 6.7 percent growth, and seeing China outpace most other economies. However, China faced multiple difficulties: major structural problems, prominent risks and dangers, and mounting downward pressure on the economy.

In 2016, the Company ushered in a major opportunity for market-oriented reform. With the trend of deepening reform of state-owned enterprises, the Company steadily advanced mixed ownership reform, continued to adhere to the leading technology enterprise development strategy, took efforts to expand the market, constantly improved economic efficiency. The Company has achieved a good start of "13th Five-Year" plan.

The Company has carried out the following aspects of the work in 2016:

(1) Steadily Promote Market-Oriented Reform; Actively Explore Mergers and Acquisitions

In the Shanghai and Pudong New Area leaders at all levels of concern and support, the company began in early 2016 to start mixed ownership reform. Pudong SASAC, the former controlling shareholder and the actual controller of the Company, transferred 60 million A shares of SGG through open collection of the transferee. After public solicitation and the comprehensive review of the evaluation committee, Shanghai Pudong Science and Technology Investment Co., Ltd. purchased these shares with its new wholly-owned subsidiary Shanghai Puke Flyingman Investment Co., Ltd. After the completion of the share transfer, the Company changed from a state-controlled listed company to a listed company without actual controller. The share transfer was approved by the State-owned Assets Supervision and Administration Commission of the State Council, the Shanghai Municipal People's Government and the Shanghai State-owned Assets Supervision and Administration Commission before November 2016, and the transaction was successfully completed on December 29, 2016. By promoting the market-oriented reform, the Company formed a shareholder structure with balanced private shareholders and state-owned shareholders, which lay the foundation for the Company to truly establish the corporate governance structure, operators' incentive and restraint mechanisms that are adapted to the market economy.

In 2016, the Company not only vigorously promoted the market-oriented reform, but also explored the implementation of overseas mergers and acquisitions. According to the Company's global strategic layout, in order to expand the industrial chain and emerging industry business, improve profitability and sustainable development capacity, the Company suspended the stock in February 17, 2016, began to plan major asset

restructuring. The Company intends to acquire a high-end manufacturing company with advanced carbon fiber composite material manufacturing process and patent and technology. Employees of the Company and SGE, together with Chinese and foreign intermediaries, took several months to carry out due diligence and multi-round negotiations on the subject company, and constantly improve the M & A program. As the negotiations are more complex, the Company has not been able to reach agreement with the key shareholders of the target company on the key terms in the deadline. The Company cannot sign the agreement with the parties involved in the transaction within a specified time and disclose the major asset restructuring plan. In order to protect the interests of the Company and its shareholders, the Board of Directors carefully discussed and decided to terminate this major asset reorganization. Although the reorganization has been terminated, the Company has gained a more thorough understanding of the carbon fiber composite structural parts manufacturing and aerospace manufacturing industry, and has accumulated valuable experience in overseas mergers and acquisitions.

SGE completed its investment in Stoll KG in the early 2016, becoming the largest limited partner holding a 26% stake in Stoll KG. Investing in Stoll KG extends the Company's industrial chain to computerized flat knitting machine manufacturing. Stoll KG has the advantage of technological innovation and superior product performance. Stoll KG has the foundation of a worldwide sales and service network. After the completion of investing in Stoll KG, its operating conditions improved significantly from the original loss into a more substantial profit, thus the Company has made a good investment income.

(2) Strengthen Unified Marketing Management; Actively Expand Market Share

In accordance with the Company's unified strategic plan, the Company has made gratifying business performance after implementing unified management of DAP sales platform. In 2016, SGE's operating income was about 1.35 billion yuan, up 7.04% year on year. SGE attaches great importance to the rapid development of South Asian marketing. SGE set up a marketing office in Bangladesh to increase sales force in the South Asian market, and achieved good results. The DA261 sewing machine produced by SGGEMSY has achieved the first single sale in the Bengal market, which will help the company to speed up the shortcomings of the standard sewing machine, helping to make Stronger and bigger manufacturing in China as soon as possible. DA AG in 2016 continued to maintain a large market share in the high-end customer market of medium-thick material machine. Meanwhile, in the garment processing, the sleeve machine, open bag machine, patch bag machine, sewing machine, etc. have achieved good sales performance. PFAFF AG's new order was maintained at a more stable level in 2016. PFAFF AG launched a cowboy week at Kaiserslautern with good results. The newly developed jeans series sewing unit products are expected to begin mass sales in 2017. The new orders of KSL Branch increased in 2016. KSL Branch also completed the delivery and acceptance of sewing machines from Hongdu Aviation, a Chinese customer. KSL110 airbag machine orders also increased significantly in 2016.

The Company's domestic and Southeast Asian region's marketing work has also achieved good results, achieving annual sales of industrial sewing machines more than 500 million yuan. DAPSH strengthened the ongoing service to large customers, basically completed the Ruyi Group Yinchuan Factory large-scale automatic sewing processing production line project. 2016 is the first full year after SG GEMSY was established. In the global industry downturn, SG GEMSY basically stabilized the dealer network, enhanced the confidence of dealers and customers to the Company.

(3) Adhere to Product Innovation and R & D; Promote the Upgrading of Technology and Products

In 2016, the Company continued to adhere to product innovative R & D and technological upgrading, adhere to the automation, modular, smart product development direction, aim at new materials, new technology, new industries, and adhere to promote technological upgrading with Industrial 4.0 as the development goal, strengthen the Company's technology leadership in the industry, and continuously enhance the core competitiveness of enterprises.

In order to continue to maintain the leading edge in the traditional products, DA AG continued to research and develop new shirt, suit trousers automatic sewing unit, new medium-thick material machine, and other new product in 2016. Besides, DA AG promoted the research of new DAC Comfort and DAC Compact electronic control system, and continued the research and development, trial production and customer applications of M2M system, a system with Industrial 4.0 characteristic.

PFAFF GmbH and its subsidiary PFAFF Zhangjiagang promoted the R & D of cowboy series automatic sewing unit, shoe machine and other areas, and basically completed the R & D of cowboy series. In addition, PFAFF GmbH organized a workshop on shoe machines that clearly defined the characteristics of the next generation of shoe machines and planned to be exhibited at CISMA in 2017.

KSL continued to provide automated sewing equipment for the automotive industry in 2016, successfully developed and manufactured a high-end automated sewing unit with programmable rotary head and embroidery applications for the British Bentley Motor Company. KSL also participated in an important core part of the SPEED FACTORY project jointly developed by Adidas and the Aachen University of Germany, completing its automated sewing equipment and getting acceptance. In addition, KSL completed a new FPS300 filter bag sewing production line for a German / Swedish global company.

In 2016 SG Butterfly focused on the R & D of sewing embroidery machine and BEE brand small multi-function sewing machine. The first batch of 50 JX550L-W sewing embroidery machines was officially put on the market in October 2016. The product was also awarded the Gold Medal and the Most Innovative Old Brand Prize of the 7th China (Dalian) Light Industry Commodities Fair in 2016.

(4) Deepen Internal Integration; Achieve Better Synergistic Effect

In 2016, the Company further deepens internal integration. The Company began to implement the merger and absorption of two subsidiaries, DAPSH and SG Butterfly. The purpose is to enable the Company to directly control the sales and R & D and become a profit center, and gradually solve the problem that the Company cannot distribute dividend for a long time because of the negative undistributed profits. Up to now, the Company has completed the establishment of the SG Butterfly Branch, which was officially operational in 2017. The transfer of 40% equity of DAPSH has also completed. The establishment of DAPSH Branch and the subsequent absorption merger are still in process.

With the establishment of SGE management team, which is mainly the staff of DA AG, SGE has played a good synergistic effect on the integration of its subsidiaries. After the merger of KSL GmbH, PFAFF GmbH has successfully transferred the production of standardized product with a certain scale to the factory in Kaiserslautern. The factory in Lorch focuses on customized product, providing various kinds of automatic solutions to customers. Under the coordination of SGE, DA AG continued to promote the integration of sales subsidiaries with PFAFF GmbH in 2016. Meanwhile, according to the production synergy and integration strategy of SGE, MIBO and DARO began processing and supplying parts for PFAFF GmbH and PFAFF KSL Branch while ensure and improve DA production capacity. The completion of the above integration measures will create a good condition for the Company to further deepen the integration and reorganization of SGE and its subsidiaries in the future.

In order to achieve the strategic goal of building a domestic manufacturing base in the "13th Five-Year" period, the Company completed the merger of DA Suzhou and PFAFF Taicang in 2016 and relocated them to Zhangjiagang Base, the Company's thick material machines manufacturing base. With the operation of SG & GEMSY tends to be stable, the Company gradually applied the garment machine technology of DA and PFAFF to machines of SG & GEMSY, which would improve the technology level and stability of machines made in China and produce more cost-effective products in ShangGong Taizhou Base.

(5) Improve Internal Management; Optimize Enterprise Human Resources

In 2016, the Company basically completed the merger of the Company, DAPSH and SG Butterfly, and realized the integration of office and unified management.

In 2016, the Company continued to improve the performance appraisal, and comprehensively sort out and revise the human resources system. According to the requirements of state-owned enterprise reform, the Company also combed and revised the relevant aspects of the cadre and personnel system.

Overseas Subsidiaries Management Manual of Shang Gong Group Co., Ltd. has been compiled in 2016, which will better promote the department of the Company fully participate in global management.

In 2016, the Company completed a lot of work and achieved good results. From the operating indicators, the 2016 budget target has been basically achieved. However, at the same time, we have to see the main problems in the operation of the Company. First, The Company does not fully realize the marketization of human resources; second, how to truly improve efficiency by improving corporate governance, implementing incentive to operators, optimizing the organizational structure, etc. still needs to be explored and implemented; third, the integration and restructuring of some domestic subsidiaries is not enough, the process is slow; fourth, the profitability of some subsidiaries is negative for a long time and has not yet found solutions.

Therefore, in the new year, ShangGong Group will continue to deepen the market-oriented reform of enterprises as the focus, continue to make breakthrough in internal integration and innovative development, actively expand the market, and seek potential mergers and acquisitions projects, work hard to achieve long-term sustainable development of the Company.

2. Main Operating Conditions in the Report Period

During the report period, the Company realized operating income of 2.76 billion yuan, an increase of 19.27% over the same period of last year, mainly due to the increase of 316 million yuan in logistics services. Operating profit was 200 million yuan, down 4.03% year on year. Net profit attributable to shareholders of listed companies was 144 million yuan, down 8.38% year on year.

2.1 Main Business Analysis

Analysis of Changes of Items in Profit statement and cash flow statement

Unit: Yuan, Currency: RMB

Item	2016	2015	Variable Proportion (%)
Operating income	2,759,855,136.98	2,314,039,610.25	19.27
Operating cost	2,037,344,042.71	1,614,750,228.46	26.17
Selling expenses	246,840,318.90	233,231,262.36	5.84
General and administration expenses	284,156,361.47	255,477,642.42	11.23
Finance expenses	15,536,094.51	6,091,859.10	155.03
Net cash flow from operating activities	99,056,912.42	50,886,863.54	94.66
Net cash flow from investing activities	-197,170,890.70	176,941,826.95	-211.43
Net cash flow from financing activities	92,632,916.77	-54,687,975.39	269.38
Research and development expenditures	72,071,861.66	63,285,301.09	13.88

2.1.1 Analysis on Income and Cost

During the report period, the Company achieved operating income of 2.76 billion yuan, an increase of 19.55%, mainly because the Company's sewing equipment sales revenue grew by 9.3%, and the logistics services revenue grew by 82.8%.

(1) Status by Industry and Region

Unit: Yuan, Currency: RMB

Main Business by Industry						
Industry	Operating Income	Operating Cost	Gross Margin (%)	Operating Income Increase/Decrease (%)	Operating Cost Increase/Decrease (%)	Gross Margin Increase/Decrease (%)
Sewing equipment	1,640,841,411.15	1,014,726,511.08	38.16	9.30	13.50	Decrease 2.29 percent
Logistic service	696,721,541.84	647,853,075.73	7.01	82.80	93.95	Decrease 5.35 percent
Export trade	243,234,010.93	238,246,303.92	2.05	-15.45	-15.47	Increase 0.03 percent
Office equipment and film materials	69,082,667.56	61,193,808.40	11.42	-9.89	-1.19	Decrease 7.80 percent
Others	17,760,972.65	10,987,197.25	38.14	29.00	91.43	Decrease 20.17 percent
Total	2,667,640,604.13	1,973,006,896.38	26.04	18.01	25.07	Decrease 4.17 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	1,420,334,052.05	1,262,642,336.20	11.10	31.29	34.07	Decrease 1.84 percent
Overseas	1,395,683,949.77	858,741,957.87	38.47	2.28	6.05	Decrease 2.19 percent

(2) Analysis on Production and Sales

Major Product	Production Output	Sales Volume	Inventory	Increase/Decrease in Production over the	Sales Increase/Decrease over the	Inventory Increase/Decrease over the
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				Previous Year (%)	Previous Year (%)	Previous Year (%)
Industrial sewing equipment (domestic)	132,757	133,650	25,695	327.8	198.4	52.1
Industrial sewing equipment (OEM)	15,381	15,298	137	-2.5	-3.1	153.7
Industrial sewing equipment (overseas)	31,197	35,135		0.4	8.2	
Household multi-function sewing machine (OEM)	92,290	91,795	595	-1.4	-1.8	495.0
Household sewing machine (OEM)	199,335	196,931	2,526	-35.0	-38.7	1,970.5

Note: After the normal operation at the end of 2015, SG & GEMSY completed the production of 130,000 industrial sewing machine and sales of 120,000 industrial sewing machines in 2016. Therefore, the output, sales and inventory of industrial sewing machines in 2016 greatly improved. Production of SGE was flat with last year while sales up 8.2% year-on-year. Affected by the international market downturn, the output of ordinary household sewing machines (OEM-based) and sales respectively declined by 35% and 38.7% year on year. Inventory also rose sharply. Multi-functional household sewing machine production and sales fell slightly year on year.

(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 (%)	The amount of the current period compared with the same period last year
Sewing equipment	Material	612,926,016.65	31.07	528,287,107.59	33.49	16.02
	Labor	269,272,327.15	13.65	238,845,798.73	15.14	12.74
	Depreciation	38,451,209.91	1.95	38,905,612.04	2.47	-1.17
	Manufacture cost	94,076,957.37	4.77	87,978,278.88	5.58	6.93
	Subtotal	1,014,726,511.08	51.43	894,016,797.24	56.67	13.50
Logistics service	Logistics cost	647,853,075.73	32.84	334,039,444.91	21.17	93.95
Export trade		238,246,303.92	12.08	281,846,373.05	17.87	-15.47
Office equipment and film materials	Material	46,931,017.30	2.38	45,238,332.26	2.87	3.74
	Labor	9,393,336.37	0.48	9,914,850.94	0.63	-5.26
	Depreciation	599,745.82	0.03	694,678.64	0.04	-13.67
	Manufacture cost	4,269,708.91	0.22	6,084,026.40	0.37	-29.82

	Subtotal	61,193,808.40	3.10	61,931,888.24	3.93	-1.19
others		10,987,197.25	0.56	5,739,579.21	0.36	91.43

(4) Main Suppliers and Main Customers

The sales of top five customers are 438.89 million yuan, accounting for 15.90% of the total annual sales.

The top five suppliers' purchase amount is 121.77 million yuan, accounting for 5.93% of the total annual purchase.

2.1.2 Expense

Unit: Yuan, Currency: RMB

Item	2016	2015	Increase / decrease (%)
Sales expense	246,840,318.90	233,231,262.36	5.84
General and administration expense	284,156,361.47	255,477,642.42	11.23
Financial expense	15,536,094.51	6,091,859.10	155.03
Income tax expense	71,680,360.28	53,282,857.16	34.53

Note 1: Financial expense grew by 155.03%, mainly due to an increase in foreign exchange losses.

Note 2: Income tax expense increased by 34.53% year on year, mainly due to the increase in the income tax expense of European subsidiaries.

2.1.3 R & D Investment

Unit: Yuan

R & D investment capitalized in the report period	64,885,701.61
R & D investment expensing in the report period	7,186,160.05
Total	72,071,861.66
Total R & D investment in proportion to operating income (%)	2.61
Proportion of R & D investment capitalized (%)	9.97

2.1.4 Cash Flow

Unit: Yuan, Currency: RMB

Item	2016	2015	Increase / Decrease (%)	Reason
Net cash flow from operating activities	99,056,912.42	50,886,863.54	94.66	Note 1
Net cash flow from investing activities	-197,170,890.70	176,941,826.95	-211.43	Note 2
Net cash flow from financing activities	92,632,916.77	-54,687,975.39	269.38	Note 3
Influence of fluctuation of exchange rate upon cash and cash equivalents	11,138,332.32	-10,288,945.38	208.26	Note 4

Note 1: Mainly caused by the year-on-year increase of cash received from selling good and providing services and the year-on-year decline of cash purchase ratio.

Note 2: Mainly due to the investment in 26% of equity of Stoll KG and the year-on-year decrease of cash received from investing bank financial products.

Note 3: Mainly due to the increase of bank loan and the decrease of cash for dividend distribution.

Note 4: Mainly due to the impact of changes in the euro exchange rate.

2.2 Explanation of Significant Changes in Profit Caused by Non-main Business

Unit: Yuan, Currency: RMB

Item	2016	2015	Increase / Decrease (%)	Reason
Taxes and surcharges	9,646,577.26	6,115,310.63	57.74	Note 1
Financial expense	15,536,094.51	6,091,859.10	155.03	Note 2
Assets impairment loss	17,021,526.97	31,064,037.35	-45.21	Note 3
Non-operating income	33,946,275.31	20,497,344.53	65.61	Note 4
Non-operating expense	1,973,706.10	676,214.75	191.88	Note 5
Income tax expense	71,680,360.28	53,282,857.16	34.53	Note 6
Net after tax of other consolidated income	-17,277,343.80	13,430,628.35	-228.64	Note 7

Note 1: Mainly caused by the implementation of *Value-Added Tax Accounting Regulations* (Accounting [2016]22) by the Company.

Note 2: Mainly due to an increase in foreign exchange losses.

Note 3: Mainly due to a decrease in the provision of inventory depreciation, provision for impairment of goodwill and an increase in accounts receivable bad debt provision.

Note 4: Mainly due to an increase in government subsidies and the liquidation of payables unable to pay.

Note 5: Mainly due to an increase in fixed assets disposal losses.

Note 6: Mainly due to an increase in the income tax expense of European subsidiaries.

Note 7: Mainly due to a decrease of changes in the fair value of available-for-sale financial assets, changes in net debt / net assets for the benefit of the European subsidiary, and an increase in foreign currency translation difference.

2.3 Analysis on Assets and Liabilities

Unit: Yuan

Item	Ending Balance (December 31, 2016)	Ratio of Ending Balance for Total Assets (December 31, 2016) (%)	Ending Balance (December 31, 2015)	Ratio of Ending Balance for Total Assets (December 31, 2015) (%)	Increase / Decrease (%)	Reason
Product development expenses	12,529,345.90	0.36	37,111,588.93	1.18	-66.24	Note 1
Long term deferred expenses	1,084,797.97	0.03	579,474.57	0.02	87.20	Note 2
Payment in advance	36,548,091.83	1.04	25,598,146.20	0.81	42.78	Note 3
Interest payable	2,090,565.59	0.06	88,934.73	0.00	2,250.67	Note 4
Other current liabilities	808,706.39	0.02	319,502.32	0.01	153.11	Note 5
Long-term loan	68,624,863.27	1.96	29,374,120.87	0.93	133.62	Note 6
Long term	37,338,461.61	1.06	4,724,683.15	0.15	690.28	Note 7

payables						
Deferred income	3,600,000.00	0.10	0.00	0.00		Note 8
Undistributed profit	494,754,465.24	14.11	350,523,121.40	11.14	41.15	Note 9

Note 1: Due to sewing equipment development expenses of foreign subsidiaries was confirmed into intangible assets.

Note 2: Mainly due to the increase of mold costs incurred by the Company's subsidiaries.

Note 3: Mainly due to an increase in advance payment by the Company's subsidiary.

Note 4: Mainly due to an increase in bank interest payable by the Company's foreign subsidiary.

Note 5: Mainly due to the increase in interest and rental expenses attributable to subsequent periods by the Company's foreign subsidiary.

Note 6: Mainly due to the increase in long-term borrowings of SGE.

Note 7: Mainly caused by the increase of unpaid investment more than one year resulting from the agreement of investing in Stoll KG by SGE.

Note 8: Caused by the 2016 Shanghai Promote Cultural and Creative Industries' Development Financial Support Funds received by the Company in the report period.

Note 9: Caused by the Company's current profit.

