



**Shang Gong Group Co., Ltd.  
Annual Report 2018**

## IMPORTANT NOTES

**1. The board of directors, the board of supervisors, directors, supervisors and senior executives of the Company undertake that the content of the annual report is true, accurate and complete, and contains no false records, misleading statements, or major omissions, and will assume joint and several legal liabilities arising therefrom.**

**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, Zhang Jianrong, the principal in charge of the accounting, and Zhao Lixin, Chief of Accounting Affairs, declare and guarantee the veracity, accuracy and integrity of the financial report in the annual 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 158,449,643.95 yuan in 2018, of which, the net profit attributable to parent company owners is 140,828,047.20 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 deficit of previous years, the Company did not draw the legal accumulation fund. The current-period net profit of the parent company is 32,898,977.07 yuan; the undistributed profits at the beginning of 2018 are -143,892,809.85 yuan; thus the practical profit available for distribution is -110,993,832.78 yuan at the end of 2018. As the parent company's profit available for distribution is negative, the profit distribution cannot be made in 2018, neither the transferring of capital reserves into share capital.

### **6. Warning statement of forward-looking statements**

The Company's future plan, development strategy and other forward-looking statements in the report do not constitute any material commitment of the Company to investors. Investors and relevant persons shall be sufficiently mindful of risks, and undertake the difference in plans, predictions and commitments.

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

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

### **9. Major risk warning**

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

**10. This report is prepared in both Chinese and English. In the case of any inconsistent understanding between the Chinese version and the English version, the Chinese version shall prevail.**

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## Chapter 1 Definition

1. 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 Aear People's Government
DA AG	refers to	Dürkopp Adler AG. In July 2018, DAP Industrial AG completed the acquisition of all minority shareholders' equity of DA AG, and absorbed DA AG, and changed its name to Dürkopp Adler AG after the merger was completed.
PFAFF GmbH	refers to	PFAFF Industriesystemeund Maschinen GmbH
KSL	refers to	PFAFF Industriesystemeund Maschinen GmbH Zweigniederlassung KSL
Stoll KG, STOLL	refers to	H. Stoll AG & Co. KG
DAP Branch	refers to	Shang Gong Group Co., Ltd. Industrial Sewing Machine Branch
Butterfly Branch	refers to	Shang Gong Group Co., Ltd. Shanghai Butterfly Sewing Machine Branch
Richpeace, SG Richpeace	refers to	TIANJIN RICHPEACE AI CO., LIMITED
SGGEMSY	refers to	Zhejiang ShangGong GEMSY CO., LTD.
PIZ	refers to	PFAFF Industrial Sewing Machine (Zhangjiagang) Co., Ltd.
SHENSY	refers to	Shanghai Shensy Enterprise Development Co., Ltd.
SG Zhejiang	refers to	ShangGong Sewing Machine (Zhejiang) Co., Ltd.
Report period, reporting period	refers to	From 1 <sup>st</sup> January 2018 to 31 <sup>st</sup> December 2018
Yuan, RMB	refer to	The lawful currency of the People's Republic of China
Euro, EUR	refer to	The lawful currency of the European Union

2. In this report, the unit of the amount is expressed in RMB Yuan unless otherwise specified.

## 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	Zhang Min

### 2. Contact information

	Secretary of Board of Directors	Representative of Securities Affairs
Name	Zhao Lixin	Shen Lijie
Office address	No. 1566 New Jinqiao Road, Pudong New Aear, Shanghai	No. 1566 New Jinqiao Road, Pudong New Aear, Shanghai
Tel	021-68407700	021-68407515
Fax	021-63302939	021-63302939
Email	zlx@sgsbgroup.com	shenlj@sgsbgroup.com

### 3. Basic situation introduction

Registered address	Room A-D, 12 <sup>th</sup> Floor, Orient Mansion, No. 1500 Century Avenue, China (Shanghai) Pilot Free Trade Zone
Postal code of registered address	200122



Office address	No. 1566 New Jinqiao Road, Pudong New Aear, Shanghai
Postal code of office address	201206
Company website	http://www.sgsbgroup.com/
Email	600843@sgsbgroup.com