2.4 Analysis of Investment Situation

2.4.1 General Analysis

Unit: 10,000 Yuan, Currency: RMB

Long - term equity investment in the report period	25,359
Increase / Decrease	-650
Long - term equity investment in 2015	26,009
Increase / Decrease (%)	-2.50

For details, please refer to the long-term equity investment section of the financial statements.

2.4.2 Significant Equity Investment

Name	Main Business	Investment share and shareholding ratio	Sources of Funds	Partner	Whether it is involved in litigation
Shanghai SGSB Financial Leasing Co., Ltd,	Financing leasing business; leasing business; purchase of domestic and foreign rental property; lease property residual value processing and maintenance; leasing transaction consulting and guarantee; engaged in factoring business related to main business.	USD 5.1 million, 51%	Self-owned	DA AG	No
H. Stoll AG & Co. KG	Research and development, production and sales of electronic and mechanical controlled automatic knitting machine, including related services and financing.	235.71 million yuan, 26%	Self-owned		No

2.4.3 Significant Non-Equity Investment

Not applicable.

2.4.4 Financial Assets at Fair Value

Stock code	Stock Abbreviation	Initial Investment Cost	Accounting for the proportion of the company's equity (%)	Book Value at the End of the Period	Profit or Loss for the Report Period	Changes in Owners' Equity during the Report Period	Accounting Item	Source of Shares
600757	Changjiang Publishing & Media	72,085,722.82	0.85	85,580,817.54	325,124.72	-27,497,085.78	Available for sale financial assets	Note 1
900932	Lujia B Share	773,099.71	0.0067	2,292,359.95	47,305.05	-1,022,644.93	Available for sale financial assets	Enforcement
000166	Shenwan & Hongyuan	200,000.00	0.0011	1,366,387.50	24,291.30	-368,011.32	Available for sale financial assets	Purchased
601229	Bank of Shanghai	951,400.00	0.013	18,741,424.32		17,790,024.32	Available for sale financial assets	Purchased
601375	Central China Securities	4,000.00	<5	4,000.00			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.

Note 2: While Senwan & Hongyuan and Bank of Shanghai were established, the Company subscribed to their equity and holds them till now.

Note 3: Shares of Bank of Shanghai held by the Company were restricted to sell due to IPO of Bank of Shanghai.

2.5 Significant Assets and Equity Sale

Not applicable.

2.6 Analysis of Main Subsidiaries and Joint Stock Company

Not applicable.

2.7 Structured Entities Controlled by the Company

Not applicable.

2.8 Stock Equity of Non-Listed Financial Institutions Held by the Company

Name	Initial Investment Cost	Shares Held by the Company	Accounting for the proportion of the company's equity (%)	Book Value at the End of the Period	Profit or Loss for the Report Period	Changes in Owners' Equity during the Report Period	Accounting Item	Source of Shares
Baoding Investment	7,500.00	5,751	0.008	7,500.00	2,875.50		Available for sale financial assets	Purchased
Total	7,500.00	5,751	/	7,500.00	2,875.50		/	/

3 Discussion and Analysis on the Future Development of the Company

3.1 Industry Structure and Trends

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.

3.2 Company Development Strategy

In 2017, the Company will adhere to the market-oriented strategy, innovation-driven development, improve product quality and enhance business efficiency. The Company will explore the potential of industries such as robotics application and aerospace manufacturing and the processing of new materials like carbon fiber composite materials, and actively expand the industrial chain. The Company will take the system reform as an opportunity, play mechanism flexibility after the marketization reform, stabilize and expand domestic and foreign markets, continue to promote the transnational business strategy, and strive to achieve the goal of catching up with world’s top one enterprise in the sewing machinery industry.

(1) Deepen the Company's Market-Oriented Reform; Enhance the Level of Human Resources

After the completion of the mixed ownership system reform, the Company should promptly promote the conversion of corporate mechanisms. Improve efficiency through system innovation, management agency streamlining and other measures.

The Company should break through the bottleneck in human resource management in the former system, and establish a market-oriented management philosophy. The leading cadres of enterprises should be appointed on their merit. Appraisal should be based on contribution, and the reward and punishment should be clear. The Company and its subsidiaries will further streamline and optimize the organizational structure. Fully implement the Manager-Responsible Mechanism, strengthen the building of enterprise leadership team, change the business philosophy and work style of the leaders, improve team cohesion and combat effectiveness. Supplement and improve the employee's salary incentive and performance appraisal program. Employee compensation system should be consistent with the marketed principle of talent and manpower, and gradually realize the employee's salaries achieve the level of the market, so that the Company could better introduce and retain the talent. The construction of young cadres is an important task to ensure the sustainable development of the Company. The Company will make strengthen the training as the basis, choose to use as a fundamental, strict management as the protection, to continue to improve the training plan for young cadres and the introduction of young talent. And the Company will choose reliable, talented, responsible and honest young talent in the practice of production and operation.

(2) Continue to Promote Mergers and Acquisitions; Accelerate the Integration and Development

The Company's growth over the past decade has been attributed to successful acquisitions at home and abroad. The Company has basically realized the revitalization of "ShangGong" business plate, and achieved the leading position in the scale of production and marketing nationwide and even in the world. The Company also accumulated more experience and lessons about mergers, reorganization, and integration.

According to the Company's "13th Five-Year" plan, the Company will timely seize the opportunity to develop the manufacturing of products related to aerospace field. In 2017, based on the exploration and practice in 2016, the Company should further investigate and research to find appropriate target project to invest in. Faced with the market trends of rapid development of China's aerospace industry, especially the commercial aircraft manufacturing industry, ShangGong Group should actively participate in and take the opportunity to expand the business for better development of the Company.

In SMPIC business plate, the Company will actively seek M & A opportunities related to SMPIC's industry. On the basis of SMPIC brand, the Company will aim at the office equipment, medical equipment and imaging equipment and other fields, looking for investment opportunities for mergers and acquisitions, and strive to achieve the goal of early revival of SMPIC.

Practice has proved that the completion of mergers and acquisitions is only the beginning of entering into new business or expanding the original business. Continuous integration after merger and acquisition is very important to improve the core competitiveness of enterprises. Only in accordance with the changes in the market and the actual situation of the enterprise to carry out human resources, financial resources and material resources to coordinate and integrate, could the Company be able to fully play a synergistic effect and achieve more benefits. The Company will continue to do a good job of streamlining and integration of internal institutions, and truly realize entity operation of the Company. The Company will continue the subsequent work of absorbing DAPSH and SG & Butterfly. DAP Branch of the Company will be directly in charge of sales in China and South-east Asia; Butterfly Branch will be directly in charge of sales both domestic and overseas. Besides, the Company's financial, administrative and other aspects of the work will be under unified management, in this way the Company could improve management efficiency and enhance profitability.

The Company will vigorously promote the further integration of SGE and its subsidiaries to realize direct management of DAP marketing platform as soon as possible and to realize direct management of R & D and production of DA, PFAFF and KSL. In this way the Company could implement the strategic deployment of overseas subsidiaries in R & D, production and sales. Through the solid integration and a clear division of labor, it will be effective to eliminate the localism, avoid internal competition, achieve resource sharing, give full play to their respective advantages, expand market share, and improve economic efficiency.

(3) Strengthen the Brand Image Promotion; Actively Expand Market Share

In 2017, the Company will continue to implement a multi-brand marketing strategy to expand the brand influence, improve the market share of each kind of products. The Company and subordinate enterprises will actively participate in the German Texprocess exhibition and Cisma 2017 to display product technology strength, strengthen the corporate image and brand promotion. The Company should invite all types of customers and distributors to participate in the exhibition as much as possible to enhance the confidence of customers and distributors to improve the viscosity between them and the Company.

SGE is responsible for coordinating and managing DAP sales companies other than DAPSH, and does marketing management work in Europe and the United States and South Asia. It is planned to set up sales subsidiaries in Russia, India and Bangladesh to directly manage the operation of the rapid-developing market and to dig the potential key customers. SGE should press ahead with the promotion and sale of the DA traditional and SG & GEMSY products in South Asia and South America to expand the market share of traditional standard products. SGE should give full play to the role of DAP sales companies, actively cooperate with and support the Company's strategy of using the Mauser brand to sell package stretched chain stitch sewing machine and low-end thick material machine, supplement the Company's industrial sewing equipment products, expand the sale scale of China's manufacturing products. SGE should attach great importance to supervise and coordinate the DAP sales companies to strengthen the sales of PFAFF and KSL brand products, to achieve the sales volume and profit maximization of each brand's products.

The Company will conduct direct marketing management to China and Southeast Asia market through DAP Shanghai Branch. The Company will be more close to the market, play the role of DAP Vietnam, DAP

Indonesia to increase promotional efforts and improve customer service levels. The Company will continue to improve and implement the system of customer visits, timely track major projects, grasp the customer development of new products, and further expand the national prison market sales. We will continue to do a good job of direct sales and new product promotion for medium-thick material machines, consolidate and expand the market. Further overcome the sofa, bags, footwear and other weak market. In addition, the Company will accelerate the pace of development to establish "Two Suits Two Pants" template line through mergers and acquisitions of target automation enterprise and cooperation with DA Manufacturing, so as to show the automation, modular and intelligence of the Company's multi-brand products, and win more customers.

(4) Increase Investment in Product R & D; Promote Technology Innovation

The Company will further increase investment in research and development in automation, modular, intelligent products, aiming at the fields of new materials and new technologies, new industries, and strive to develop a "blue ocean" market, to enable enterprises to obtain the rapid, long-term and sustainable development. The technical center of the Company should strengthen the management and development of the project management, speed up the introduction of technical personnel, participate in the research and development of domestic and foreign enterprises. The technology center should promote the domestic electronic control system software R & D, and strive to design and develop the multi axis control system and drop the cost of single axis electric control system.

DA AG should complete the design and development of 581 automatic feeding round keyhole machine, 745-35-10 automatic bag machine with DAC Comfort electronic control, 550-12-33 / 34 interior wrinkling workstation optimization design, M-Type 3 Thick material and other products, equip the Beisler 1220-6 automatic sewing unit with DAC Classic electronic control (new software), and promote the trial of M2M system in Poland Lear and the Romanian JCI factory.

PFAFF GmbH will continue to promote the development of a new generation of shoe machine, and strive to start commercial promotion during the CISMA 2017. PFAFF GmbH should start the development project of the tape laying robot with the cooperation of the Chinese target customers and DA Manufacturing, and strive to produce the prototype in 2017. Do a better job in the mass production of KSL 110 airbags machine, 244/246 mattresses machine and newly developed cowboy series sewing unit.

DA Manufacturing will undertake the production of DAC Comfort electronic controller, and strive to achieve the annual production and sales of 500 sets. Continue to promote production and sales of shirt sleeve machine and shirt automatic patch bag machine. Further improve the production and sales of shirt automatic sewing machine. Equip KL 201 airbags sewing unit with DAC classic (new software). Meanwhile, replace PLC control system used in automatic sewing units which are made in China with DAC Comfort.

SG & GEMSY will continue to focus on developing new product in 2017. SG & GEMSY will actively advance the upgrade of standardization and modularization of standard products, and cooperate with the technology center to upgrade electronic control system of lockstitch, over-lock, and flat seaming sewing machine with high volume. At the same time, upgrade and develop the double needle, twists and turns, locks, sets, patterns sewing machine with medium volume one by one and form unified production pattern with platform-based, multi-brand, sub-grade.

(5) Improve Internal control; Enhance Operational Efficiency

The Company will continue to do a good job of headquarters and the subsidiary's internal control standard system construction, consistently achieve 2016 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.

Continue to improve the ERP system, and further improve the management efficiency of the Company.

Continue to do a good job in the implementation and management of the Company's annual budget, do a good job in the Company's capital arrangements and fund co-ordination, do a good job in financial risk warning, and realize early warning of major financial risks .

Continue to do a good job in the ISO9001 quality management system, further adjust the program after SG Butterfly and DAPSH merged into the Company. Complete the ISO9001 revision certification, further improve the quality management system, and improve product quality and enterprise operation quality. At the same time, strengthen quality control of OEM brand products to protect brand reputation and improve customer satisfaction.

In 2017, SGG has embarked on a new journey after market-oriented reform. Under the decision of the new board of directors, we firmly believe that the mixed ownership system will bring new vitality to the enterprises. The implementation of the new mechanism in line with the law of economic development will give a new impetus to the cadres and employees and strongly promote the rapid development of the Company.

The main tasks and the business goals of 2017 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 2017, and strive for the sustainable development of the Company!

3.3 Business Plan

The main business objectives of 2017 are: (1) operating income shall reach 2.95 billion yuan, increased by 6.88% year on year; (2) operating profits reach 0.244 billion yuan, increased by 21.14%; (3) net profits reach 0.18 billion yuan, rose by 11.40; (4) account receivable turnover rate is 7.29 and inventory turnover is 3.33.

3.4 Possible Risks

(1) 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.

(2) 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.

(3) 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.

4. Due to Non-Applicable Provisions or State Secrets, Trade Secrets and Other Special Reasons, the Company did not Disclose the Situation According to the Guidelines and Reasons

Not applicable.

Chapter 5 Important Events

1. Profit Distribution or Capital Surplus Transferring and Increasing Proposal

1.1 The Formulation, Implementation and Adjustment of Cash Dividend Policy

According to the No.[2013] 43 of Notice on *No. 3 Guidance of Cash Dividend Distribution Affairs for Listed Companies* issued by 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 2015 Annual Shareholders' Meeting, the profit distribution do not be made in 2015, neither the transferring of capital reserves into share capital. The proposal of 2015 has been implemented.

Audited by BDO China Shu Lun Pan Certified Public Accountants LLP., the Company achieved the consolidated net profit of 161,565,335.61 yuan in 2016, of which, the net profit attributable to parent company owners is 144,231,343.84 yuan.

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 of previous year, the Company did not draw the legal accumulation fund. The current-period net profit of the parent company is 25,362,481.43 yuan; the practical profit available for distribution is -206,831,240.38 yuan at the end of 2016. Considering the parent company's profit available for distribution is negative, the profit distribution cannot be made in 2016, 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 (%)
2016	0	0	0	0	144,231,343.84	
2015	0	0	0	0	157,417,087.48	
2014	0	0	0	0	197,616,061.21	

1.3 Cash Offer to Repurchase Shares Included in the Cash Dividend

Not applicable.

2. Commitment

Background	Type	Commitment Party	Commitment Content	Whether There is a Time Limit	Whether Timely and Strictly Perform	Reason for Failure to Fulfill Commitment	Future Plan if Fail to Fulfill Commitment
Commitment in the Statement of Changes in Equity	Restricted shares	PKFR	Shares of SGG held by PKFR will not be sold from December 29, 2016 to December 28, 2017.	Yes	Yes	N/A	N/A
	Others	PKFR	Shares of SGG held by PKFR will not be less than shares held by Pudong SASAC From December 29, 2016 to December 28, 2017	Yes	Yes	N/A	N/A
	Others	PKFR	From December 29, 2016 to December 28, 2017, PKFR or its concerned action will purchase shares of SGG by not less than 10 million yuan	Yes	Yes	N/A	N/A
Commitment Related to Major Asset Restructuring	Others	The Company	The Company will not Plan major asset restructuring from July 26, 2016 to January 25, 2017	Yes	Yes	N/A	N/A

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

4. Description of "Non-Standard Opinion Audit Report" Released by the Accounting Firm

Not applicable.

5. Analysis of the Company's Change of Accounting Policy

Contents and Reasons of Accounting Policy Changes	Approval Procedures	Note (The name and amount of the item affected)
Adjust the "Business taxes and surcharges" items in the income statement to "Taxes and surcharges" items.	On December 3, 2016, the Ministry of Finance issued the Provisions on Value-added Tax Accounting (Accounting [2016] No. 22), which applies to related transactions that occurred on May 1, 2016	Taxes and surcharges
The property tax, land use tax, travel tax and stamp duty incurred from the business activities on May 1, 2016 will be reclassified from the "general and administrative expenses" item to the "tax and surcharges" project, which occurred before May 1, 2016. The tax is not adjusted. The comparison data will not be adjusted.		Increase taxes and surcharges of 4,770,099.93 yuan this year, reducing general and administrative expenses this year the amount of 4,770,099.93 yuan.

6. Appointment and Dismiss of Certified Accountant's Firm

Unit: 10,000 Yuan, Currency: RMB

Name of domestic accountant's firm	BDO Chian Shu Lun Pan Certified Public Accountants LLP
Payment to the domestic accountant's firm	85
Service life of the domestic accountant's firm providing audit service for the Company	10 years

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

7. Risk of Suspension of Listing

Not applicable.

8. Termination of Listing and Reasons

Not applicable.

9. Bankruptcy

Not applicable.

10. Important Lawsuit and Arbitration

Not applicable.

11. Punishment on and Rectification of Listed Company and its Directors, Supervisors, Senior Managers, Controlling Shareholders, Actual Controller and Purchaser

Not applicable.

12. Credit Status of the Company and its Controlling Shareholder and Actual Controller.

Not applicable.

13. Company Stock Right Incentives, ESPO, and Other Employee Incentives

Not applicable.

14. Major Related Party Transactions

14.1 Related Party Transactions Relevant to Daily Operations

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	The temporary bulletin No. 2016-015 disclosed by the Company on March 22, 2016, published in Shanghai Securities News and Hong Kong Commercial

estimated that in 2016, the amount of products that it will sell to Fiji Xerox is 33 million yuan, and in this report period, the sales amount was 30.49 million yuan, and there was no major change.	Daily and website of Shanghai Stock Exchange.
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14.2 Related Party Transactions Arising from the Acquisition or Sale of Assets or Equity

Not applicable.

14.3 Co-Investing with a Related Party

Not applicable.

15. Significant Contracts and Their Implementation

15.1 Trusteeship, Contracting and Lease

Not applicable.

15.2 Guarantee

Unit: 10,000 Yuan, Currency: RMB

Company external guarantee list (excluded those for subsidiaries)													
Guarantor	Relations of the guarantor to listed company	Security party	Amount guaranteed	Guarantee date (agreement sign-off date)	Start date	Expiration date	Type	If guarantee is done	Overdue	Overdue amounts	If counter-guarantee available?	Guarantee for related party?	Relation
SGG	The Company	Commerzbank Shanghai Branch	7,000	Mar. 25, 2014	Mar. 25, 2014		Joint liability guarantee	No	No	0	Yes	No	No
SGG	The Company	Commerzbank Shanghai Branch	6,430	Jun. 30, 2014	Jul. 1, 2014		Joint liability guarantee	No	No	0	Yes	No	No
SGG	The Company	Commerzbank Shanghai Branch	9,645	Sept. 19, 2016	Sept. 19, 2016		Joint liability guarantee	No	No	0	Yes	No	No
SGG	The Company	Commerzbank Shanghai Branch	8,037	Aug. 28, 2015	Aug. 28, 2015		Joint liability guarantee	No	No	0	No	No	No
SGG	The Company	Industrial & Commercial Bank of China Shanghai Hongkou Branch	5,845	Dec. 21, 2015	Dec. 21, 2015	Dec. 21, 2020	Joint liability guarantee	No	No	0	No	No	No
SGE	Wholly owned subsidiary	Commerzbank	2,009	Jan. 7, 2016	Jan. 7, 2016	Jul. 30, 2017	Joint liability guarantee	No	No	0	No	No	No
SGE	Wholly owned subsidiary	Commerzbank	2,009	Jan. 7, 2016	Jan. 7, 2016	Jul. 30, 2018	Joint liability guarantee	No	No	0	No	No	No
Guarantee amounts spent during the report period (excluded guarantee to affiliate company).											13,664		
Total balance of guarantee at the end of period (affiliate companies are not quailed.) (A)											40,977		
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)	
Company total guarantee amounts (including those to subsidiaries)	
Total guarantee amounts (A+B)	40,977
Ratio of total guarantee amounts to company net assets (%)	21.38
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)	

Note: 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 September 19, 2016, 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 13.2 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.

15.3 Status of Investment in Entrusted Financing and Derivatives of Non-Financial Companies

15.3.1 Entrusted Financing

Unit: 10,000 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	Amount of transaction is affiliated	Whether lawsuit is involved	Whether relationship	Affiliated relationship
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	5,000	47.14	Yes	0	No	No		
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG15154S)	7,000	November 2, 2015	February 3, 2016	Guarantee gains with guaranteed principal	7,000	65.99	Yes	0	No	No		
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 86 Days	5,000	November 11, 2015	February 5, 2016	Guarantee gains with guaranteed principal	5,000	41.23	Yes	0	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	6,000	53.85	Yes	0	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	7,000	65.82	Yes	0	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	4,000	34.52	Yes	0	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	1,000	8.63	Yes	0	No	No		
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG16017S)	5,000	February 4, 2016	May 5, 2016	Guarantee gains with guaranteed principal	5,000	39.64	Yes	0	No	No		
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG16017S)	6,000	February 4, 2016	May 5, 2016	Guarantee gains with guaranteed principal	6,000	47.57	Yes	0	No	No		
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 88 Days	5,000	February 6, 2016	May 4, 2016	Guarantee gains with guaranteed principal	5,000.00	38.58	Yes	0	No	No		
Bank of Shanghai Fumin Branch	Bank of Shanghai "Winner" Currency and Bond Series (Intravenous Drip into Gold) Financial Product (WG16018S)	5,000	February 22, 2016	May 23, 2016	Guarantee gains with guaranteed principal	5,000	39.89	Yes	0	No	No		
Bank of Shanghai	"Wenjin" No. 2 SD21606M018A	7,500	March 15, 2016	September 13, 2016	Floating gains with	7,500	119.67	Yes	0	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 transaction is affiliated	Whether lawsuit is involved	Whether relationship
Fumin Branch					guaranteed principal							
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 88 Days	2,500	March 17, 2016	June 13, 2016	Guarantee gains with guaranteed principal	2,500	19.29	Yes	0	No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 88 Days	2,500	March 17, 2016	June 13, 2016	Guarantee gains with guaranteed principal	2,500	19.29	Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21606M031A	8,300	May 10, 2016	November 10, 2016	Floating gains with guaranteed principal	8,300	128.87	Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21606M031A	1,200	May 10, 2016	November 10, 2016	Floating gains with guaranteed principal	1,200	18.63	Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21606M034B	8,000	May 26, 2016	November 24, 2016	Floating gains with guaranteed principal	8,000	119.67	Yes	0	No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 87 Days	2,500	June 14, 2016	September 9, 2016	Guarantee gains with guaranteed principal	2,500	17.88	Yes	0	No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli 87 Days	2,500	June 14, 2016	September 9, 2016	Guarantee gains with guaranteed principal	2,500	17.88	Yes	0	No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli S	2,500	September 9, 2016	January 24, 2017	Floating gains with guaranteed principal			Yes	0	No	No	
Bank of Communications Xuhui Branch	Yuntong Wealth Rizengli S	2,500	September 9, 2016	January 24, 2017	Floating gains with guaranteed principal			Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21601M077B	3,300	August 25, 2016	November 24, 2016	Floating gains with guaranteed principal	3,300	23.28					
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21601M077B	2,000	September 22, 2016	October 27, 2016	Floating gains with guaranteed principal	2,000	5.37	Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21606M049B	8,000	September 22, 2016	March 23, 2017	Floating gains with guaranteed principal			Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21603M078A	1,200	November 15, 2016	February 14, 2017	Floating gains with guaranteed principal			Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21603M078A	8,800	November 15, 2016	February 14, 2017	Floating gains with guaranteed principal			Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2 SD21603M084A	7,000	November 29, 2016	February 28, 2017	Floating gains with guaranteed principal			Yes	0	No	No	
Bank of Shanghai Fumin Branch	“Wenjin” No. 2SD21603M084A	3,200	November 29, 2016	February 28, 2017	Floating gains with guaranteed principal			Yes	0	No	No	
Total	/	129,500	/	/	/	96,300	972.79	/	/	/	/	/

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 transaction is affiliated	Whether lawsuit is involved	Affiliated relationship
Aggregate principal and gains amount overdue and non-refunded (Yuan)									0			
Note			With the review and approval of the 21nd meeting of the Seventh Board of Directors on April 28, 2015, it is resolved that idle raised funds of 250 million yuan and self-owned funds of 250 million yuan were managed in purchasing RMB financial products of the bank with principal guaranteed. With the review and approval of the 26th meeting of the Seventh Board of Directors on March 18, 2016, it is resolved that idle raised funds of 130 million yuan and self-owned funds of 250 million yuan were managed in purchasing RMB financial products of the bank with principal guaranteed.									

15.3.2 Entrusted Loan

Not applicable.

15.3.3 Other Investment in Financing Products and Derivatives

Not applicable.

16. Situations of Company Performing Social Liabilities Actively

16.1 Poverty Alleviation of Listed Companies

Not applicable.

16.2 Social Responsibility Work

The Company insists on complying with laws and regulations as the Company's basic operation principle, and focuses on mutual development of economic benefits and social benefits. In 2016, the 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.

17. Convertible Corporate Bonds

Not applicable.

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

1. Share Capital Changes of Common Stock

1.1 Share Capital Changes of Common Stock

During the report period, the total number of shares of the Company's common stock and equity structure remain unchanged.

1.2 Change of Non-Tradable Shares

Not applicable

2. Securities Issuance and Listing

2.1 Securities Issuance during the Report Period

Not applicable

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. Shareholder and Actual Controller

3.1 Total Number of Shareholders

Total number of shareholder at the end of report period	71,793 (A Share:43,300; B Share:28,493)
Total number of shareholder as of March 31, 2017	66,372 (A Share:38,323; B Share:28,049)

3.2 Shareholding Status of Top 10 Shareholders and Top 10 Unrestricted Shareholders

Unit: Share

Top 10 Shareholders						
Name of Shareholder	Increase or Decrease in the Report Period	Total Shares Held as of December 31, 2016	Holding Percentage (%)	Restricted Share	Shares Pledged or Frozen	Shareholder Status
Shanghai Puke Flyingman Investmnt Co., Ltd.	60,000,000	60,000,000	10.94	0		Domestic Non-state-owned Legal Person
State-owned Assets Supervision and Administration Commission of Shanghai Pudong New Area People's Government	-60,000,000	45,395,358	8.27	0		State

Chian Great Wall Asset Management Corporation	0	22,200,000	4.05	0	State-owned Legal Person
SHANGHAI INTERNATIONAL GROUP Asset Management Co., Ltd.	0	10,968,033	2.00	0	State-owned Legal Person
GREAT WALL GUORONG INVESTMENT AND MANAGEMENT CO., LTD.	4,770,654	4,770,654	0.87	0	State-owned Legal Person
SCBHK A/C KG INVESTMENTS ASIA LIMITED	-262,088	4,590,955	0.84	0	Foreign Legal Person
SCBHK A/C BBH S/A VANGUARD EMERGING MARKETS STOCK INDEX FUND	2,930,213	3,678,113	0.67	0	Foreign Legal Person
GUOTAI JUNAN SECURITIES (HONGKONG) LIMITED	-406,620	3,135,169	0.57	0	Foreign Legal Person
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	453,700	2,999,096	0.55	0	Foreign Legal Person
NORGES BANK	0	1,742,114	0.32	0	Foreign Legal Person
Top 10 Unrestricted Shareholders					
Name of Shareholder	Unrestricted Shares	Share Type and Amount			
		Type	Amount		
Shanghai Puke Flyingman Investmnt Co., Ltd.	60,000,000	A Share	60,000,000		
State-owned Assets Supervision and Administration Commission of Shanghai Pudong New Area People's Government	45,395,358	A Share	45,395,358		
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		
GREAT WALL GUORONG INVESTMENT AND MANAGEMENT CO., LTD.	4,770,654	A Share	4,770,654		
Shanghai Puke Flyingman Investmnt Co., Ltd.	4,590,955	B Share	4,590,955		
SCBHK A/C BBH S/A VANGUARD EMERGING MARKETS STOCK INDEX FUND	3,678,113	B Share	3,678,113		
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	3,135,169	B Share	3,135,169		

VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	2,999,096	B Share	2,999,096
NORGES BANK	1,742,114	B Share	1,742,114
Notes on Shareholder Relationship and Consistent Actions	GREAT WALL GUORONG INVESTMENT AND MANAGEMENT CO., LTD. is the wholly-owned subsidiary of China Great Wall Asset Management Corporation. The Company does not know the relationship and consistent of other shareholders		

The Number of Restricted Shares Held by Top Ten Shareholders and the Conditions for Sale
Not applicable.

4. Controlling Shareholder and Actual Controller

4.1 Controlling Shareholder

4.1.1 Legal Person

Not applicable.

4.1.2 Natural person

Not applicable.

4.1.3 Special Explanation for the Absence of Controlling Shareholder of the Company

Pudong SASAC, the former controlling shareholder and the actual controller of the Company, transferred 60 million A shares of SGG to Shanghai Puke Flyingman Investment Co., Ltd. The transaction was successfully completed on December 29, 2016. After the completion of the share transfer, the total share capital of the Company remained unchanged, and the PKFR held 60 million A shares of the Company, accounting for 10.94% of the total share capital of the Company as the largest shareholder. Pudong SASAC held 45,395,358 A shares of the Company, accounting for 8.27% of the total share capital of the Company, which is the second largest shareholder of the Company.

As a result of the relatively low proportion of the shares held by PKFR and Pudong SASAC, both held no more than 30% and their shareholding ratio is closer. Therefore, after the completion of the share transfer, no shareholder could control the Company separately, the Company will be changed to a listed company with no controlling shareholder and no actual controller.

4.1.4 Index and Date of Change of Controlling Shareholder during the Report Period

The temporary bulletin No. 2016-069 disclosed by the Company on December 30, 2016, published in Shanghai Securities News and Hong Kong Commercial Daily and website of Shanghai Stock Exchange.

4.1.5 The Property and Control Relationship between the Company and the Controlling Shareholder

Not applicable.

4.2 Actual Controller

4.2.1 Legal Person

Not applicable.

4.2.2 Natural Person

Not applicable.

4.2.3 Special Explanation for the Absence of Controlling Shareholder of the Company

Pudong SASAC, the former controlling shareholder and the actual controller of the Company, transferred 60 million A shares of SGG to Shanghai Puke Flyingman Investment Co., Ltd. The transaction was successfully completed on December 29, 2016. After the completion of the share transfer, the total share capital of the Company remained unchanged, and the PKFR held 60 million A shares of the Company, accounting for 10.94% of the total share capital of the Company as the largest shareholder. Pudong SASAC held 45,395,358 A shares of the Company, accounting for 8.27% of the total share capital of the Company, which is the second largest shareholder of the Company.

As a result of the relatively low proportion of the shares held by PKFR and Pudong SASAC, both held no more than 30% and their shareholding ratio is closer. Therefore, after the completion of the share transfer, no shareholder could control the Company separately, the Company will be changed to a listed company with no controlling shareholder and no actual controller.

4.2.4 Index and Date of Change of Actual Controller during the Report Period

The temporary bulletin No. 2016-069 disclosed by the Company on December 30, 2016, published in Shanghai Securities News and Hong Kong Commercial Daily and website of Shanghai Stock Exchange.

4.2.5 The Property and Control Relationship between the Company and the Actual Controller

Not applicable.

4.3 Other Introduction about Controlling Shareholder and Actual Controller

Not applicable.

5. Other Shareholders (Legal Person) Holding More Than Ten Percent

Unit: 10,000 Yuan, Currency: RMB

Name	Legal Representative	Date of Establishment	Enterprise Unified Social Credit Code	Registered Capital	Main Business
Shanghai Puke Flyingman Investment Co., Ltd	Zhu Xudong	June 16, 2016	91310115MA1K3D9W81	28,512	Industrial investment, investment management, investment consulting

6. Description of the Limit of Share Reduction

Not applicable.

Chapter 7 Relevant Situation about Preferred Shares

Not applicable.

Chapter 8 Situation about Directors, Supervisors, Senior Managers and Employees

1. Share Change and Compensation

1.1 Share Change and Compensation of Current and Former Directors, Supervisors and Senior Managers

Unit: Share

Name	Title	Gender	Age	Starting Date	Ending Date	Shares Held at the Beginning of the Year	Shares Held at the End of the Year	Increase/Decrease	Reason for the Change	Pre Tax Comensation Payable in the Report Period (Unit: 10,000 yuan)	Compensation Payable by Related Parties
Zhang Min	Chairman, CEO	Male	54	December 27, 2012		100,000	100,000	0			No
Li Jiaming	Director	Male	56	April 28, 2014		0	0	0			No
	Deputy general manager	Male	56	December 27, 2012							
Fang Haixiang	Director, Deputy general manager	Male	50	December 27, 2012		0	0	0			No
Sun Gang	Director	Male	52	December 27, 2012		0	0	0			No
Lu Yujie	Director	Male	46	December 27, 2012		0	0	0			Yes
Bao Qi	Director	Female	40	December 27, 2012		0	0	0			No
Zhang Ming	Independent director	Male	58	December 27, 2012		0	0	0			No
Su Yong	Independent director	Male	61	December 27, 2012		0	0	0			No
He Ye	Independent director	Female	53	December 27, 2012		0	0	0			No
Qiao Junhai	Supersisory Board Chairman	Male	59	April 28, 2014		0	0	0			No
Ding Binhui	Supervisor	Male	52	December 27, 2012		0	0	0			No
Zhuge Huiling	Supervisor	Female	48	December 27, 2012		0	0	0			No
Chen Guoling	Supervisor	Female	54	December 27, 2012		12,645	12,645	0			No
Xu Yuping	Supervisor	Male	54	December 27, 2012		0	0	0			No
Zheng Ying	Deputy general manager	Female	51	December 27, 2012		21,500	21,500	0			No
Li Xiaofeng	Deputy general manager	Male	42	December 27, 2012		0	0	0			No
Zhang Jianguo	Secretary of the Board	Male	57	December 27, 2012		0	0	0			No
Total	/	/	/	/	/	134,145	134,145	0	/		/

Main work experience:

Zhang Min: Former General Manager of Shanghai Zanussi Electric Machinery Co., Ltd., General Manager, Chairman of Shanghai SMPIC 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. He is the Chairman of the 7th Board of

Directors of the Company.

Li Jiaming: Former R&D Director, Deputy 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 April 2008, he served as Deputy General Manager of the Company. Since April 28, 2014, he served as managing director of the 7th Board.

Fang Haixiang: Former Deputy General Manager and Chief Engineer of Shanghai Xiechang Feiren Co., Ltd. Since April 2008, he served as Deputy General Manager of the Company. And since March 2012, he served as Chairman of Shanghai Shanggong Butterfly Sewing Machine Co., Ltd. He is the Managing Director of the 7th Board.

Sun Gang: Former Risk Detection Department Manager, Risk Compliance Senior Manager of China Great Wall Asset Management Corporation, Party Committee Member and Deputy General Manager of China Great Wall Asset Management Corporation Shanghai Office, the Deputy Party Committee Secretary (chair) of China Great Wall Asset Management Corporation Guiyang Office. Since May 2016, he served as the Party Committee Secretary and the General Manager of China Great Wall Asset Management Co., Ltd Guiyang Office. He is a Director of the 7th Board of the Company.

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 Deputy General Manager. He is a Director of the 7th Board of the Company.

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. She is a Director of the 7th Board of the Company.

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. He is an 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. He is an 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 September 2011, she was appointed Chairman of Sewing Machinery Association. She is an 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 August 2009, work in Director and Supervisor Center, Pudong SASAC. He is a Supervisor of the 7th Supervisory Board.

Zhuge Huiling: From September 2007 to December 2012, Deputy GM of the Company, from December 2012 Secretary of Discipline Committee of the Company. She is a Supervisor of the 7th Supervisory Board.

Chen 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 Shanggong SMPIC Mechanical Branch, since December 2012 Company Union Chairman. She is a Staff 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., Audit Department Deputy Manager of the Company. He served as the Company's Audit Department Manager now. He is a Staff Supervisor of the 7th Supervisory Board.

Zheng Ying: Party Secretary, Deputy GM of Fuji Xerox Co., since October 2008, Deputy General Manager 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 Shanggong Butterfly Sewing Machine Co., Ltd., currently general manager of DAP Shanghai. Since December 2012, he served as the Company's deputy general manager.

Zhang Jianguo: Former Party Secretary, Deputy DM of Fuji Xerox Co., Ltd. Since August 2011, he served as Secretary of the Board of Directors of the Company.

Note 1: During the report period, Ms Zheng Ying, Deputy General Manager of the Company, worked in Germany. She received her salary from the oversea subsidiary, not from Company's Headquarter.

Note 2: The 25th Meeting of the 7th Board of Directors deliberated and approved *Proposal on the extension of the 7th Board of Directors*. The election of the 8th Board of Directors will be postponed. Before electing the 8th Board of Directors, all the directors and senior officers of the 7th Board of Director would fulfill their duties and obligations prescribed by the law and the Articles of Association. The 35th Meeting of the 7th Board of Directors deliberated and approved *Proposal on the Re-election of the Board of Directors*, the re-election of the Board of Directors is underway.

1.2 Equity Incentive Granted to Directors, Supervisors, and Senior Managers in the Report Period

Not applicable.

2. Current and Former Director, Supervisor and Senior Manager's Employment

2.1 Employment with Shareholders

Name	Shareholder	Title	Starting From	End Date
Sun Gang	China Great Wall Asset Management Co., Ltd	Party Committee Secretary and general manager of Guiyang Office	May 3, 2016	
Sun Gang	China Great Wall Asset Management Corporation	Deputy Party Committee Secretary (chair) of Guiyang Office	December 10, 2014	May 3, 2016
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 Institutions

Name	Company Name	Title	Starting From	End Date
Zhang Min	China Sewing Machinery Association	Deputy Director	September 26, 2011	
Zhang Min	China Light Industry Federation	Deputy Director	June 21, 2016	
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	June 16, 2016
Zhang Ming	Tibet Haisike Pharmaceutical Group Co., Ltd.	Independent Director	August 8, 2010	January 17, 2017
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	
Zhang Ming	Haitong securities co., Ltd	Independent Director	June 12, 2016	
Zhang Ming	Shanghai Pudong Development Bank Co., Ltd	Independent Director	April 29, 2016	
Su Yong	Shanghai Pret Composites Co., Ltd.	Independent Director	November 28, 2013	July 14, 2016
Su Yong	Maanshan Iron and Steel Company Limited	Independent Supervisor	September 1, 2011	
He Ye	China Sewing Machinery Association	Chairman	September 26, 2011	
He Ye	China Light Industry Federation	Deputy Director	June 21, 2016	

3. Compensation for Director, Supervisor and Senior Managers

Decision Making Procedure for Director, Supervisor and Officer Compensation	Apply the regulation on Officers' Salary in <i>Senior Management Personnel Remuneration Management Regulation</i>
Basis for Director, Supervisor and Officer Compensation	Implement according to <i>Senior Management Personnel Remuneration Management Regulation</i> and other corporate internal control system
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 4,707.5 thousand, before tax.

4. Change of Directors, Supervisors and Senior Managers 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 Subsidiaries

6.1 Staff Condition

Population of serving staff in parent company	59
Population of serving staff in major subsidiary companies	3,216
Total population of serving staff	3,275
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	2,193
Sales Personnel	325
Technician	295
Financial Staff	137
Administrative Staff	325
Total	3,275
Educational Degree	
Type of Educational Degree	Population
Postgraduate, undergraduate and above	501
Junior college	1,785
Junior college and below	989
Total	3,275

6.2 Compensation 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 and Related Situation

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.

During the report period, the Company has developed *Senior Management Personnel Remuneration Management Regulation* to further perfect the corporate governance and normalize operation.

There is no significant difference between the Company's corporate governance and the requirements of relevant provisions released by CSRC.

2. Brief Introduction of Shareholder's Meeting

Name of Meeting	Date of Meeting	Inquiry Index of Designated Website for Publishing Resolutions	Disclosure Date for Publishing Resolutions
The 2015 Annual Shareholders' Meeting	April 15, 2016	www.sse.com.cn	April 16, 2016
First Temporary Shareholders' Meeting in 2016	May 24, 2016	www.sse.com.cn	May 25, 2016

3. Duty Fulfillment of Directors

3.1 Attendance of Directors in Board Meeting and Shareholders Meeting

Name	Whether Independent Director	Attendance in Board Meeting						Attendance in Shareholders' Meeting
		Scheduled Meeting	Personal Attendance	By Telecommunication	By Proxy	Absent	Whether two times in a row did not personally attend the meeting	
Zhang Min	No	10	10	8	0	0	No	2
Li Jiaming	No	10	10	8	0	0	No	2
Fang Haixiang	No	10	10	8	0	0	No	2
Sun Gang	No	10	10	8	0	0	No	1
Lu Yujie	No	10	10	8	0	0	No	1
Bao Qi	No	10	10	8	0	0	No	2
Zhang Ming	Yes	10	9	8	1	0	No	2
Su Yong	Yes	10	10	8	0	0	No	1
He Ye	Yes	10	10	9	0	0	No	1

Number of Board Meetings Held During the Year	10
Including on-site meeting	1
meetings by telecommunication	8
On-site with telecommunication meeting	1

3.2 Independent Directors' Objection against Significant Events of the Company

Not applicable.