#### 4. Place for information disclosure and consulting

The name of the information disclosure media selected by the company	Shanghai Securities News, Hong Kong Commercial Daily
The website that publishes the annual report designated by China Securities Regulatory Commission	http://www.sse.com.cn
Lodging address of annual report of the Company	Office of the Company

#### 5. Corporate stock

Type	Stock exchange	Stock abbreviation	Stock code
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 accountant's name	Li Ping, Zhang Yongmei

#### 7. Main accounting data and financial index

##### 7.1 Main accounting data

Unit: Yuan, Currency: RMB

Main accounting data	2018	2017	Year-on-year increase/decrease (%)	2016
Operating income	3,200,527,741.09	3,064,971,500.79	4.42	2,759,855,136.98
Net profit attributable to shareholders of listed company	140,828,047.20	197,487,226.27	-28.69	144,231,343.84
Net profit attributable to shareholders of listed company after deduction of non-recurrent account profits and losses	124,656,582.51	154,753,519.99	-19.45	117,425,853.16
Net cash flow from operating activities	79,553,871.30	117,335,869.17	-32.20	99,056,912.42
	31 <sup>st</sup> December 2018	31 <sup>st</sup> December 2017	Year-on-year increase/decrease (%)	31 <sup>st</sup> December 2016
Net assets attributable to shareholders of listed company	2,212,858,250.06	2,145,214,676.69	3.15	1,916,349,381.88
Total assets	4,144,127,162.05	3,703,515,071.60	11.90	3,506,172,981.71

##### 7.2 Main financial index

Main financial index	2018	2017	Year-on-year increase/decrease (%)	2016
Basic earnings per share (yuan/share)	0.2567	0.3600	-28.69	0.2629
Diluted earning per share (yuan/share)	0.2567	0.3600	-28.69	0.2629
Basic earnings per share after deduction of non-recurrent profits and losses (yuan/share)	0.2272	0.2821	-19.46	0.2141
Weighted average return on net assets (%)	6.3561	9.8004	Decrease 3.44 percent point	7.8098
Weighted average return on net assets after deduction of non-recurrent profits and losses (%)	5.6262	7.6797	Decrease 2.05 percent point	6.3584

#### 8. Accounting data differences between domestic and foreign accounting standards

Not applicable.

#### 9. Main accounting data of each quarter in report period

	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	701,350,250.94	793,444,162.33	798,251,068.15	907,482,259.67
Net profit attributable to shareholders of listed company	45,491,262.77	54,670,083.73	34,854,917.67	5,811,783.03



Net profit attributable to shareholders of listed company after non-recurrent account profit/loss	39,609,986.99	49,760,628.20	29,755,246.40	5,530,720.92
Net cash flow from operating activities	-21,967,006.01	-35,736,148.74	22,598,770.01	114,658,256.04

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

Item	2018	2017	2016
Profits and losses from disposal of non-current assets	-1,285,095.62	23,550,480.53	3,529,785.81
Government subsidies recorded in the current profit and loss	9,897,636.07	11,861,884.98	11,190,319.23
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	12,601,058.35	10,553,231.30	4,708,383.25
Profits and losses from external entrusted loans	603,626.80		
Other non-operating income and expenditure except the above-said items	4,659,776.73	5,690,312.52	17,172,464.17
Impact on minority interests	-4,268,282.88	-5,345,419.70	-6,050,593.20
Impact on income tax	-6,037,254.76	-3,576,783.35	-3,744,868.58
Total	16,171,464.69	42,733,706.28	26,805,490.68

#### 11. Items for adopting fair value measurement

Item	Opening balance	Ending balance	Current change	Influence on current profit
Trading financial assets	0.00	0.00	0.00	45,148.42
Available-for-sale financial assets	89,721,694.56	86,406,778.33	-3,314,916.23	1,664,198.76
Total	89,721,694.56	86,406,778.33	-3,314,916.23	1,709,347.18

## Chapter 3 Summary of Company Business

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

During the reporting period, the Company's main business is the sewing equipment manufacturing industry and intelligent equipment manufacturing industry. The Company's business also involved flat knitting machines, office machinery, logistics services and trade. The Company's sewing equipment includes industrial sewing machines, household sewing machines and custom-made industrial machines for special purposes.