4. Important Opinions and Recommendations of the Special Committees under the Board during Report Period

Not applicable.

5. Explanation by Supervisory Board on the Risks of the Company

Not applicable.

6. Explanation on Structural Independence of the Company on Business, Personnel, Assets, Organization and Finance from the Holding Shareholder

Not applicable.

6. Appraisal and Incentive System for Senior Managers

The Company established the performance evaluation systems by which the income of senior managers was linked with their performance and operation objective. In accordance with *Senior Management Personnel*

Remuneration Management Regulation and standards and procedures of performance evaluation, the Remuneration and Evaluation Committee made evaluation on the senior officers according to 2016 operation situation, in combination with the respective duty fulfillment, business innovation and profit contribution of every senior manager 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 Revalent Situation about Corporate Bonds

Not applicable.

Chapter 11 Financial Report

Auditor's Report

XinKuaiShiBaoZi [2017] No: ZA11774.

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

We have audited the accompanying financial statements of Shang Gong Group Co., Ltd. (hereinafter referred to as "the Company"), including the consolidated statement of financial position and statement of financial position as of December 31, 2016, 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 the 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 the financial statements based on our audit. We conducted our audit in accordance with PRC Independent Standards on Audit for Certified Public 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 auditors consider 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 evidences we have obtained are 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 of December 31, 2016 and the consolidated and the Company's operating results and cash flows for the year then ended

BDO China Shu Lun Pan

Certified Public Accountants LLP

Certified Public Accountant of China: Li Yue

Certified Public Accountant of China: Li Jinhua

Shanghai, China

March 31, 2017

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, 2016
(Presented in RMB unless otherwise specified)

Assets	Note 5	Ending Balance	Beginning Balance
Current assets:			
Cash and cash equivalents	5.1	763,655,704.57	773,572,182.69
Deposit reservation for balance			
Lending funds			
Financial assets at fair value whose fluctuation is attributed to profit or loss for current period	5.2	4,000.00	
Derivative financial assets			
Notes receivable	5.3	78,841,448.05	63,502,861.92
Accounts receivable	5.4	389,252,678.87	373,164,448.57
Prepayment	5.5	33,709,357.11	27,058,587.15
Premiums receivable			
Reinsurance accounts receivable			
Provision of cession receivable			
Interest receivable			
Dividends receivable			
Other receivables	5.6	50,885,073.48	62,684,178.64
Redemptory monetary capital for sale			
Inventories	5.7	663,766,440.95	581,295,155.15
Classified as assets held for sale			
Non-current assets maturing within one year			
Other current assets	5.8	357,418,547.35	373,659,277.60
Total current assets		2,337,533,250.38	2,254,936,691.72
Non-current assets:			
Loans and payments on behalf			
Available-for-sale financial assets	5.9	137,219,246.11	148,716,963.61
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	5.10	253,586,574.99	
Investment properties	5.11	107,616,254.96	105,831,480.56
Fixed assets	5.12	354,223,210.04	336,334,409.01
Construction in progress	5.13	20,199,928.64	24,088,386.74
Project materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	5.14	155,237,899.69	127,464,082.18
Development expenditures	5.15	12,529,345.90	37,111,588.93
Goodwill	5.16	67,878,923.12	65,913,195.29
Long-term deferred expenses	5.17	1,084,797.97	579,474.57
Deferred income tax assets	5.18	59,063,549.91	45,725,444.45
Other non-current assets			
Total non-current assets		1,168,639,731.33	891,765,025.34
Total assets		3,506,172,981.71	3,146,701,717.06

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, 2016
(Presented in RMB unless otherwise specified)

Liabilities and Shareholder's Equity	Note	Ending balance	Beginning balance
Current liabilities:			
Short-term loans	5.19	351,368,604.62	300,547,829.62
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	174,828,356.05	161,024,708.59
Receipt in advance	5.21	36,548,091.83	25,598,146.20
Financial assets sold for repurchase			
Handling charges and commissions payable			
Employee benefits payable	5.22	80,928,692.78	78,096,683.38
Taxes and surcharges payable	5.23	54,740,867.60	49,065,663.29
Interest payable	5.24	2,090,565.59	88,934.73
Dividends payable	5.25	1,032,818.86	1,032,818.86
Other payables	5.26	193,117,136.53	171,163,174.57
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			
Other current liabilities	5.27	808,706.39	319,502.32
Total current liabilities		895,463,840.25	786,937,461.56
Non-current liabilities:			
Long-term loans	5.28	68,624,863.27	29,374,120.87
Bonds payable			
Including: preference shares			
Perpetual bond			
Long-term payables	5.29	37,338,461.61	4,724,683.15
Long-term employee benefits payable	5.30	255,686,948.92	239,476,427.52
Special payables			
Estimated liabilities			
Deferred income		3,600,000.00	
Deferred income tax liabilities	5.31	36,604,917.60	35,136,271.15
Other non-current liabilities	5.32	520,000.00	520,000.00
Total non-current liabilities		402,375,191.40	309,231,502.69
Total liabilities		1,297,839,031.65	1,096,168,964.25
Owners' equity			
Share capital	5.33	548,589,600.00	548,589,600.00
Other equity instruments			
Including: preference shares			
Perpetual bond			

Liabilities and Shareholder's Equity	Note	Ending balance	Beginning balance
Capital reserves	5.34	971,603,120.27	956,286,021.43
Less: treasury stock			
Other comprehensive income	5.35	-103,144,046.15	-85,270,897.86
Special reserves			
Surplus reserves	5.36	4,546,242.52	4,546,242.52
General risk reserves			
Undistributed profits	5.37	494,754,465.24	350,523,121.40
Total owners' equity attributable to the parent company		1,916,349,381.88	1,774,674,087.49
Minority equity		291,984,568.18	275,858,665.32
Total owners' equity		2,208,333,950.06	2,050,532,752.81
Liabilities and owners' equity		3,506,172,981.71	3,146,701,717.06

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, 2016
(Presented in RMB unless otherwise specified)

Assets	Note 13	Ending balance	Beginning balance
Current assets:			
Cash and cash equivalents		119,210,234.41	139,839,269.51
Financial assets at fair value whose fluctuation is attributed to profit or loss for current period		4,000.00	
Derivative financial assets			
Notes receivable		150,000.00	210,000.00
Accounts receivable	13.1	3,401,851.42	2,768,214.13
Prepayment		531,129.23	532,941.05
Interest receivable			
Dividends receivable			
Other receivables	13.2	78,393,221.55	58,219,199.88
Inventories		2,329,420.55	4,310,781.84
Classified as assets held for sale			
Non-current assets maturing within one year			
Other current assets		301,893,339.18	351,766,361.40
Total current assets		505,913,196.34	557,646,767.81
Non-current assets:			
Available-for-sale financial assets		137,219,238.80	148,716,956.51
Held-to-maturity investments			
Long-term receivables		123,602,509.87	116,625,633.32
Long-term equity investments	13.3	629,485,100.90	564,142,909.37
Investment properties		86,205,621.96	86,239,724.61
Fixed assets		11,768,787.39	18,441,058.74
Construction in progress		4,045,139.74	4,740,428.42
Project materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		12,859,594.30	13,245,172.99
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets			
Other non-current assets			
Total non-current assets		1,005,185,992.96	952,151,883.96
Total assets		1,511,099,189.30	1,509,798,651.77

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, 2016
(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		4,014,190.85	20,234,518.45
Receipt in advance		2,694,254.66	2,993,707.32
Employee benefits payable		4,000,000.00	4,000,000.00
Taxes and surcharges payable		588,400.56	50,849.35
Interest payable			
Dividends payable		1,032,818.86	1,032,818.86
Other payables		108,821,954.19	107,026,319.64
Classified as liabilities held for sale			
Non-current liabilities maturing within one year			
Other current liabilities			
Total current liabilities		121,499,767.74	135,686,362.24
Non-current liabilities:			
Long-term loans		1,489,984.87	1,489,984.87
Bonds payable			
Including: preference shares			
Perpetual bond			
Long-term payables		1,574,312.63	1,611,944.32
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income		1,260,000.00	
Deferred income tax liabilities		1,197,067.41	1,197,067.41
Other non-current liabilities		520,000.00	520,000.00
Total non-current liabilities		6,041,364.91	4,818,996.60
Total liabilities		127,541,132.65	140,505,358.84
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		33,970,766.78	45,068,484.49
Special reserves			
Surplus reserves		4,546,242.52	4,546,242.52
Undistributed profits		-206,831,240.38	-232,193,721.81

Total owners' equity		1,383,558,056.65	1,369,293,292.93
Liabilities and owners' equity		1,511,099,189.30	1,509,798,651.77

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 2016
(Presented in RMB unless otherwise specified)

Item	Note 5	Current Year	Prior Year
1. Incomes		2,759,855,136.98	2,314,039,610.25
Including: operating income	5.38	2,759,855,136.98	2,314,039,610.25
Interest income			
Premiums earned			
Income from handling charges and commissions			
2. Costs		2,610,544,921.82	2,146,730,340.32
Including: Cost of sales	5.38	2,037,344,042.71	1,614,750,228.46
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			
taxes and surcharges	5.39	9,646,577.26	6,115,310.63
Selling expenses	5.40	246,840,318.90	233,231,262.36
General and administrative expenses	5.41	284,156,361.47	255,477,642.42
Financial expenses	5.42	15,536,094.51	6,091,859.10
Losses from asset impairment	5.43	17,021,526.97	31,064,037.35
Plus: gains from changes in fair value ("- for losses)			
Investment income ("- for losses)	5.44	51,962,911.52	42,409,391.70
Including: income from investment in associates and joint ventures		17,937,107.88	
Foreign exchange gains ("- for losses)			
3. Operating profits ("- for losses)		201,273,126.68	209,718,661.63
Plus: non-operating income	5.45	33,946,275.31	20,497,344.53
Including: gains from disposal of non-current assets		4,772,309.14	5,728,673.89
Less: non-operating expenses	5.46	1,973,706.10	676,214.75
Including: losses from disposal of non-current assets		1,242,523.33	348,659.64
4. Total profits ("- for total losses)		233,245,695.89	229,539,791.41
Less: income tax expenses	5.47	71,680,360.28	53,282,857.16
5. Net profit ("- for net loss)		161,565,335.61	176,256,934.25
Net profit attributable to owners of the parent company		144,231,343.84	157,417,087.48
Non-controlling interests		17,333,991.77	18,839,846.77
6. Net of tax of other comprehensive income		-17,277,343.80	13,430,628.35
Net of tax of other comprehensive income attributable to owners of the parent company		-17,873,148.29	14,196,084.84
(1) Other comprehensive income can't be reclassified to gains and losses later		-12,495,261.60	-1,857,057.19
a. Changes in net liabilities or assets due to the remeasurement and redefinition of the benefit plan		-12,495,261.60	-1,857,057.19
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		-5,377,886.69	16,053,142.03
a. The shares in other comprehensive income of the investee			

Item	Note 5	Current Year	Prior Year
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		-11,097,717.71	28,278,699.44
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		5,719,831.02	-12,225,557.41
f. Others			
Net of tax of other comprehensive income attributable to non-controlling shareholders		595,804.49	-765,456.49
7. Total comprehensive incomes		144,287,991.81	189,687,562.60
Total comprehensive income attributable to owners of the parent company		126,358,195.55	171,613,172.32
Total comprehensive income attributable to non-controlling shareholders		17,929,796.26	18,074,390.28
8. Earnings per share			
(1) Basic earnings per share	14.2	0.2629	0.2869
(2) Diluted earnings per share	14.2	0.2629	0.2869

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 2016
(Presented in RMB unless otherwise specified)

Item	Note 13	Current Year	Prior Year
1. Operating income	13.4	35,625,008.15	34,548,625.46
Less: Operating cost	13.4	19,862,743.87	21,121,277.36
tax and surcharges		3,573,897.61	3,362,049.55
Selling expenses		666,232.68	4,571,117.56
General and Administration expenses		34,763,998.55	58,257,264.15
Finance expenses		-5,612,406.59	-3,363,560.28
Impairment losses on assets		7,646,657.27	68,737.09
Plus: gains from changes in fair value ("- " for losses)			
Investment income ("- " for losses)	13.5	33,758,732.27	42,496,460.42
Including: Investment income in associates and joint ventures			
2. Operating profits ("- " for losses)		8,482,617.03	-6,971,799.55
Plus: Non-operating income		17,153,106.40	12,772,336.42
Including: gains from disposal of non-current assets		4,141,777.76	4,933,421.38
Less: non-operating expenses		273,242.00	293,264.60
Including: losses from disposal of non-current assets		15,845.61	93,264.60
3. Total profits ("- " for total losses)		25,362,481.43	5,507,272.27
Less: income tax expenses			
4. Net profit ("- " for net loss)		25,362,481.43	5,507,272.27
4. Net of tax of other comprehensive income		-11,097,717.71	28,278,699.44
(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		-11,097,717.71	28,278,699.44
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		-11,097,717.71	28,278,699.44
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		14,264,763.72	33,785,971.71
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 2016
(Presented in RMB unless otherwise specified)

Item	Note 5	Current Year	Prior Year
1. Cash flows from operating activities:			
Cash received from sale of goods and provision of services		2,861,454,370.86	2,423,940,682.96
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		69,330,555.14	70,853,762.65
Cash received from other operating activities	5.48	38,699,965.56	33,218,268.78
Sub-total of cash inflows from operating activities		2,969,484,891.56	2,528,012,714.39
Cash paid for goods purchased and services received		1,924,760,971.83	1,672,502,940.41
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		604,502,319.23	513,249,764.12
Cash paid for taxes and surcharges		130,590,650.51	93,594,469.70
Cash paid for other operating activities	5.48	210,574,037.57	197,778,676.62
Sub-total of cash outflows from operating activities		2,870,427,979.14	2,477,125,850.85
Net cash flows from operating activities		99,056,912.42	50,886,863.54
2. Cash flows from investing activities:			
Cash inflow from divestment		984,900,686.67	1,510,814,497.97
Cash inflow from investment incomes		22,987,656.97	21,180,266.62
Cash gain from disposal of fixed assets, intangible assets, and other long-term investment		7,982,714.60	70,690,557.56
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		1,015,871,058.24	1,662,936,178.10
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		88,210,551.07	128,675,422.75
Cash paid for investments		956,336,856.38	1,320,000,000.00

Item	Note 5	Current Year	Prior Year
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units		168,494,541.49	37,318,928.40
Cash paid for other investing activities			
Sub-total of cash outflows from investing activities		1,213,041,948.94	1,485,994,351.15
Net cash flows from investing activities		-197,170,890.70	176,941,826.95
3. Cash flows from financing activities			
Cash received from investors			400,000.00
Including: cash received by subsidiaries from investments by non-controlling shareholders			
Cash received from loans		609,186,272.20	135,348,800.00
Cash received from bonds issuance			
Cash received from other financing activities	5.48	25,402,158.23	29,523,531.37
Sub-total of cash inflows from financing activities		634,588,430.43	165,272,331.37
Cash paid for debt repayments		531,799,099.38	115,774,173.60
Cash paid for distribution of dividends and profits or payment of interest		10,156,414.28	54,186,133.16
Including: dividends and profits paid to non-controlling shareholders by subsidiaries		1,803,893.40	
Cash paid for other financing activities	5.48		50,000,000.00
Sub-total of cash outflows from financing activities		541,955,513.66	219,960,306.76
Net cash flows from financing activities		92,632,916.77	-54,687,975.39
4. Effect of fluctuation in exchange rate on cash and cash equivalents		11,138,332.32	-10,288,945.38
5. Net increase in cash and cash equivalents		5,657,270.81	162,851,769.72
Plus: beginning balance of cash and cash equivalents		744,700,658.82	581,848,889.10
6. Ending balance of cash and cash equivalents		750,357,929.63	744,700,658.82

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 2016

(Presented in RMB unless otherwise specified)

Item	Note	Current Year	Prior Year
1. Cash flows from operating activities:			
Cash received from sale of goods and provision of services		38,220,460.65	34,974,046.52
Refunds of taxes and surcharges			
Cash received from other operating activities		32,211,185.98	19,592,703.56
Sub-total of cash inflows from operating activities		70,431,646.63	54,566,750.08
Cash paid for goods purchased and services received		10,605,180.10	14,818,256.04
Cash paid to and on behalf of employees		22,440,142.31	19,524,656.21
Cash paid for taxes and surcharges		4,185,014.48	4,956,512.01
Cash paid for other operating activities		60,374,841.77	37,260,055.68
Sub-total of cash outflows from operating activities		97,605,178.66	76,559,479.94
Net cash flows from operating activities		-27,173,532.03	-21,992,729.86
2. Cash flows from investing activities:			
Cash inflow from divestment		940,633,615.30	1,510,814,497.97
Cash inflow from investment incomes		22,987,656.97	23,518,734.69
Cash gain from disposal of fixed assets, intangible assets, and other long-term investment		3,977,441.76	68,676,512.54
Cash inflow from disposal of subsidiaries and other operating units			
Cash received from other investing activities			
Sub-total of cash inflows from investing activities		967,598,714.03	1,603,009,745.20
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		17,323,229.55	5,396,993.26
Cash paid for investments		943,745,370.00	1,580,090,000.00
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities			56,197,536.51
Sub-total of cash outflows from investing activities		961,068,599.55	1,641,684,529.77
Net cash flows from investing activities		6,530,114.48	-38,674,784.57
3. Cash flows from financing activities			
Cash received from investors			
Cash received from loans			
Cash received from bonds issuance			
Cash received from other financing activities		25,000,000.00	25,000,000.00
Sub-total of cash inflows from financing activities		25,000,000.00	25,000,000.00
Cash paid for debt repayments			
Cash paid for distribution of dividends and profits or payment of interest			
Cash paid for other financing activities			
Sub-total of cash outflows from financing activities			
Net cash flows from financing activities		25,000,000.00	25,000,000.00
4. Effect of fluctuation in exchange rate on cash and cash equivalents		14,382.45	2,083.66
5. Net increase in cash and cash equivalents		4,370,964.90	-35,665,430.77
Plus: beginning balance of cash and cash equivalents		114,839,269.51	150,504,700.28
6. Ending balance of cash and cash equivalents		119,210,234.41	114,839,269.51

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 2016
(Presented in RMB unless otherwise specified)

Item	Current Year												Minority equity	Total owners' equity
	Owners' equity attributable to the parent company													
	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				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	
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				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	
3. Increase/(decrease) for the current year ("-" for losses)					15,317,098.84		-17,873,148.29				144,231,343.84	16,125,902.86	157,801,197.25	
(1) Total comprehensive incomes							-17,873,148.29				144,231,343.84	17,929,796.26	144,287,991.81	
(2) Investment/(divestment)					15,317,098.84								15,317,098.84	
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					15,317,098.84								15,317,098.84	
(3) Distribution of profits												-1,803,893.40	-1,803,893.40	
a. Surplus reserves														

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										
b. General risk reserves													
c. Distribution to owners or shareholders												-1,803,893.40	-1,803,893.40
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													
4. Ending balance of the current year	548,589,600.00				971,603,120.27		-103,144,046.15		4,546,242.52		494,754,465.24	291,984,568.18	2,208,333,950.06

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

Legal representative: Zhang Min

Financial director: Li Jiaming

Accounting department: Zhao Lixin

Shang Gong Group Co., Ltd.
Consolidated Statement of Changes in Equity (Continued)
For the Year Ended 31 December 2016
(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	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														

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										
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

Accounting department: Zhao Lixin

Shang Gong Group Co., Ltd.
Separate Statement of Changes in Equity
For the Year Ended 31 December 2016
(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
		Preference shares	Perpetual bond	Others							
1. Previous year ending balance brought forward	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
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		45,068,484.49		4,546,242.52	-232,193,721.81	1,369,293,292.93
3. Increase/(decrease) for the current year ("-" for losses)							-11,097,717.71			25,362,481.43	14,264,763.72
(1) Total comprehensive incomes							-11,097,717.71			25,362,481.43	14,264,763.72
(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		33,970,766.78		4,546,242.52	-206,831,240.38	1,383,558,056.65

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

Legal representative: Zhang Min

Financial director: Li Jiaming

Accounting department: Zhao Lixin

Shang Gong Group Co., Ltd.
Separate Statement of Changes in Equity (Continued)
For the Year Ended 31 December 2016
(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
		Preference shares	Perpetual bond	Others							
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

Accounting department: Zhao Lixin

Shang Gong Group Co., Ltd.
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Amounts are expressed in RMB unless otherwise stated)

1. Background information

1.1 Company profile

Shang Gong Group Co., Ltd. (hereinafter referred to as “the Company”), 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 has changed to 91310000132210544K at 2016. 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, Orient Mansion, No. 1500 Century Avenue, Pudong New Area, Shanghai and the head office is located in No. 1566 New Jinqiao Road, 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 Shu Lun Pan Certified Public Accountants LLP on March 26, 2014.

On 29 December 2016, The Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission which is the original controlling shareholder and actual controller of the Company had sold 60.00 million A shares of the Company to Shanghai Puke Flyman Investment Co., Ltd. which is the wholly-owned subsidiary of Shanghai Pudong Science and Technology Investment Co., Ltd. China Securities Depository and Clearing Co., Ltd. has issued a "transfer registration confirmation" on the same day.

After the transfer, Shanghai Puke Flyman Investment Co., Ltd. held A shares accounted for 10.94% of the total share capital of the Company, the largest shareholder of the Company; Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission held A shares accounted for 8.27% , the second largest shareholder of the Company. After the completion of the equity transfer, the Company has changed to a listed

company with no controlling shareholder and no actual controller. As of December 31, 2016, the Company total share capital was 548,589,600.00 shares, involve 548,589,600.00 shares with no restrictive terms, accounting for 100.00% 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.

According to the decision in the thirty-fifth board meeting (7th round), the financial statements were approved by all directors of the Company for disclosure on 31 March 2017.

1.2 Scope of the consolidated financial statements

As at December 31, 2016, 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.
11. Shanghai ShangGong Financial Leasing 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 1st to December 31th 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.

3.12 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

The Company provides confirmation of the written income of the customer when the service income is confirmed and issued the settlement certificate.

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 tax paying 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

Implementation of the "VAT accounting treatment guidelines"

According to Ministry of Finance issued "VAT accounting treatment" (Accounting [2016] No. 22) on December 3, 2016, the related transactions after May 1st, 2016 need to adjust. The Company has implemented the main effects of this provision as follows:

The content and reasons of accounting policy changes	Influence report item and amount
1. Change the name of "Sales tax and surcharges" to "Tax and surcharges" in P/L statement.	Tax and surcharges
2. After May 1 st , 2016, the property tax, land use tax, vehicle and vessel tax and stamp tax incurred by the Company business activity are reclassified from the "General and Administration expenses" item to	Increase "tax and surcharges" amount of 4,770,099.93 yuan in this year, and reduce "General and Administration

the "Tax and surcharges" item; before May 1 st , 2016, the taxes and fees are not adjusted. The comparison data will not be adjusted.	expenses" amount of 4,770,099.93 yuan in this year.
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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.	3%, 5%, 6%, 7%, 11%, 13%, 17%, 19%
Business tax	Levied based on the taxable income (reclassified to VAT from May 1 st , 2016)	5%
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 and VAT.	1%, 5%, 7%
Education surtax and local education surtax	Levied based on the actual payment of business tax and VAT.	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	1,137,409.87	1,454,927.52
Bank deposit	751,831,391.58	759,297,757.06
Other cash and cash equivalents	10,686,903.12	12,819,498.11
Total	763,655,704.57	773,572,182.69
Including: Total amount of cash and cash equivalents offshore	463,089,363.62	445,777,843.66

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	Note 1
Fixed term deposit used for guarantee		25,000,000.00	Note 2
Other guaranteed deposit	3,319,935.24	3,127,393.87	Note 3
Deposit held for foreign exchange inspection	9,977,839.70		Note 4
Total	13,297,774.94	28,871,523.87	

[Note 1]: The L/C deposit represents the deposit for the letter of credit issued by China Construction Bank, Shanghai 4th Sub-branch for Shanghai SMPIC Import & Export Co., Ltd., the subsidiary of the Company, and was refunded in the current period.

[Note 2]: In order to acquire the working capital loan from Commerzbank AG, Bielefeld Branch for ShangGong (Europe) Holding Corp. GmbH, the subsidiary of the Company, the newly issued Letter of Guarantee this year agrees that no longer using the fixed-term deposit, amounting to 25,000,000.00, as the pledge to counter guarantee for Commerzbank AG, Shanghai Branch.

[Note 3]: The other guaranteed deposit consists of the guarantees for crackdown on counterfeit goods, amounting to 400,000.00, and the guarantees for future settlement of exchange margin, amounting to 100,000.00, of Shanghai Butterfly Import & Export Co., Ltd., the wholly-owned subsidiary of Shanghai Shanggong Butterfly Sewing Machines Co., Ltd., the subsidiary of the Company; and the guaranteed deposit pledged by ShangGong (Europe) Holding Corp. GmbH to the Commerzbank Germany, amounting to EUR 385,933.00 (equivalent to RMB 2,819,935.24).

[Note 4]: The deposit held for foreign exchange inspection represents the retained funds acquired from import and export trade of the Company's subsidiaries, awaiting for the inspection of State Administration of Foreign Exchange. The deposit held for foreign exchange inspection of Shanghai Butterfly Import & Export Co., Ltd. amounts to 691,710.12. The deposit held for foreign exchange inspection of DAP (Shanghai) Co., Ltd. and its subsidiary, Duerkopp Adler Manufacturing (Shanghai) Co., Ltd. amounts to 8,543,871.69. The deposit held for foreign exchange inspection of Shanghai SMPIC Import & Export Co., Ltd. amounts to 742,257.89.

5.2 Financial assets at fair value whose fluctuation is attributed to profit or loss for current period

Item	Ending balance	Beginning balance
Trading financial assets	4,000.00	
Debt instrument investment		
Equity instrument investment	4,000.00	
Derivative financial asset		
Other financial asset		
Financial Assets Measured at Fair Value and the Changes Are Recorded into Current Period Profit or Loss		
Debt instrument investment		
Equity instrument investment		
Other financial asset		
Total	4,000.00	

Note: The current period equity instrument investment is the 1,000.00 shares acquired through the IPO of Central China Securities Co., Ltd. The stock has not started trading as of December 31, 2016.

5.3 Notes receivable

5.3.1 Presentation of notes receivable by category

Item	Ending balance	Beginning balance
Bank acceptance bills	51,427,934.60	48,897,695.47
Commercial acceptance bills	27,413,513.45	14,605,166.45
Total	78,841,448.05	63,502,861.92

5.3.2 Notes endorsed to other parties by the Company but not yet due amount to 2,148,832.86.

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

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

5.4 Accounts receivable

5.4.1 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 individual amount and provision for bad debt is accrued separately	69,228,371.46	13.86	18,376,602.00	26.54	50,851,769.46	59,416,103.38	12.38	17,844,428.00	30.03	41,571,675.38
Accounts receivable with provision for bad debt accrued by credit risk characteristics of a portfolio	124,946,418.14	25.02	73,206,008.31	58.59	51,740,409.83	139,096,685.51	28.97	74,788,750.49	53.77	64,307,935.02
Accounts receivable with insignificant individual amount but provision for bad debt is accrued separately	305,199,419.71	61.12	18,538,920.13	6.07	286,660,499.58	281,547,899.02	58.65	14,263,060.85	5.07	267,284,838.17
Total	499,374,209.31	100.00	110,121,530.44	22.05	389,252,678.87	480,060,687.91	100.00	106,896,239.34	22.27	373,164,448.57

Accounts receivable with significant individual amount and provision for bad debt is accrued separately at the end of the period

Accounts receivable (by unit)	Ending balance			
	Accounts receivable	Provision for bad debt	Proportion of provision	Reason for provision
No.1 Client	29,995,647.96			Unimpaired according to the separate test
No.2 Client	18,376,602.00	18,376,602.00	100.00%	Impaired according to the separate test
No.4 Client	11,072,316.30			Unimpaired according to the separate test
No.5 Client	9,783,805.20			Unimpaired according to the separate test
Total	69,228,371.46	18,376,602.00	26.54%	

Accounts receivable with provision for bad debt accrued using the aging analysis method in the portfolio

Aging	Ending balance		
	Accounts receivable	Provision for bad debt	Proportion of provision
Within 1 year	48,450,159.45	2,422,507.97	5.00%
1-2 years	5,532,483.14	1,106,496.62	20.00%
2-3 years	2,573,543.68	1,286,771.85	50.00%
Over 3 years	68,390,231.87	68,390,231.87	100.00%
Total	124,946,418.14	73,206,008.31	58.59%

Accounts receivable with insignificant individual amount but provision for bad debt is accrued separately

Accounts receivable (by unit)	Ending balance			
	Accounts receivable	Provision for bad debt	Proportion of provision	Reason for provision
Other insignificant accounts receivable (Note 1)	2,020,198.55	2,020,198.55	100.00%	Impaired according to the separate test
Other insignificant accounts receivable (Note 2)	24,403,746.83	7,351,719.64	30.13%	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)	171,773,730.99	8,677,058.14	5.05%	Impaired according to the separate test
Other insignificant accounts receivable (Note 6)	106,511,799.54			Unimpaired according to the separate test
Total	305,199,419.71	18,538,920.13	6.07%	

[Note 1]: It mainly represents the accounts receivable due from the subsidiary, Shanghai Shangong Butterfly Sewing Machines Co., Ltd., and the provision for impairment is accrued based on the separate test.

[Note 2]: It mainly represents the accounts receivable due from the subsidiary, Duerkopp PFAFF Trading (Shanghai) Co., Ltd., and the provision for impairment is accrued based on the separate test.

[Note 3]: It mainly represents the accounts receivable due from the subsidiary, Shanghai SMPIC Import & Export Co., Ltd, and the provision for impairment is accrued based on the separate test.

[Note 4]: It mainly represents the accounts receivable due from the subsidiary, Shanghai SGSB Electronics Co., Ltd, and the provision for impairment is accrued based on the separate test.

[Note 5]: It mainly represents the accounts receivable due from the subsidiary, ShangGong (Europe) Holding Corp. GmbH, and the provision for impairment is accrued based on the separate test.

[Note 6]: It mainly represents the accounts receivable due from the subsidiary, Shanghai Shensi Enterprise Development Co., Ltd, and is unimpaired based on the separate test.

5.4.2 The accrual, reversal or recovery of the provision for bad debts in the current period

The provision for bad debts accrued in the current period is RMB 17,398,131.97. The amount reversed due to the recovery of accounts receivable is RMB 11,323,379.51.

5.4.3 Actual write-off of accounts receivable in the current period

The actual write-off of accounts receivable in the current period amounts to RMB 3,529,678.99, due to the long aging of accounts receivable. All of them are unrecoverable due to deregistration/cancellation of the client companies.

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

5.4.5 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 Client	29,995,647.96	6.01	
No.2 Client	18,376,602.00	3.68	18,376,602.00
No.3 Client	11,530,775.39	2.31	11,530,775.39
No.4 Client	11,072,316.30	2.22	
No.5 Client	9,783,805.20	1.96	
Total	80,759,146.85	16.17	29,907,377.39

5.4.6 See Note 9.6 for details of accounts receivable due from related parties.

5.5 Prepayment

5.5.1 Presentation of prepayments by aging

Aging	Ending balance		Beginning balance	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	24,955,584.89	74.03	24,526,404.72	90.64
1-2 years	7,892,719.27	23.41	1,330,069.97	4.92
2-3 years	839,461.69	2.49	56,999.54	0.21
Over 3 years	21,591.26	0.07	1,145,112.92	4.23
Total	33,709,357.11	100.00	27,058,587.15	100.00

5.5.2 Top five prepayments to suppliers in terms of their ending balance

Supplier	Ending balance	Proportion in total ending balance of advances to suppliers (%)
No.1 Supplier	6,874,421.03	20.39
No.2 Supplier	3,680,555.18	10.92
No.3 Supplier	2,433,907.54	7.22
No.4 Supplier	1,800,000.00	5.34
No.5 Supplier	1,163,246.81	3.45
Total	15,952,130.56	47.32

5.5.3 The actual write-off of prepayments: None.

5.5.4 No amount is due from shareholders with 5% or more of voting shares of the Company among the prepayments to suppliers as at the end of period.

5.5.5 See Note 9.6 for details of prepayment due from related parties.

5.6 Other receivables

5.6.1 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 significant individual amount and provision for bad debt is accrued separately	32,993,470.54	41.20	12,600,914.20	38.19	20,392,556.34	39,127,176.28	42.80	11,881,666.00	30.27	27,245,510.28
Other receivables with provision for bad debt accrued by credit risk characteristics of a portfolio	19,082,416.29	23.83	16,077,736.42	84.25	3,004,679.87	24,148,336.32	26.42	16,797,190.17	69.56	7,351,146.15
Other receivables with insignificant individual amount but provision for bad debt is accrued separately	28,014,947.49	34.97	527,110.22	1.88	27,487,837.27	28,139,602.21	30.78	52,080.00	0.19	28,087,522.21
Total	80,090,834.32	100.00	29,205,760.84	36.47	50,885,073.48	91,415,114.81	100.00	28,730,936.17	31.43	62,684,178.64

Other receivables with significant individual amount and provision for bad debt is accrued separately at the end of period

Other receivables (by unit)	Ending balance			
	Other receivables	Provision for bad debt	Proportion of provision	Reason for provision
No.1 Client	12,600,914.20	12,600,914.20	100.00%	Impaired according to the separate test
Export tax refund receivable (Note)	8,712,556.34			Unimpaired according to the separate test
No.3 Client	5,180,000.00			Unimpaired according to the separate test
No.4 Client	3,500,000.00			Unimpaired according to the separate test
No.5 Client	3,000,000.00			Unimpaired according to the separate test
Total	32,993,470.54	12,600,914.20	38.19%	

Note: It mainly represents the export tax refund receivable arising from the export sale by the subsidiary, and is unimpaired according to the separate impairment test.

Other receivables with provision for bad debt accrued using the aging analysis method in the portfolio

Aging	Ending balance		
	Other receivables	Provision for bad debt	Proportion of provision
Within 1 year	2,895,574.32	144,778.73	5.00%
1-2 years	223,487.01	44,697.40	20.00%
2-3 years	150,189.35	75,094.68	50.00%
Over 3 years	15,813,165.61	15,813,165.61	100.00%

Total	19,082,416.29	16,077,736.42	84.25%
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Other receivables with insignificant individual amount but provision for bad debt is accrued separately at the end of period

Content of other receivables	Book balance	Provision for bad debt	Proportion of provision (%)	Reason for provision
Other insignificant other receivables (Note 1)	320,980.00	18,025.00	5.62%	Impaired according to the separate test
Other insignificant other receivables (Note 2)	1,370,038.81	21,494.12	1.57%	Impaired according to the separate test
Other insignificant other receivables (Note 3)	50,000.00	50,000.00	100.00%	Impaired according to the separate test
Other insignificant other receivables (Note 4)	2,000.00			Unimpaired according to the separate test
Other insignificant other receivables (Note 5)	4,798,076.93			Unimpaired according to the separate test
Other insignificant other receivables (Note 6)	21,473,851.75	437,591.10	2.04%	Impaired according to the separate test
Total	28,014,947.49	527,110.22	1.88%	

[Note 1]: It mainly represents the other receivables due from the subsidiary, Shanghai Shanggong Butterfly Sewing Machines Co., Ltd., and the provision for impairment is accrued based on the separate test.

[Note 2]: It mainly represents the other receivables due from the subsidiary, Duerkopp PFAFF Trading (Shanghai) Co., Ltd., and the provision for impairment is accrued based on the separate test.

[Note 3]: It mainly represents the other receivables due from the subsidiary, Shanghai SGSB Electronics Co., Ltd., and the provision for impairment is accrued based on the separate test.

[Note 4]: It mainly represents the other receivables due from the subsidiary, Durkopp Adler Sewing Machines Suzhou Co., Ltd., and is unimpaired based on the separate test.

[Note 5]: It mainly represents the other receivables due from the subsidiary, ShangGong (Europe) Holding Corp. GmbH, and is unimpaired based on the separate test.

[Note 6]: It mainly represents the other receivables due from the subsidiary, Shanghai Shensi Enterprise Development Co., Ltd., and the provision for impairment is accrued based on the separate test.

5.6.2 The accrual, reversal or recovery of the provision for bad debts in the current period

The provision for bad debts accrued in the current period is RMB 1,235,297.18. The amount reversed due to the recovery of other receivables is RMB 633,293.82.

5.6.3 Actual write-off of other receivables in the current period

The actual write-off of other receivables in the current period amounts to RMB 124,820.06, mainly due to the bankruptcy of the client companies.

5.6.4 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
No.1 Client	Current accounts	12,600,914.20	Over 3 years	15.73	12,600,914.20

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	8,712,556.34	Within 1year	10.88	
No.3 Client	Current accounts	5,180,000.00	Within 1year	6.47	
No.4 Client	Current accounts	3,500,000.00	Within 1year	4.37	
No.5 Client	Current accounts	3,000,000.00	Within 1year	3.75	
Total		32,993,470.54		41.20	12,600,914.20

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

5.6.6 See Note 9.6 for details of other receivables due from related parties.

5.7 Inventories

5.7.1 Classification of inventories

Item	Balance as at December 31, 2016			Balance as at January 1, 2016		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	244,335,565.64	41,630,636.86	202,704,928.78	238,545,363.19	43,490,629.95	195,054,733.24
Revolving materials	1,221,161.27		1,221,161.27	4,677,820.47	2,254,846.51	2,422,973.96
Consigned processing materials	603,268.15		603,268.15	1,806,944.86		1,806,944.86
Goods in progress	136,310,148.14	27,492,514.68	108,817,633.46	136,221,003.08	28,022,238.05	108,198,765.03
Finished goods	267,450,476.53	39,117,293.46	228,333,183.07	225,253,531.44	33,480,586.14	191,772,945.30
Goods shipped	7,972,002.36		7,972,002.36	13,451,415.73		13,451,415.73
Material purchase	32,250.55		32,250.55	87,404.47		87,404.47
Labor costs	114,082,013.31		114,082,013.31	68,499,972.56		68,499,972.56
Others				2,166,889.90	2,166,889.90	
Total	772,006,885.95	108,240,445.00	663,766,440.95	690,710,345.70	109,415,190.55	581,295,155.15

5.7.2 Inventory Valuation Allowance

Item	Balance as at January 1, 2016	Increase in 2016		Decrease in 2016		Balance as at December 31, 2016
		Provision	Others	Reversal or write-off	Others	
Raw materials	43,490,629.95	226,900.72	1,296,013.88	3,382,907.69		41,630,636.86
Revolving materials	2,254,846.51			2,254,846.51		
Consigned processing materials						
Goods in progress	28,022,238.05	493,579.97	782,878.10	1,806,181.44		27,492,514.68
Finished goods	33,480,586.14	9,765,174.98	1,724,852.59	5,853,320.25		39,117,293.46
Goods shipped						
Material purchase						
Labor costs						
Others	2,166,889.90			2,166,889.90		
Total	109,415,190.55	10,485,655.67	3,803,744.57	15,464,145.79		108,240,445.00

5.8 Other current assets

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
Held-to-maturity investments	10,288,261.77	10,163,252.89
Input tax to be credited	11,164,758.87	11,845,579.89
Rentals and insurance fees	1,529,650.89	1,638,714.56
Overpaid enterprise income tax	1,946,694.20	11,730.26
Financial products	50,000,000.00	280,000,000.00
Structured deposit	282,000,000.00	70,000,000.00
Unamortized expense	489,181.62	
Total	357,418,547.35	373,659,277.60

5.9 Available-for-sale financial assets

5.9.1 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	138,917,378.02	1,698,131.91	137,219,246.11	150,415,095.52	1,698,131.91	148,716,963.61
Including: measured at fair value	107,980,989.31		107,980,989.31	118,127,307.02		118,127,307.02
Measured at cost	30,936,388.71	1,698,131.91	29,238,256.80	32,287,788.50	1,698,131.91	30,589,656.59
Total	138,917,378.02	1,698,131.91	137,219,246.11	150,415,095.52	1,698,131.91	148,716,963.61

5.9.2 Available-for-sale financial assets measured at fair value as at December 31, 2016

Classification of available-for-sale financial assets	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Cost of equity instruments	74,010,222.53		74,010,222.53
Fair value	107,980,989.31		107,980,989.31
Accumulated changes in fair value included in other comprehensive income	33,970,766.78		33,970,766.78
Accrued provision for impairment			

5.9.3 Available-for-sale financial assets measured at cost as at December 31, 2016

Investee	Book balance				Provision for impairment				Shareholding ratio in investee (%)	Cash dividend in 2016
	As at January 1, 2016	Increase in 2016	Decrease in 2016	As at December 31, 2016	As at January 1, 2016	Increase in 2016	Decrease in 2016	As at December 31, 2016		
Shanghai Fuji Xerox Co., Ltd.	29,140,749.49			29,140,749.49					15.92	22,285,760.00
Shanghai Hirose Precision Industrial Co., Ltd. (Note 1)									30.00	300,000.00
Bank of Shanghai Co., Ltd. (Note 2)	951,400.00		951,400.00						<5.00	
Changshu Qixing Elec-plating Co., Ltd.									90.00	
Shanghai Huazhijie Plastic Co., Ltd. (Note 3)	736,283.66			736,283.66	736,283.66			736,283.66	23.04	
Shanghai Hualian Sewing Machinery Co., Ltd.	400,000.00		400,000.00							
Shanghai Xingguang Underwear (South Africa)	308,033.99			308,033.99	308,033.99			308,033.99	14.30	
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					<5.00	
Shanghai Baoding Investment Co., Ltd.	7,500.00			7,500.00					<5.00	5,175.90
Shanghai Shanggong Jiarong 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.	7.10	0.21		7.31					49.00	
Total	32,287,788.50	0.21	1,351,400.00	30,936,388.71	1,698,131.91			1,698,131.91		22,590,935.90

[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]: Bank of Shanghai Co., Ltd. finished IPO in 2016, and the reliable fair value can be acquired. Shang Gong Group Co., Ltd. changed its holding shares measured at cost to be measured at fair value in 2016.