The Company adheres to globalization of business, and implements unified management of sales of sewing equipment. The Company adopts a gradient-based specialized multi-brand marketing strategy, and conducts gradient division management on production sites throughout Europe and Asia. The Company pays attention to collaborative research and development, and seizes the global high-end market of sewing equipment with leading technology. At the same time, the Company is cultivating the business model of "Shanghai Manufacturing", which means R&D and marketing in Shanghai while production in Jiangsu, Zhejiang and other provinces.

In recent years, through the implementation of mergers and acquisitions at home and abroad and the reorganization and integration within the Company, with the business philosophy of "market orientation and benefit first" to manage subsidiaries in a unified manner, the synergy effect has gradually emerged and the international business model has achieved good results.

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 2018, the industry's production and sales maintained a double-digit growth rate, the operation quality was good, showing the remarkable characteristics of "stable and good, and call back from the top". According to the China Sewing Machinery Association, in terms of production, from January to December in 2018, the top 100 backbone machine manufacturers in the industry produced 7.54 million sewing machines, a year-on-year increase of 15.2%. Production volume of industrial sewing machines was 5.44 million units, an increase of 21.5%, of which the volume of flatbed lockstitch was 3.16 million units, an increase of 24.2%; volume of special machine was 360,000 units, an increase of 15%; volume of automatic sewing equipment was 30,000 units, an increase of 38.6%. Production volume of industrial sewing machines was 1.65 million units, an increase of 3.7%. The overall production of the industry has reached new heights and the product structure has been upgraded. In terms of sales, from January to December in 2018, the top 100 backbone machine manufacturers in the industry sold 7.14 million sewing machines, a year-on-year increase of 10.5%. Among them, 5.06 million units were industrial machines, an increase of 15.2% year-on-year, and 1.62 million units were household machines, an increase of 0.4%. In terms of domestic sales, the domestic market was first raised and then suppressed in 2018. In the first half of the year, the downstream industry's consumer demand represented by clothing, leather, home textiles and other industries upgraded and accelerated the construction of smart factories, and promoted the continuous growth of China's sewing machinery domestic market. However, since the third quarter, the impact of Sino-US trade friction has gradually emerged. The willingness to increase investment in the industry has declined, and the cyclical demand in the domestic market has gradually saturated, and industry sales have declined month by month. In terms of export trade, in the context of the overall recovery of the international economy and the release of downstream market demand, the export trade of domestic enterprises has reached a new high. According to the data of the General Administration of Customs, the export volume of the industry in 2018 reached 2.45 billion US dollars, an increase of 5.3%. Among them, the export of industrial sewing machines reached 1.22 billion US dollars, an increase of 19.2%. In terms of operating efficiency, in 2018 the sales revenue of the top 100 backbone machine manufacturers in the industry reached 21.6 billion yuan, a year-on-year increase of 9.7%. However, as the market gradually became saturated, market competition became increasingly fierce, and investment in product promotion, new product development, production and other inputs increased, operating and management expenses increased substantially, thus the growth rate of industry efficiency was lowered. In 2018, the total profit of top 100 backbone machine manufacturers in the industry reached 1.58 billion yuan, a year-on-year increase of only 3.3%.

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

For details of major changes in the Company's major assets in the report period, please refer to "(3) Analysis of assets and liabilities" in "Chapter 4 Discussion and Analysis on Business Operation".

The Company's overseas assets amounted to 1,953.5446 million yuan, accounting for 47.12% of the total assets.

The Company's overseas assets mainly come from the Company's previous overseas acquisitions and the business growth of overseas subsidiaries. The Company's wholly-owned subsidiary SGE acquired DA AG in 2005, acquired PFAFF GmbH and KSL in 2013, and invested in STOLL KG in 2016.