[Note 3]: 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 4]: Shang Gong Group Co., Ltd. holds 80.00% 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 Shanggong Sewing Machines Co., Ltd.

5.9.4 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 accrued as at January 1, 2016	1,698,131.91		1,698,131.91
Provision in 2016			
Including: transfer-in from other comprehensive income			
Decrease in 2016			
Including: reversal due to the subsequent increase in fair value			
Balance of provision for impairment accrued as at December 31, 2016	1,698,131.91		1,698,131.91

5.10 Long-term Equity Investment

Name of the Investees	Balance at Jan.1, 2016	Changes in current period							Balance at Dec.31, 2016	Provision of impairment accrued in current period	Provision of impairment balance at Dec.31, 2016
		Increase in investment	Decrease in investment	Return on investment under equity method	Other Comprehensive Income Adjustment	Other changes in Equity	Declared cash dividends or profit	Other			
1. Joint Venture											
2. Joint operation											
H. Stoll AG & Co. KG		235,713,310.68		17,937,107.88				-63,843.57	253,586,574.99		
Subtotal		235,713,310.68		17,937,107.88				-63,843.57	253,586,574.99		
Total		235,713,310.68		17,937,107.88				-63,843.57	253,586,574.99		

Note: The Company's wholly-owned subsidiary, ShangGong (Europe) Holding Corp. GmbH acquired 26% shares of H. Stoll AG & Co. KG, a German company, and became the limited partner at Jan.1, 2016. The fixed amount and floating amount of share transfer is EUR 32,250,000.90 in total, and shall pay in three installments. The first installment payment amounts to EUR 22,990,000.90, and was fully paid in June, 2016. The second and third installment payments are EUR 2,750,000.00 each, along with the floating part of share transfer, shall be paid in 2017 and 2018.

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, 2016	50,523,752.24	2,583,492.92	151,624,469.83	204,731,714.99
(2) Increase in 2016			20,707,044.45	20,707,044.45
- Outsourcing				
- Inventories \ fixed assets \ transfer-in from construction in progress			19,295,688.95	19,295,688.95
- Increase due to exchange rate fluctuations			1,411,355.50	1,411,355.50
(3) Decrease in 2016				
- Reclassification to fixed assets				
- Exchange rate fluctuation				
(4) Balance as at December 31, 2016	50,523,752.24	2,583,492.92	172,331,514.28	225,438,759.44
2. Total accumulated depreciation and accumulated amortization				
(1) Balance as at January 1, 2016	13,906,301.91	344,465.76	77,618,137.89	91,868,905.56
(2) Increase in 2016	1,173,017.16	172,233.00	17,367,324.72	18,712,574.88

Item	Use right of leased land	Leasehold improvement	Buildings and constructions	Total
- Provision or amortization	1,173,017.16	172,233.00	3,891,494.40	5,236,744.56
- Transfer-in from fixed assets			12,858,454.52	12,858,454.52
- Exchange rate fluctuations			617,375.80	617,375.80
(3) Decrease in 2016				
- Reclassification to fixed assets				
- Exchange rate fluctuation				
(4) Balance as at December 31, 2016	15,079,319.07	516,698.76	94,985,462.61	110,581,480.44
3. Provision for impairment				
(1) Balance as at January 1, 2016			7,031,328.87	7,031,328.87
(2) Increase in 2016			209,695.17	209,695.17
- Provision				
- Exchange rate fluctuations			209,695.17	209,695.17
(3) Decrease in 2016				
- Disposal				
- Exchange rate fluctuation				
(4) Balance as at December 31, 2016			7,241,024.04	7,241,024.04
4. Book value				
(1) Book value as at December 31, 2016	35,444,433.17	2,066,794.16	70,105,027.63	107,616,254.96
(2) Book value as at January 1, 2016	36,617,450.33	2,239,027.16	66,975,003.07	105,831,480.56

5.12 Fixed assets

Item	Buildings and constructions	Machinery equipment	Transportation equipment	Electronic equipment	Other equipment	Total
1.Total original book value						
(1) Balance as at January 1, 2016	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) Increase in 2016	11,292,587.20	43,007,282.55	234,605.13	664,585.85	22,912,342.93	78,111,403.66
- Acquisition	1,154,474.40	33,941,526.88	234,605.13	485,789.24	15,046,158.98	50,862,554.63
-Transfer-in from construction in progress	1,430,943.42	1,899,403.70		9,339.45	1,491,517.29	4,831,203.86
Increase due to exchange rate fluctuation	8,707,169.38	7,166,351.97		169,457.16	6,374,666.66	22,417,645.17

Item	Buildings and constructions	Machinery equipment	Transportation equipment	Electronic equipment	Other equipment	Total
(3) Decrease in 2016	19,322,482.55	13,140,062.82	1,269,784.04	707,224.25	3,926,666.41	38,366,220.07
- Disposal or write-off	26,793.60	11,900,339.98	1,269,784.04	707,224.25	3,783,632.07	17,687,773.94
- Transfer-out to Investment property	19,295,688.95					19,295,688.95
- Exchange rate fluctuation					143,034.34	143,034.34
- Transfer-out to Investment property		1,239,722.84				1,239,722.84
(4) Balance as at December 31, 2016	419,547,363.36	338,719,085.29	14,586,332.79	4,075,854.93	241,454,532.04	1,018,383,168.41
2.Total accumulated depreciation						
(1) Balance as at January 1, 2016	204,574,789.41	224,080,185.14	9,061,909.59	2,409,658.56	194,074,594.83	634,201,137.53
(2) Increase in 2016	14,947,199.65	14,038,626.31	1,395,671.80	917,941.90	16,128,070.46	47,427,510.12
- Depreciation	9,567,392.95	8,737,764.73	1,360,204.48	799,671.84	10,523,872.69	30,988,906.69
- Transfer-out to Investment property						
- Exchange rate fluctuation	5,379,806.70	5,300,861.58	35,467.32	118,270.06	5,604,197.77	16,438,603.43
(3) Decrease in 2016	12,869,164.72	9,303,059.70	912,400.20	589,387.69	3,628,640.03	27,302,652.34
- Disposal or write-off	10,710.20	9,303,059.70	912,400.20	589,387.69	3,532,536.91	14,348,094.70
- Transfer-out to Investment property	12,858,454.52					12,858,454.52
- Exchange rate fluctuation					96,103.12	96,103.12
(4) Balance as at December 31, 2016	206,652,824.34	228,815,751.75	9,545,181.19	2,642,109.65	206,670,128.38	654,325,995.31
3. Provision for impairment						
(1) Balance as at January 1, 2016	4,913,777.92	3,024,604.52	48,170.70	59,705.35	56,179.79	8,102,438.28
(2) Increase in 2016		3,280,617.68				3,280,617.68
- Provision		3,280,617.68				3,280,617.68
(3) Decrease in 2016		1,472,429.20		21,886.74	54,776.96	1,549,092.90
- Disposal or write-off		1,472,429.20		21,886.74	54,776.96	1,549,092.90
(4) Balance as at December 31, 2016	4,913,777.92	4,832,793.00	48,170.70	37,818.61	1,402.83	9,833,963.06

Item	Buildings and constructions	Machinery equipment	Transportation equipment	Electronic equipment	Other equipment	Total
4. Book value						
(1) Book value as at December 31, 2016	207,980,761.10	105,070,540.54	4,992,980.90	1,252,892.33	34,926,035.17	354,223,210.04
(2) Book value as at January 1, 2016	218,088,691.38	81,747,075.90	6,511,431.41	1,649,129.42	28,338,080.90	336,334,409.01

Note: among the above balance of fixed assets as at December 31, 2016, the buildings and constructions of RMB127,403,798.21 (Include EUR 13,120,005.86 in RMB 95,865,258.82) 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, 2016.

5.12.3 There were no held-for-sale fixed assets as at December 31, 2016.

5.12.4 There were no fixed assets without certificate of title as at December 31, 2016.

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)	1,868,341.60	Self-built housing, the certificates are in the process	
Buildings and constructions (Note 2)	2,155,179.74	Self-built housing, the certificates are in the process	
Total	4,023,521.34		

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

Note 2 Self-built housing, for the Company

5.13 Construction in progress

5.13.1 Construction in progress

Item	Balance as at December 31, 2016			Balance as at January 1, 2016		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Sewing Equipment Engineering	2,036,361.68		2,036,361.68	3,917,373.59		3,917,373.59
Sewing unit and electronic control				2,856,279.73		2,856,279.73
ERP project	2,130,376.16		2,130,376.16	1,629,852.20		1,629,852.20
Shenbei building decoration-household multifunctional	407,258.58		407,258.58	280,881.22		280,881.22

sewing machine						
Zhangjiagang manufacture base project	1,207,505.00		1,207,505.00	854,000.00		854,000.00
Information management system	258,490.56		258,490.56	14,550,000.00		14,550,000.00
Nanxiang factory reconstruction	300,000.00		300,000.00			
Mold development	139,000.00		139,000.00			
Exhaust project	298,345.06		298,345.06			
DFT factory reconstruction	13,422,591.60		13,422,591.60			
Total	20,199,928.64		20,199,928.64	24,088,386.74		24,088,386.74

5.13.2 Major changes in construction in progress for the current year

Project Name	Budget	Balance as at January 1, 2016	Increase in 2016	Amount transferred in the fixed assets for the current year	Other decreases in 2016	Balance as at December 31, 2016	Proportion of the accumulated investment in project in budget (%)	Construction in progress	Accumulated amount of interest capitalization	Including: amount of interest capitalization in 2016	Interest capitalization rate in 2016(%)	Source of fund
Sewing Equipment Engineering		3,917,373.59	1,740,727.73	3,382,684.10	239,055.54	2,036,361.68						Self-owned fund
Sewing unit and electronic control		2,856,279.73		9,339.45	2,846,940.28							Raised fund
ERP project		1,629,852.20	579,136.76		78,612.80	2,130,376.16						Raised fund
Shenbei building decoration-household multifunctional sewing machine		280,881.22	126,377.36			407,258.58						Raised fund/ Self-owned fund
Zhangjiagang manufacture base project		854,000.00	1,784,448.42	1,430,943.42		1,207,505.00						Self-owned fund
Information management system		14,550,000.00	643,490.56	14,935,000.00		258,490.56						Self-owned fund
JingYuan Building			236,388.53	8,236.89	228,151.64							Self-owned fund
Nanxiang factory reconstruction			424,222.43		124,222.43	300,000.00						Self-owned fund
Mold development			139,000.00			139,000.00						Self-owned fund
Exhaust project			298,345.06			298,345.06						Self-owned fund
DFT factory reconstruction			13,422,591.60			13,422,591.60						Self-owned fund
Total		24,088,386.74	19,394,728.45	19,766,203.86	3,516,982.69	20,199,928.64						

Note: The amount of Information management system transferred to the intangible assets of the company's subsidiary Shanghai Shensi Enterprise Development Co., Ltd. 14,500,000.00 yuan for land transaction fees, deed tax 435,000.00 yuan, total 14,935,000.00 yuan.

5.14 Intangible assets

7	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, 2016	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) Increase in 2016	14,935,000.00		103,435.36	39,405,003.97	167,841.12	54,611,280.45
- Acquisition			90,368.49	2,053,210.80		2,143,579.29
-Exchange rate fluctuation			13,066.87	3,190,317.12	167,841.12	3,371,225.11
-Transferred from construction in process	14,935,000.00					14,935,000.00
-Transferred from R&D cost				34,161,476.05		34,161,476.05
-Others						
(3) Decrease in 2016				825,668.40		825,668.40
- Disposal				825,668.40		825,668.40
-Decrease due to consolidation						
-Exchange rate fluctuation						
-Others						
(4) Balance as at December 31, 2016	105,595,420.23	20,161,268.51	3,185,554.27	117,954,603.75	5,795,753.76	252,692,600.52
2. Total accumulated amortization						
(1) Balance as at January 1, 2016	5,589,786.23	20,161,268.51	1,827,037.52	38,236,901.39	5,627,912.64	71,442,906.29
(2) Increase in 2016	2,509,716.33		421,197.54	23,738,707.95	167,841.12	26,837,462.94
- Accrual	2,509,716.33		409,265.58	22,639,027.20		25,558,009.11
- Exchange rate fluctuation			11,931.96	1,099,680.75	167,841.12	1,279,453.83
-Others						
(3) Decrease in 2016				825,668.40		825,668.40
- Disposal				825,668.40		825,668.40
-Decrease due to consolidation						
- Exchange rate fluctuation						
-Others						
(4) Balance as at December 31, 2016	8,099,502.56	20,161,268.51	2,248,235.06	61,149,940.94	5,795,753.76	97,454,700.83
3. Provision for impairment						
(1) Balance as at January 1, 2016						
(2) Increase in 2016						
- Accrual						
- Exchange rate fluctuation						
-Others						
(3) Decrease in 2016						
- Disposal						
- Exchange rate fluctuation						
-Others						
(4) Balance as at December 31, 2016						
4. Book value						
(1) Book value as at December 31, 2016	97,495,917.67		937,319.21	56,804,662.81		155,237,899.69
(2) Book value as at January 1, 2016	85,070,634.00		1,255,081.39	41,138,366.79		127,464,082.18

5.15 Development expenditures

Item	Balance as at January 1, 2016	Increase in 2016	Transfer-out in 2016		Balance as at December 31, 2016
			Included in the current profit and loss	Recognized as intangible assets	
Sewing equipment	35,533,287.07	6,883,907.31		34,161,476.05	8,255,718.33
WeChat platform	374,528.29	512,794.69			887,322.98
Freight platform	1,203,773.57	2,078,490.53			3,282,264.10
Paper Shredder		104,040.49			104,040.49
Total	37,111,588.93	9,579,233.02		34,161,476.05	12,529,345.90

[Note] The development expenditures of sewing equipment represent the development costs of the subsidiary, ShangGong (Europe) Holding Corp. GmbH. The development expenditures of WeChat platform and Freight platform represent the development costs of the subsidiary, Shanghai Shensi Enterprise Development Co., Ltd. The development expenditures of paper shredder represent the development costs of the subsidiary, Shanghai SMPIC Import & Export Co., Ltd.

5.16 Goodwill

5.16.1 Book value of goodwill

Name of investee or goodwill formation events	Balance as at January 1, 2016	Increase in 2016		Decrease in 2016	Balance as at December 31, 2016
		Formation due to business combinations	Exchange rate fluctuation	Exchange rate fluctuation	
PFAFF Industriesysteme und Maschinen AG	65,913,195.29		1,965,727.83		67,878,923.12
Beisler	20,672,574.72		616,517.76		21,289,092.48
Total	86,585,770.01		2,582,245.59		89,168,015.60

5.16.2 Provision for impairment of goodwill

Name of investee or goodwill formation events	Balance as at January 1, 2016	Increase in 2016		Decrease in 2016	Balance as at December 31, 2016
		Accrual	Exchange rate fluctuation	Disposal	
Beisler	20,672,574.72		616,517.76		21,289,092.48
Total	20,672,574.72		616,517.76		21,289,092.48

5.17 Long-term deferred expenses

Item	Balance as at January 1, 2016	Increase in 2016	Amortization in 2016	Other decreases in 2016	Balance as at December 31, 2016
Enterprise Mailbox rental expense	26,400.00		6,600.00		19,800.00
Online brand registration fee	320,702.67	54,716.98	34,874.22		340,545.43
Landscape engineering	232,371.90		48,920.40		183,451.50
Leasehold improvements		155,000.00	18,083.33		136,916.67
Tooling cost		437,853.61	33,769.24		404,084.37
Total	579,474.57	647,570.59	142,247.19		1,084,797.97

[Note] In 2016, the amortized amount of long-term deferred expenses is RMB 142,247.19, and it's recorded in administrative 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, 2016	Balance as at January 1, 2016
Provision for asset impairment	16,211,080.71	9,183,493.71
Unrealized profits of internal transactions	7,876,034.19	6,301,546.87
Deductible losses		305,975.02
Pension (Europe)	34,426,435.01	29,934,428.85
Deferred income	550,000.00	
Total	59,063,549.91	45,725,444.45

5.18.2 Deferred income tax liabilities

Item	Balance as at	Balance as at January
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	December 31, 2016	1, 2016
Appreciation of assets evaluation due to business combinations not under common control	35,407,850.19	31,520,487.16
Others	1,197,067.41	3,615,783.99
Total	36,604,917.60	35,136,271.15

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) Co., Ltd.

5.19 Short-term loans

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
mortgage loans	19,143,816.00	18,589,424.00
Guaranteed loans	331,876,640.00	271,341,134.57
Credit loans	348,148.62	10,617,271.05
Total	351,368,604.62	300,547,829.62

Note 1: DA AG book value of 94,735,775.72 yuan (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, 2016 total repaid 38,287,632.00 yuan (5,240,000.00 euros) Ending balance is 28,715,724.00 yuan (3,930,000.00 euros), of which 19,143,816.00 yuan (2,620,000.00 euros) are short-term loans, 9,571,908.00 yuan (1,310,000.00 euros) are long-term loans.

Note 2: The guaranteed loans which the Company's wholly-owned subsidiary Shanggong (Europe) Holding Co., Ltd. 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, guarantees related to the above matters refer to Note "X. commitments and matter" and "(b) Contingencies" and "Note 1, 2, 3, 4"

Note 3: Expect the guaranteed loans above; other guaranteed loans which the Company's wholly-owned subsidiary Shanghai Shensi Enterprise Development Co., Ltd to borrow 57,600,000.00 yuan from China Construction Bank Shanghai Baoshan Baogang Branch, 10,000,000.00 yuan from Bank of Communications Shanghai Branch of Baoshan and 10,000,000.00 yuan from SPD Bank Branch of Waigaoqiao Free Trade Zone, the guarantee company which was the Shanghai Shensi Kaile Internet of Things Co., Ltd.

5.20 Accounts payable

5.20.1. Presentation of accounts payable

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
Payables to suppliers	174,828,356.05	161,024,708.59
Total	174,828,356.05	161,024,708.59

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, 2016.

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, 2016.

5.20.4. There were no accounts payable with aging of more than one year and large amount among amounts as at December 31, 2016.

5.21 Receipt in advance

5.21.1 Presentation of advances from customers

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
Advances on sales	36,548,091.83	25,598,146.20
Total	36,548,091.83	25,598,146.20

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, 2016.

5.21.3 There were no advances from related parties among amounts as at December 31, 2016.

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, 2016.