## **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-year experience in sewing equipment production. The Company's "Butterfly" household sewing machine originated in 1919 and has a history of nearly 100 years. The Company controlled

DA AG and PFAFF GmbH, both are famous sewing machine manufacturing companies in the world with more than 150 years' history, as well as PFAFF KSL Branch, which possesses the world's top sewing technology. During the reporting period, the Company continued to promote the integration of global resources, promote the further integration of European subsidiaries, accelerate the construction of European and domestic manufacturing bases, implement mergers and acquisitions at the appropriate time in China, and expand the main business. Furthermore, based on the existing business, the Company continue to expand business in aviation manufacturing and structural parts on the basis of customers of aviation companies such as COMAC, Hafei and AVIC. During the reporting period, the Company's core competitiveness was further consolidated and enhanced, further consolidating the foundation of the Company's sustainable and healthy development. The core competence of the Company is mainly shown in the following aspects:

(1) Strong technological research and development capability

The Company always adheres to the guidance of science and technology and develop through innovation, attaches much 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, has advanced testing methods and has strong continuous development capabilities of product and application technology. The R&D team's research and development of Industry 4.0 on sewing equipment has achieved initial results. The Company's technology center was identified as a Shanghai-Municipal-level R&D center, SGGEMSY was identified as a Zhejiang-Province-level R&D center, and Richpeace was recognized as a Tianjin-Municipal-level R&D center.

(2) Advanced technology advantage

The Company has the world's high-end intelligent and 3D sewing technology of flexible material, and the Company is a global leader in special sewing machine for medium or heavy materials, garment automatic sewing unit, robot-control automatic sewing technology and textile material welding technology and other fields. The products are not only applied in the traditional market for sewing machine industry but also applied in some fields, such as automobile, environmental protection, aeronautics and astronautics and renewable energy, etc. Especially, the Company has a leading position in sewing technology for light carbon fiber, 3D sewing automation and QONDAC 4.0 Intelligent Industrial Sewing Network Online Production Monitoring System.

(3) Multiple brand and product advantage

The Company owns some internationally well-known brands, such as DA, PFAFF Industrial, KSL, Beisler, and etc., and some famous domestic brands, such as Butterfly with 100 years' history, Bee, Flyingman, and Shanggong with over 50 years' history. In recent years, the Company is cultivating industrial machine brands, such as SGGEMSY, Mauser and so on. The Company has a full range of high-end sewing equipment product chain, these brands of the Company has a high recognition and reputation in the industry. The Company has a group of customers with great value and stability in the field of high-end automotive accessories manufacturing and luxury goods manufacturing.

(4) Global resource integration capability

The Company utilizes and develops the basis and advantages of its respective domestic and foreign subsidiaries, implements globalization layout and integration in the production base, sales network, procurement of raw materials, technology R&D and other aspects, implements resource sharing, has complementary advantages and develops collaboratively. The Company not only has a wide sales network and business base in China, but also has established a relatively complete marketing channel and service network in the world. The Company has established three sewing machine R&D and production bases in Shanghai, Zhejiang and Zhangjiagang; the Company also has five R&D and manufacturing bases in Germany, Czech Republic and Romania.



(5) Internationalized operation and management experience

Since 2005, the Company has begun to implement an overseas merger and acquisition strategy for international operations. In recent years, the Company has increased the pace of overseas acquisitions and mergers, and the proportion of overseas businesses has grown. The Company's multi-year international operation and management has gradually cultivated a management team with an international perspective and multinational operating capabilities, and has accumulated rich international management experience.

## Chapter 4 Discussion and Analysis on the Business Operation

### 1. Discussion and analysis on the business operation

In 2018, affected by the US tariff policy and other retaliatory measures by other economies, trade protection sentiment rose, international trade friction increased, investors' confidence in the economic outlook declined, and manufacturing and trade growth slowed. In 2018, China's economic operation has been steady but with change. The external environment is complex and severe, and the economy is facing downward pressure. Judging from the economic situation of the industry, in 2018, the production and sales of China's sewing machinery industry maintained a double-digit growth rate, the operation quality was good, and the concentration continued to increase, showing the remarkable characteristics of "stable and good, and call back from the top".