5.22 Employee compensation payable

5.22.1 Presentation of employee compensation payable

Item	Balance as at January 1, 2016	Increase in 2016	Decrease in 2016	Balance as at December 31, 2016
Short-term remuneration	56,177,117.00	572,512,407.88	567,880,691.81	60,808,833.07
Post-employment benefits - defined benefit plans	427,882.72	14,071,829.96	14,049,758.57	449,954.11
Dismissal welfare	418,939.66	182,800.44	601,740.10	
Defined benefit plan maturing within one year	21,072,744.00	20,495,574.00	21,898,412.40	19,669,905.60
Total	78,096,683.38	607,262,612.28	604,430,602.88	80,928,692.78

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, 2016	Increase in 2016	Decrease in 2016	Balance as at December 31, 2016
(1) Salary, bonus, allowance and subsidy	55,728,197.76	454,009,343.62	449,377,091.23	60,360,450.15
(2) Employee welfare	88,691.79	106,570,232.59	106,658,395.38	529.00
(3) Social insurance expenses	246,872.69	7,872,447.82	7,837,069.39	282,251.12
Including: medical insurance premium	206,709.03	6,308,470.43	6,288,571.73	226,607.73
Work-related injury insurance premium	18,345.57	607,608.10	597,055.19	28,898.48
Maternity insurance premium	21,818.09	520,078.40	525,654.58	16,241.91
Other		436,290.89	425,787.89	10,503.00
(4) Housing provident funds	110,220.80	2,658,837.55	2,603,455.55	165,602.80
(5) Labor union expenditures and employee education expenses	3,133.96	1,401,546.30	1,404,680.26	
(6) Short-term paid absences				
(7) short-term profit-sharing plan				
Total	56,177,117.00	572,512,407.88	567,880,691.81	60,808,833.07

5.22.3 Presentation of defined benefit plans

Item	Balance as at January 1, 2016	Increase in 2016	Decrease in 2016	Balance as at December 31, 2016
Basic endowment insurance premium	393,324.08	12,660,633.16	12,629,938.16	424,019.08
Unemployment insurance premium	34,558.64	734,465.20	743,088.81	25,935.03
Payment of annuity		676,731.60	676,731.60	
Total	427,882.72	14,071,829.96	14,049,758.57	449,954.11

5.23 Taxes and surcharges payable

Tax and surcharge items	Balance as at December 31, 2016	Balance as at January 1, 2016
Value-added tax	5,721,081.61	1,627,575.29
Business tax		47,864.23
Enterprise income tax	41,900,219.50	42,415,008.13
Individual income tax	6,172,515.51	4,473,566.06
Urban maintenance and construction tax	301,166.34	88,576.02
Property tax	264,414.62	179,294.70
Educational surtax	227,392.77	73,626.10
River management fee	29,199.23	14,725.17
Foundation for water construction		24,237.67
Use tax of land	121,189.92	121,189.92
Stamp tax	3,688.10	
Total	54,740,867.60	49,065,663.29

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, 2016	Balance as at January 1, 2016
Term interest on long-term borrowings due in installments	441,316.11	
Short-term loan interest payable	1,649,249.48	88,934.73
Total	2,090,565.59	88,934.73

5.25 Dividends payable

Company name	Balance as at December 31, 2016	Balance as at January 1, 2016	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, 2016	Balance as at January 1, 2016
Other payables:	193,117,136.53	171,163,174.57

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, 2016.

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, 2016.

5.27 Other current liabilities

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
Interest and rentals	808,706.39	319,502.32
Total	808,706.39	319,502.32

5.28 Long-term loans

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
Mortgage loans	67,134,878.40	27,884,136.00
Credit loans	1,489,984.87	1,489,984.87
Total	68,624,863.27	29,374,120.87

Note 1: the amount of 9,571,908.00 yuan (1,310,000.00 euros) mortgage loans at Dec 31st, 2016. 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."

Note 2: the amount of 57,562,970.40 yuan (7,878,000.00 euros) mortgage loans at December 31, 2016. The relevant matters of the mortgage loan above see note guarantees related to the above matters refer to Note "X. commitments and matter" and "(b) Contingencies" and "Note 5".

5.29 Long-term payables

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
STOLL stock equity transfer fee	33,831,447.47	
Others	3,507,014.14	4,724,683.15
Total	37,338,461.61	4,724,683.15

5.30 Long-term employee compensation payable

5.30.1 Presentation of long-term employee compensation payable

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
1. Post-employment benefits - net liability of defined benefit plan	251,784,116.62	237,994,365.76
2. Dismissal welfare		
3. Other long-term benefits	3,902,832.30	1,482,061.76
Total	255,686,948.92	239,476,427.52

5.30.2 Changes in defined benefit plan liabilities

(i) Present value of defined benefit plan liabilities

Item	Year 2016	Year 2015
1. Beginning Balance	259,067,109.76	284,922,506.24
2. Defined benefit cost included in P&L		
(1) Cost in current period	931,278.30	837,147.58
(2) Cost in prior period		
(3) Gain (+) / Loss (-)		
(4) Net Interests	5,103,698.40	5,299,628.45
3. Defined benefit cost included in OCI		
(1) Actuarial gain (+) / loss (-)	19,268,031.60	2,696,176.00
4. Other changes		

(1) Payment in settlement		
(2) Benefit paid	-20,693,443.80	-20,548,167.75
(3) Changes in exchange rate	7,777,347.96	-14,140,180.76
5. Ending Balance	271,454,022.22	259,067,109.76

(ii) Defined benefit plan of ShangGong (Europe) Holding Corp. 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 2016, the weighted average period of defined benefit plan liability is 10.36 year. (10.32 year by the end of 2015). Assumed payment of defined benefit plan in 2017 is the same as in 2016.

(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 2016, actuarial assumptions are below, compared with 2015

Item	Year 2016	Year 2015
Actuarial rate	1.45%	2.00% or 2.10%
Rate of payroll increase	2.00%	2.00%
Rate of pension increase	1.50%	1.50%

(iv) Sensitivity analysis

On Dec 31, 2016, 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%)	15,553,080.90	-14,071,835.10
Increase in payroll (changed by 0.5%)	432,641.10	-395,976.60
Increase in pension (changed by 0.5%)	12,751,913.10	-11,827,967.70
Life expectancy (changed by 1 year)	23,303,956.20	

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

5.31 Deferred income

Item	Balance as at January 1, 2016	Increase in 2016	Decrease in 2016	Balance as at December 31, 2016	Reason
Government subsidies		3,600,000.00		3,600,000.00	
Total		3,600,000.00		3,600,000.00	

The item of the government subsidies:

Liability item	Balance as at January 1, 2016	Increase in 2016	subsidies included in current profit and loss	Other change	Balance as at December 31, 2016	Asset-related / income-related

Liability item	Balance as at January 1, 2016	Increase in 2016	subsidies included in current profit and loss	Other change	Balance as at December 31, 2016	Asset-related / income-related
New product development fund subsidy		1,260,000.00			1,260,000.00	Asset-related
Development of services to guide the funds		2,200,000.00			2,200,000.00	Asset-related
Taizhou science and technology funds		140,000.00			140,000.00	Asset-related
Total		3,600,000.00			3,600,000.00	

5.32 Other non-current liabilities

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
Other long-term loan	520,000.00	520,000.00
Total	520,000.00	520,000.00

5.33 Share capital

Item	Balance as at January 1, 2016	Increase (+) and decrease (-) for the current year			Balance as at December 31, 2016
		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, 2016	Increase in 2016	Decrease in 2016	Balance as at December 31, 2016
Stock premium	851,345,853.61			851,345,853.61
Other capital reserves	104,940,167.82	15,317,098.84		120,257,266.66
Total	956,286,021.43	15,317,098.84		971,603,120.27

Note 1: the changes in capital reserve of subsidiaries within the combination scope were the reason for the increase in other capital reserves in 2016.

5.35 Other comprehensive income

Item	Balance as at January 1, 2016	Year 2016					Balance as at December 31, 2016
		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	-36,674,709.19	-18,222,256.50		-5,726,994.90	-12,495,261.60	-747,955.80	-49,169,970.79
Including: change in re-measurement of the net liabilities and net assets under defined benefit plan	-36,674,709.19	-18,222,256.50		-5,726,994.90	-12,495,261.60	-747,955.80	-49,169,970.79
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	-48,596,188.67	-5,377,886.69			-5,377,886.69	1,343,760.29	-53,974,075.36
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	45,068,484.49	-11,097,717.71			-11,097,717.71		33,970,766.78
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	-93,664,673.16	5,719,831.02			5,719,831.02	1,343,760.29	-87,944,842.14
Total other comprehensive income	-85,270,897.86	-23,600,143.19		-5,726,994.90	-17,873,148.29	595,804.49	-103,144,046.15

5.36 Surplus reserves

Item	Balance as at January 1, 2016	Increase in 2016	Decrease in 2016	Balance as at December 31, 2016
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 2016	Year 2015
Adjustments to retained earnings as at December 31, 2015	350,523,121.40	193,106,033.92
Adjustments to total retained earnings as at January 1, 2016 ("+" for increase, "-" for decrease)		
Adjusted retained earnings as at January 1, 2016	350,523,121.40	193,106,033.92
Plus: net profit attributable to owners of the parent company for 2016	144,231,343.84	157,417,087.48
Less: withdrawal of statutory surplus reserves		
Withdrawal of discretionary surplus reserves		
Withdrawal of general risk reserves in 2016		
Ordinary share dividends payable		
Ordinary share dividend transferred to share capital (paid-in capital)		
Other transfer-out		
Adjustments to retained earnings as at December 31, 2016	494,754,465.24	350,523,121.40

5.38 Operating income and operating costs

Item	Year 2016		Year 2015	
	Income	Cost	Income	Cost
Primary business	2,667,640,604.13	1,973,006,896.38	2,260,456,212.19	1,577,574,082.65
Other businesses	92,214,532.85	64,337,146.33	53,583,398.06	37,176,145.81
Total	2,759,855,136.98	2,037,344,042.71	2,314,039,610.25	1,614,750,228.46

5.39 Taxes and surcharges

Item	Year 2016	Year 2015
Business tax	786,921.23	1,679,642.73
Urban maintenance and construction tax	2,184,946.31	1,135,588.26
Educational surtax	1,645,996.37	950,832.41
Property tax	3,371,024.49	
land use tax	921,590.00	
Vehicle and vessel tax	15,749.00	
Stamp tax	461,736.44	
Others	258,613.42	2,349,247.23
Total	9,646,577.26	6,115,310.63

5.40 Selling expenses

Item	Year 2016	Year 2015
Employee compensation	110,465,795.57	96,546,655.69
Fix and after-sale service charges	17,671,290.99	17,213,323.86
Office expenses	1,500,776.07	2,715,458.14
Travelling expenses	15,269,611.85	13,714,875.35
Transportation cost	20,672,105.74	18,224,966.53
Advertising expense	3,880,845.81	5,163,436.61
Commission	30,827,727.63	22,738,387.55
Leasing and storage charges	5,810,727.46	7,023,480.02

Item	Year 2016	Year 2015
Insurance premium	1,116,520.51	1,471,044.93
Conference fees	1,734,678.36	3,069,708.59
Depreciation costs	1,801,274.49	801,739.84
Exhibition fees	1,993,478.12	3,829,967.91
Samples, printing materials and scraps	10,131,407.47	8,759,310.16
Business entertainment expense	400,375.64	2,408,047.25
Online retail fee	1,408,135.92	1,454,397.05
Amortization of low cost and short lived articles	18,986.93	
Others	22,136,580.34	28,096,462.88
Total	246,840,318.90	233,231,262.36

5.41 General and administrative expenses

Item	Year 2016	Year 2015
Employee compensation	132,919,579.03	118,229,442.75
Office expenses	10,179,594.34	9,298,355.85
Utility bills	1,058,233.35	555,379.88
Entertainment expenses	4,507,195.41	3,497,508.54
Property insurance premium	2,163,291.56	1,959,199.76
Conference fees	988,892.40	182,653.16
Travelling expenses	10,256,106.62	7,252,530.39
Depreciation costs	8,297,542.45	7,746,387.90
Repair charges	1,350,753.40	738,092.06
Transportation cost	1,942,276.13	2,123,236.75
Rental fees	7,498,641.99	8,972,272.86
Costs of board meetings and supervisors' meetings	437,325.77	452,564.30
Agency fees and advisory expenses	15,075,759.60	12,081,241.13
Litigation cost	107,166.64	189,767.32
New product development expenses	79,875,768.91	71,828,659.40
Taxes and surcharges	1,039,261.95	1,118,433.43
Amortization of intangible assets	2,197,402.83	2,196,274.28
Long-term deferred expenses	142,247.19	22,250.10
Amortization of low cost and short lived articles	622,627.46	
Others	3,496,694.44	7,033,392.56
Total	284,156,361.47	255,477,642.42

5.42 Financial expenses

Type	Year 2016	Year 2015
Interest expenses	14,429,199.42	14,591,904.92
Less: interest income	3,379,640.96	5,432,888.28
Gains and losses on exchange	2,596,952.55	-5,699,202.02
Others	1,889,583.50	2,632,044.48
Total	15,536,094.51	6,091,859.10

5.43 Losses from asset impairment

Item	Year 2016	Year 2015
Losses from bad debts	6,676,755.82	-1,057,684.84
Losses from inventory impairment	7,064,153.47	14,286,392.05
Losses from long-term investment impairment	3,280,617.68	825,260.18
Losses on impairment of goodwill		17,010,069.96
Total	17,021,526.97	31,064,037.35

5.44 Investment income

Item	Year 2016	Year 2015
Long-term equity investments measured under equity method	17,937,107.88	
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	45,684.32	
Investment income from holding of available-for-sale financial assets	23,537,656.97	18,275,165.03
Investment income from disposal of available-for-sale financial assets	715,552.60	2,228,941.34
Others	9,726,909.75	20,834,080.48
Total	51,962,911.52	42,409,391.70

Note: "others" mainly refer to the gains of 6,388,717.79 yuan from finance products among other current assets and the investment income of RMB 3,338,191.96 yuan from yield enhancement products.

5.45 Non-operating income

Item	Year 2016	Year 2015	Amounts included in the non-recurrent profit and loss for the current year
Total gains from disposal of non-current assets	4,772,309.14	5,728,673.89	4,772,309.14
Including: gains from disposal of fixed assets	4,772,309.14	5,728,673.89	4,772,309.14
Gains on disposal of intangible assets			
Gains from debt restructuring			
Gains from exchange of non-monetary assets/Gains from transaction of non-currency assets			
Donation accepted			
Government subsidies	11,190,319.23	6,668,426.57	11,190,319.23
Penalty revenue	4,799.00	100.00	4,799.00
Payables unable to pay	12,985,247.33	1,299,849.22	12,985,247.33
Others	4,993,600.61	6,800,294.85	4,913,600.61
Total	33,946,275.31	20,497,344.53	33,866,275.31

Government subsidies included in current profit and loss

Item	Year 2016	Year 2015	Asset-related / income-related
Governmental financial subsidies	9,812,695.21	649,000.00	Income-related
Special funds of Shanghai Municipality for overseas investment cooperation		1,214,100.00	Income-related
Subsidies for dyeing out of yellow-label cars		10,000.00	Income-related
Subsidies for Management of Old Public Houses in Shanghai Municipality	558,166.58	222,543.19	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
Industry development funds	500,000.00		Income-related
Workers occupational funds	120,345.62		Income-related
Others	199,111.82		Income-related
Total	11,190,319.23	6,668,426.57	

5.46 Non-operating expenses

Item	Year 2016	Year 2015	Amounts included in the non-recurrent profit and loss for the current year
Total losses from disposal of non-current assets	1,242,523.33	348,659.64	1,242,523.33
Including: losses from disposal of fixed assets	1,242,523.33	348,659.64	1,242,523.33

Item	Year 2016	Year 2015	Amounts included in the non-recurrent profit and loss for the current year
Losses from disposal of intangible assets			
Losses from debt restructuring			
Losses from exchange of non-monetary assets			
Donations made	202,000.00	200,000.00	202,000.00
Amercement and overdue fine outlay	461,786.38	127,555.11	461,786.38
Extraordinary losses	10,000.00		10,000.00
Others	57,396.39		57,396.39
Total	1,973,706.10	676,214.75	1,973,706.10

5.47 Income tax expenses

Item	Year 2016	Year 2015
Current income tax calculated according to the tax law and relevant provisions	77,053,098.86	55,356,116.31
Deferred income tax expenses	-5,372,738.58	-2,073,259.15
Total	71,680,360.28	53,282,857.16

5.48 Items of the statement of cash flows

5.48.1 Cash received from other operating activities

Item	Year 2016	Year 2015
Current accounts and advances withdrawn	11,155,962.13	13,467,371.42
Special subsidies and grants	17,695,144.32	6,514,074.10
Interest income	3,285,423.73	5,927,147.86
Non-operating income:	4,691,897.24	7,193,338.62
Other income	1,871,538.14	116,336.78
Total	38,699,965.56	33,218,268.78

5.48.2 Cash paid for other operating activities

Item	Year 2016	Year 2015
Current accounts paid	22,397,687.95	53,926,015.62
Selling expenses	96,985,103.94	87,959,171.04
General and administrative expenses	86,993,815.09	55,612,388.75
Non-operating expenses	672,888.73	281,101.21
Other	3,524,541.86	
Total	210,574,037.57	197,778,676.62

5.48.3 Cash received from other investing activities

Item	Year 2016	Year 2015
Cash and cash equivalents held by subsidiary on the date of purchase		60,250,855.95
Total		60,250,855.95

5.48.4 Cash received from other financing activities

Item	Year 2016	Year 2015
Guarantee deposit	25,402,158.23	29,523,531.37
Total	25,402,158.23	29,523,531.37

5.48.5 Cash paid for other financing activities

Item	Year 2016	Year 2015
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Directiaonal seasoned offering and the relevant expenses		50,000,000.00
Total		50,000,000.00

5.49 Supplementary information to the statement of cash flows

5.49.1 Supplementary information to the statement of cash flows

Supplementary information:	Year 2016	Year 2015
1. Net profit adjusted to cash flows from operating activities		
Net profit	161,565,335.61	176,256,934.25
Plus: provision for assets impairment	17,021,526.97	31,064,037.35
Depreciation of fixed assets and others	36,225,651.25	43,725,355.85
Amortization of intangible assets	25,558,009.11	9,729,544.56
Amortization of long-term deferred expenses	142,247.19	31,150.10
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-3,540,682.92	-5,380,014.25
Losses on write-off of fixed assets ("-" for gains)	10,897.11	
Losses from changes in fair value ("-" for gains)		
Financial expenses ("-" for income)	3,290,867.10	24,880,850.30
Investments losses ("-" for gains)	-51,962,911.52	-42,409,391.70
Decreases in the deferred income tax assets ("-" for increases)	-8,296,099.30	-3,974,648.75
Increases in the deferred income tax liabilities ("-" for decreases)	-2,418,716.58	970,342.34
Decreases in inventories ("-" for increases)	-69,253,896.66	-74,102,597.39
Decreases in operating payables ("-" for increases)	-17,020,310.57	-28,937,336.74
Increases in operating payables ("-" for decreases)	8,889,638.76	-80,967,362.38
Others		
Net cash flows from operating activities	99,056,912.42	50,886,863.54
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	750,357,929.63	744,700,658.82
Less: balance as at January 1, 2014 of cash	744,700,658.82	581,848,889.10
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	5,657,270.81	162,851,769.72

5.49.2 Net cash paid to acquire subsidiaries for the current year: None

5.49.3 Breakdowns of cash and cash equivalents:

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
1. Cash	750,357,929.63	744,700,658.82
Including: cash on hand	1,137,409.87	1,454,927.52
Unrestricted bank deposit	749,011,456.34	731,170,363.19
Other unrestricted monetary funds	209,063.42	12,075,368.11
Deposit in central bank available for payment		
Deposits with banks and other financial institutions		
Loans from banks and other financial institutions		

Item	Balance as at December 31, 2016	Balance as at January 1, 2016
2. Cash equivalents		
Including: bond investments maturing within three months		
3. Balance of cash and cash equivalents as at December 31, 2015	750,357,929.63	744,700,658.82
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 were not included in cash and cash equivalents

5.50 Monetary items in foreign currency

5.50.1 Monetary items in foreign currency

Item	balance of foreign currency as at December 31, 2016	Exchange rate	Balance of conversion into RMB as at December 31, 2016
Cash and cash equivalents			
Including: HKD	513,044.74	0.8945	458,918.52
USD	6,449,518.98	6.9370	44,740,313.17
EUR	64,533,125.33	7.3068	471,530,640.10
JPY	79,667.64	4.7995	382,364.84
SGD	255,000.00	0.059591	15,195.71

5.50.2 Description of overseas operating entities

The domicile of primary operation of the Company's subsidiary, Shanggong (Europe) Holding Co., Ltd. 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

None.

6.2 Other changes in the scope of consolidation

The Company and Dürkopp Adler AG (hereby referred to as the "DA AG") which is the wholly-owned subsidiary of ShangGong (Europe) Holding Corp. GmbH jointly set up Shanghai ShangGong Financial Leasing Co.,Ltd. (hereby referred to as the "Financial Leasing Co.,Ltd") on Jun 22nd, 2016, in which: the Company monetary invested 5,100,000.00 USD, equal to 33,452,430.00 yuan, accounting for 51.00% of the share capital; DA AG monetary invested 4,900,000.00USD, equal to 32,237,590.36 yuan, accounting for 49.00%. The proportion of the board of directors is the same as the proportion of shares held, and President and Chief Financial Officer dispatched by the Company, the Company could totally Control Financial Leasing Co., Ltd., thereby Financial Leasing Co., Ltd. shall be included in the consolidation scope in the current period.

7. Equity in other entities

7.1 Equity in subsidiaries

7.1.1 The composition of enterprise groups

Name of subsidiary	Domicile of primary operation	Registered place	Business nature	Shareholding ratio (%)		Way of acquisition
				Direct	Indirect	

Name of subsidiary	Domicile of primary operation	Registered place	Business nature	Shareholding ratio (%)		Way of acquisition
				Direct	Indirect	
Shanghai Shanggong Butterfly Sewing Machines Co.,Ltd	Shanghai	Shanghai	Production and sales of sewing machines	100.00		Investment
DAP Trade (Shanghai) Co., Ltd.	Shanghai	Shanghai	Sales of sewing machines	100.00		Investment
Shanghai SMPIC Imp. & Exp. Co., Ltd.	Shanghai	Shanghai	Sales of office equipment and import and export service	100.00		Investment
Shanghai Shanggong 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 Machines (Suzhou) Co., Ltd.	Suzhou	Suzhou	Production and sales of sewing machines	51.00	49.00	Business combination not under common control
ShangGong (Europe) Holding Co., Ltd.	Europe	Europe	Production and sales of sewing machines	100.00		Investment
Zhejiang Shanggong GEMSY Sewing Technology Co., Ltd.	Taizhou	Taizhou	Production and sales of sewing machines	60.00		Investment
Shanghai Shensi Enterprise Development Co., Ltd.	Shanghai	Shanghai	Physical distribution	40.03		Business combination not under common control
Shanghai ShangGong Financial Leasing Co.,Ltd.	Shanghai	Shanghai	Financial Leasing	51.00	49.00	Investment

7.1.2 Important non - wholly owned subsidiary

Name of subsidiary	Minority shareholders Shareholding%	Profit and loss attributable to minority shareholders for the current period	Other comprehensive income attributable to minority shareholders in this period	The dividend declared to minority shareholders in the current period	The minority shareholders Equity balance at the end of period
Dürkopp Adler AG	6.00	12,693,565.07	595,804.49	1,803,893.40	62,243,046.90
Zhejiang Shanggong GEMSY Sewing Technology Co., Ltd.	40.00	226,405.74			86,169,489.98
Shanghai Shensi Enterprise Development Co., Ltd.	59.97	4,414,020.96			143,572,031.30

7.2 Equity in joint operation and joint venture

7.2.1 Important joint operation and joint venture

Name of joint operation and joint venture	Domicile of primary operation	Registered place	Business nature	Shareholding ratio (%)		Accounting measurement for investment in joint operation and joint venture
				Direct	Indirect	
H. Stoll AG & Co. KG	Reutlingen , Germany	Reutlingen , Germany	Machine manufacturing		26.00	Equity method

7.2.2 The main financial information of joint operation and joint venture

(Monetary unit: RMB'10,000)

Item	Ending balance/Year 2016	Beginning balance/Year 2015
Current assets	146,192.99	132,231.82
Non-current assets	25,725.05	25,201.44
Total assets	171,918.04	157,433.26
Current liabilities	49,572.98	58,530.43

Non-current liabilities	27,952.89	9,890.71
Total liabilities	77,525.87	68,421.14
The book value of equity investments in joint operation and joint venture	25,358.66	
The fair value of the equity investment in the joint venture		
Operating profits	205,175.28	168,029.96
Net profits	11,607.98	10,079.02

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, 2016 of assets and liabilities measured at fair value

Item	Fair value as at December 31, 2016			
	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
I. Measurement at fair value based on going concern				
(1) Financial assets measured at fair value through current profit and loss	4,000.00			4,000.00
A. Financial assets held for trading	4,000.00			4,000.00
a. Investment in debt instruments				
b. Investments in equity instruments	4,000.00			4,000.00
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	107,980,989.31			107,980,989.31
a. Investment in debt instruments				
b. Investments in equity instruments	107,980,989.31			107,980,989.31
c. Others				
(3) Investment property				
A. Use right of leased land				
B. Leased buildings				
C. Land use right held for transfer upon appreciation				
Total amount of assets measured at fair value based on going concern	107,980,989.31			107,980,989.31
(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				

Item	Fair value as at December 31, 2016			
	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
Total amount of liabilities measured at fair value based on going concern				
2. Measurement at fair value based on going concern				
(1) Assets held for trading				
Total amount of assets measured at fair value not based on going concern				
Total amount of liabilities measured at fair value not based on going concern				

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, 2016 of available-for-sale financial assets was determined on the basis of the closing price of Shenzhen Stock Exchange and Shanghai Stock Exchange on December 31, 2016.

9. Related party and related party transaction

9.1 The parent company of the Company

On 29 December 2016, The Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission which is the original controlling shareholder and actual controller of the Company had sold 60.00 million A shares of the Company to Shanghai Puke Flyman Investment Co., Ltd. which is the wholly-owned subsidiary of Shanghai Pudong Science and Technology Investment Co., Ltd. China Securities Depository and Clearing Co., Ltd. has issued a "transfer registration confirmation" on the same day.

After the transfer, Shanghai Puke Flyman Investment Co., Ltd. held A shares accounted for 10.94% of the total share capital of the Company, the largest shareholder of the Company; Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission held A shares accounted for 8.27%, the second largest shareholder of the Company. After the completion of the equity transfer, the Company has changed to a listed company with no controlling shareholder and no actual controller.

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 The joint operation and joint ventures of the Company

See the Note 7 Equity in Other Entities for the details of joint operation and joint ventures of the Company

9.4 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.	Controlled by subsidiary's minority shareholders
Zhejiang GEMSY Electromechanical Co., Ltd.	Controlled by subsidiary's minority shareholders
Stoll Electronics Co., Ltd.	Other related company

9.5 Related party transactions

9.5.1 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 2016	Year 2015
Zhejiang GEMSY Electromechanical Co., Ltd.	Purchase of fix assets	11,398,608.00	6,719,945.84
Zhejiang GEMSY Electromechanical Co., Ltd.	Purchase of goods	420,458.64	55,513,209.93
Stoll Electronics Co., Ltd.	Receiving of service	5,939,203.09	

Table of sales of goods/rendering of services

Related party	Content of related transaction	Year 2016	Year 2015
Shanghai Fuji Xerox Co., Ltd.	Sales of goods	30,492,057.89	37,539,189.14
Shanghai Fuji Xerox Co., Ltd.	Rendering of service	403,666.58	230,666.62
Zhejiang GEMSY Electromechanical Co., Ltd.	Sales of goods	92,240.42	4,196.58
Stoll Electronics Co., Ltd.	Sales of goods	249,611.04	

9.5.2 Leasing

The Company acted as lessor

(Monetary unit: RMB'10,000)

Name of leasee	Type of leased asset	Rental recognized in 2016	Rental recognized in 2015
Shanghai Hirose Precision Industrial Co., Ltd.	Machinery equipment	25.00	25.00

9.5.3 Remuneration of key management members

(Monetary unit: RMB'10,000)

Item	Year 2016	Year 2015
Remuneration of key management members	470.75	366.77

Note: The remunerations of the Company's key management: the total remunerations of key management members of the Company for 2016 amounted to RMB470.75 million (vs. RMB366.77 million for 2015). The key management members of the Company in 2016 included directors, supervisors, general managers, deputy general managers and secretaries of the Board, 17 persons in total (17 persons in 2015).

9.5.4 Other related transactions

None.

9.6 Accounts due from/to the related parties

9.6.1 Accounts receivable

Item	Related party	Balance as at December 31, 2016		Balance as at January 1, 2016	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Shanghai Fuji Xerox Co., Ltd.	2,986,768.97	149,338.45	3,413,421.14	170,671.06
	Zhejiang Baoshi Electromechanical Co., Ltd.	112,831.24	5,641.56		
Other receivables					
	Zhejiang Baoshi Electromechanical Co., Ltd.			481,669.48	
Prepayment					

	Zhejiang GEMSY Electromechanical Co., Ltd.	6,874,421.03		7,366,357.64	
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9.6.2 Accounts payable

Item	Related party	Balance as at December 31, 2016	Balance as at January 1, 2016
Account payables			
	Stoll Electronics Co., Ltd.	750,113.09	
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 EUR 328.40 thousands	Guaranty		ShangGong (Europe) Holding Corp. GmbH
Bank deposits of EUR 57.50 thousands	Guaranty		ShangGong (Europe) Holding Corp. GmbH
Fixed assets of EUR13,120.00 thousands	Surety margin of credit line	EUR3,930,000.00	ShangGong (Europe) Holding Corp. GmbH
Fixed assets of RMB31,538.50 thousand	Guaranty		ShangGong (Europe) Holding Corp. GmbH
500 thousand shares of Dürkopp Adler AG	Guaranty	EUR7,878,000.00	ShangGong (Europe) Holding Corp. GmbH

Note: 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 Co., Ltd. guarantees that it will pay the consideration of share purchase to the seller of German H.Stoll AG & Co.KG.

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 Corp. GmbH as at December 31, 2016

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	2016/09/19		No	Note 3
Shanghai Branch of the Commerzbank	EUR10.00 million	2015/08/28		No	Note 4
Industrial and Commercial bank Shanghai Hongkou Branch	EUR7.878 million	2015/12/21	2020/12/21	No	Note 5

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 RMB 58 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 RMB 70 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 Corp. 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 September 19, 2016, the Company's wholly owned subsidiary, ShangGong (Europe) Holding Corp. 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 EUR13.20 million.

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 Corp. GmbH, applied to the Frankfurt Branch of the Commerzbank for a limit loan of EUR7.878 million, in order to ShangGong (Europe) Holding Corp. 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.

As of December 31, 2016, there is no outflow of economic benefits arising from the above contingencies.

10.2.2 The agreement to increase capital to Shanghai Shensi Enterprise Development Co., Ltd.

According to our new capital increase agreement with Shanghai Shensi Enterprise Development Co., Ltd., by 30 June 2018, if Shensi 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 Shensi Enterprise Development Co., Ltd.. If not, our company and Zhang Ping will not assume the above mentioned repurchase responsibility.

As of Dec. 31, 2016, it's uncertain that Shensi will complete IPO in the A share market by June 30, 2018.

11. Post Balance Sheet Events

11.1 Profit Distribution

According to the decision of the Company's 35th Board Meeting (7th Round) on March 31, 2017, no dividends of 2016 will be distributed.

11.2 The merger of Shanghai Shanggong Butterfly Sewing Machines Co., Ltd.

According to the decision of the Company's 26th Board Meeting (7th Round) on March 18, 2016, the Company will merge its wholly-owned subsidiary, Shanghai Shanggong Butterfly Sewing Machines Co., Ltd. (hereinafter referred to as Shanggong Butterfly), and after the merger, Shanggong Butterfly's status of independent legal entity will be cancelled by the Industrial and Commercial Administrations.

As of the audit report issuance date, Shanggong Butterfly, the branch company, has acquired the business license with the uniform credit code of 91310000MA1FL2DPXG, and the other related merger events are in process.

11.3 The merger of DAP (Shanghai) Co., Ltd.

According to the decision of the Company's 32th Board Meeting (7th Round) on September 18, 2016, the Company will merge its holding subsidiary, DAP (Shanghai) Co., Ltd. (hereinafter referred to as DAP Shanghai), and after the merger, DAP Shanghai's status of independent legal entity will be cancelled by the Industrial and Commercial Administrations.

As of the audit report issuance date, the Company has transferred out the non-controlling interest, which amounts to 40% of the shares. The registration of change at the Industrial and Commercial Administrations has completed, and the merger events are still waiting for examination and approval by the Shareholders Meeting.

11.4 The merger of Durkopp Adler Sewing Machines Suzhou Co., Ltd.

According to the decision of the Company's 32th Board Meeting (7th Round) on September 18, 2016, the Company's subsidiary, PFAFF Industrial Sewing Machines (Zhangjiagang) Co., Ltd. will merge the Company's holding subsidiary, Durkopp Adler Sewing Machines Suzhou Co., Ltd. (hereinafter referred to as DA Suzhou), and after the merger, DA Suzhou's status of independent legal entity will be cancelled by the Industrial and Commercial Administrations.

As of the audit report issuance date, the above merger events are in process.

11.5 Other post balance sheet events

None.

12. Other significant events

On December 13, 2016, the resolution of the 34th meeting of the 7th Board of Directors approved that the Company's joint venture H. Stoll AG & Co. KG, intend to sign a loan agreement with a syndicate consisted of six financial institutions which include Deutsche Bank's German Business Branch, Commerzbank, Baden-Württemberg State banks. This agreement allows H. Stoll AG & Co. KG to have access to credit line of 60 million euros in total. The subsidiary of the Company, ShangGong (Europe) Holdings Corp. GmbH, as a limited partner of H. Stoll AG & Co. KG signed a contract with the syndicates. According to the contract, if H. Stoll AG & Co. KG did not meet the key financial indicators agreed in the syndicated loan agreement, the income of H. Stoll AG & Co. KG would be used to repay the syndicated loan prior to being allocated to ShangGong (Europe) Holdings Corp. GmbH

The board of directors of the Company has authorized the management of the subsidiary, ShangGong (Europe) Holdings Corp. GmbH to sign the relevant agreement and to handle the relevant procedures.

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, 2016					Balance as at January 1, 2016				
	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	59,365,318.22	100.00	55,963,466.80	94.27	3,401,851.42	62,209,774.91	100.00	59,441,560.78	95.55	2,768,214.13
Accounts receivables with insignificant single amount and provision for bad debt made on an individual basis										
Total	59,365,318.22	100.00	55,963,466.80	94.27	3,401,851.42	62,209,774.91	100.00	59,441,560.78	95.55	2,768,214.13

Accounts receivable with provision for bad debt made using the aging analysis method among the portfolios:

Aging	Balance as at December 31, 2016		
	Accounts receivable	Provision for bad debts	Provision ratio
Within 1 year	3,495,304.58	174,765.24	5.00%
1 to 2 years	56,134.09	11,226.82	20.00%
2 to 3 years	72,809.62	36,404.81	50.00%
Over 3 years	55,741,069.93	55,741,069.93	100.00%
Total	59,365,318.22	55,963,466.80	

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 51,585.01; there is no 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 3,529,678.99, 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, 2016 of the borrowers

Company name	Balance as at December 31, 2016		
	Accounts receivable	Proportion in total accounts receivable (%)	Provision for bad debts
Customer A	11,530,775.39	19.72	11,530,775.39
Customer B	7,480,189.67	12.79	7,480,189.67
Customer C	4,679,327.49	8.00	4,679,327.49
Customer D	1,795,394.94	3.07	89,769.75
Customer E	1,687,149.74	2.89	1,687,149.74
Total	27,172,837.23	46.47	25,467,212.04

13.2 Other receivables

13.2.1 Disclosure of classification of other receivables

Type	Balance as at December 31, 2016					Balance as at January 1, 2016				
	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	58,951,200.82	37.63	58,951,200.82	100.00		55,927,851.11	42.24	55,927,851.11	100.00	
Other receivables with provision for bad debt made on a portfolio with similar risk credit characteristics basis	97,725,812.44	62.37	19,332,590.89	19.78	78,393,221.55	76,488,791.16	57.76	18,269,591.28	23.89	58,219,199.88
Other receivables with insignificant single amount and provision for bad debt made on an individual basis										
Total	156,677,013.26	100.00	78,283,791.71	49.97	78,393,221.55	132,416,642.27	100.00	74,197,442.39	56.03	58,219,199.88

Other receivables with significant single amount and provision for bad debts made on an individual basis as at December 31, 2016:

Other receivables (by entity):	Balance as at December 31, 2016			
	Other receivables	Provision for bad debts	Proportion of Provision	Reason for provision
Customer A	46,350,286.62	46,350,286.62	100.00%	Not expected to recover
Customer B	12,600,914.20	12,600,914.20	100.00%	Not expected to recover
Total	58,951,200.82	58,951,200.82	100.00%	

Other receivables with provision for bad debts made using the aging analysis method among those portfolios:

Aging	Balance as at December 31, 2016		
	Other receivables	Provision for bad debts	Proportion of Provision
Within 1 year	82,457,879.57	4,122,893.98	5.00%
1 to 2 years	66,723.39	13,344.68	20.00%
2 to 3 years	9,714.50	4,857.25	50.00%
Over 3 years	15,191,494.98	15,191,494.98	100.00%

Total	97,725,812.44	19,332,590.89	
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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 4,215,755.52; there are RMB 4,586.14 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 accounts receivable actually written off in the current reporting period amounted to RMB124,820.06; the key reason for write-off was that the customers have filed an application for bankruptcy and deregistration.

13.2.4 Top five other receivables by the balance as at December 31, 2016 of the borrowers

Company name	Nature of fund	Balance as at December 31, 2016	Aging	Proportion in total other receivable (%)	Balance of provision for bad debts as at December 31, 2016
Customer A	Current accounts	49,358,232.97	Within 1 year or over 3 years	31.32	46,500,683.94
Customer B	Current accounts	38,797,432.82	Within 1 year	24.62	1,939,871.64
Customer C	Current accounts	27,599,125.00	Within 1 year	17.52	1,379,956.25
Customer D	Current accounts	12,600,914.20	Over 3 years	8.00	12,600,914.20
Customer E	Current accounts	11,572,940.88	Within 1 year	7.34	578,647.04
Total		139,928,645.87		88.80	63,000,073.07

13.3 Long-term equity investments

Item	Balance as at December 31, 2016			Balance as at January 1, 2016		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	638,117,724.99	8,632,624.09	629,485,100.90	569,642,909.37	5,500,000.00	564,142,909.37
Investments in associates and joint ventures						
Total	638,117,724.99	8,632,624.09	629,485,100.90	569,642,909.37	5,500,000.00	564,142,909.37

Among which, details on investments in subsidiaries

Investee	Balance as at January 1, 2016	Increase in 2016	Decrease in 2016	Balance as at December 31, 2016	Provision for impairment provided in the current year	Balance of provision for impairment as at December 31, 2016
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	35,022,385.62		59,425,828.73		
Shanghai SMPIC Electronics Co., Ltd.	20,000,000.00			20,000,000.00		
Duerkopp Adler Sewing Machines Suzhou Co., Ltd	15,685,694.98			15,685,694.98	3,132,624.09	3,132,624.09
Shanghai SMPIC Imp. & Exp. Co., Ltd.	12,000,000.00			12,000,000.00		
Shanghai SGSB Asset-management Co., Ltd.	60,000,000.00			60,000,000.00		5,000,000.00
Shanghai Fengjian Property Co., Ltd.	500,000.00			500,000.00		500,000.00
Zhejiang SG & GEMSY Sewing Technology Co., Ltd.	129,600,000.00			129,600,000.00		
Shanghai Shensy Enterprise	86,083,077.64			86,083,077.64		

Development Co., Ltd.						
Shanghai ShangGong Financial Leasing Co.,Ltd.		33,452,430.00		33,452,430.00		
Total	569,642,909.37	68,474,815.62		638,117,724.99	3,132,624.09	8,632,624.09

13.4 Operating income and operating costs

Item	Year 2016		Year 2015	
	Income	Cost	Income	Cost
Primary business	8,240,323.71	6,794,097.74	12,496,983.24	10,738,637.59
Other businesses	27,384,684.44	13,068,646.13	22,051,642.22	10,382,639.77
Total	35,625,008.15	19,862,743.87	34,548,625.46	21,121,277.36

13.5 Investment income

Item	Year 2016	Year 2015
Long-term equity investment measured at cost method		6,768,786.51
Long-term equity investment measured at 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	11,448.29	
Investment income from holding of available-for-sale financial assets		13,844,846.59
Investment income from holding of available-for-sale financial assets	23,537,656.97	
Investment income from disposal of available-for-sale financial assets	715,552.60	
Gains from re-measurement of residual equity at fair value after the loss of control right		
Others	9,494,074.41	20,811,622.47
Total	33,758,732.27	42,496,460.42

Note: "others" mainly refer to the gains of RMB 6,388,717.79 from financing product and gains of RMB 3,105,356.62 from structured deposits among other current assets.

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	3,529,785.81	
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)	11,190,319.23	
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	-	

Item	Amount	Remark
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	-	
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	4,708,383.25	
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	17,172,464.17	
Other profits or losses which can be deemed as non-recurring profits or losses		
Income tax effects	-3,744,868.58	
Minority interest effects	-6,050,593.20	
Total	26,805,490.68	

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	7.8098	0.2629	0.2629
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring gains and losses	6.3584	0.2141	0.2141

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 CSRC within the report year.

Shang Gong Group Co., Ltd.
Chairman of Board of Directors: Zhang Min
March 31, 2017

IF THIS ENGLISH VERSION OF THIS ANNUAL REPORT INVOLVES ANY DIFFERENCES FROM THE CHINESE VERSION, THE LATTER SHALL BE EFFECTIVE.