2018 is a relatively difficult year for SGG. In the face of complex and severe market environment, the Company has reached a critical period when it is urgent to change again. On the one hand, the Company faces enormous cyclical pressures on corporate growth, increasing human labor costs, and the technical advantages of some products are being challenged. The market base of conventional products has not yet been established, and China's intelligent manufacturing base is still under construction. On the other hand, the automobile industry is accelerating its decline. The downstream markets such as garment and luggage are accelerating the transfer to Southeast Asia and other regions. External factors such as low-cost competition among domestic peers have had a negative impact on the Company. In 2018, the Company faced challenges and overcome difficulties, and achieved remarkable results.

The Company mainly carried out the following works:

(1) Deepening the reform and integration, and promoting acquisitions and mergers

In 2018, 49% shares of PKFR, the Company's largest shareholder, were transferred to the Shendie Equity Investment Partnership, which was indirectly held by the management, and initially realized the Company's management participation.

The Company further promoted internal integration in 2018. In Europe, the Company overcame the difficulties and steadily promoted the squeeze-out of 6% of the minority shareholders of DA AG, completed the legal procedures in July 2018, and ended the listing status in Frankfurt, Berlin and Düsseldorf Stock Exchange. In addition, in 2018, the Company launched the integrated integration of PFAFF GmbH and KSL Branch, adjusted its organization, and promoted production integration and product transfer in an orderly manner. The integration promoted the transformation of PFAFF GmbH into KSL technology and products, and realized the rapid development of the Company's intelligent equipment R&D and manufacturing. Through asset restructuring and business integration of European subsidiaries, the Company is able to take full advantage of the technology, production, procurement, sales, capital and human resources of DA AG and its subsidiaries, PFAFF GmbH and KSL Branch, and to enhance profitability. In China, the import and export business of the Company's subsidiary Butterfly Import and Export, Shanggong Import and Export and SMPIC Import and Export has been steadily advanced, and the transfer of personnel and business has been basically completed. At the same time, the Company completed the transfer of business from the domestic sales

subsidiary, SG Butterfly and DAP Shanghai, to the parent company in 2018. Through the integration, the effect of the parent company's materialized operation has gradually emerged. The rising cost of human resources has been digested, and the operating profit of the parent company has increased significantly, which is conducive to solving the problem that the undistributed profit of the parent company is negative and cannot be distributed.

In 2018, the Company seized the opportunity to invest in mergers and acquisitions and invested 130 million yuan to acquire a 65% stake in Tianjin Richpeace Computer Machinery Co., Ltd. The acquisition will help solve the problem of the Company's relatively weak ability to undertake German KSL product technology in domestic software development and automatic sewing solution technology, thereby enhancing the Company's market share in the domestic high-end special sewing equipment field, which will help improve the overall performance of the Company. Richpeace's automated cutting and embroidering equipment complements the Company's product range. Its automatic patterning machine and other automation solutions are also an effective extension of the Company's existing business.

(2) Adhere to the professional multi-brand strategy and increase the market share of products

In 2018, DA AG further promoted the integration of the marketing network, established DAP Russia, and completed the reorganization of the welding machine marketing network.

In China, the Company has established branches or offices in Guangdong, Fujian and Wuhan, and organized exhibitions and exhibitions of various themes in industrial clusters, including 12 garment machine exhibitions and 22 heavy material machine exhibitions. In 2018, the Company achieved the goal of a substantial increase in sales revenue in the sofa and luggage industry. The sales of DA and PFAFF basic products also achieved breakthroughs. The Company has improved the visit mechanism of major customers, established a salesperson/technician daily report system, and continued to strengthen maintenance and technical training. In addition, the Company has also established and improved the evaluation and elimination mechanism of dealers, vigorously expanded the construction of dealer networks, and realized the contractual management of all dealers.

(3) Maintaining product technology leadership and strengthening production and manufacturing capabilities

DA AG completed the development of a new generation of M-Type as planned, and realized the production of the new DAC-Compact electronic control series. The QONDAC Network system was commercialized in May 2018.

In 2018, DAMSH completed five R&D projects, such as keyhole fastening machine and semi-automatic wire-cutting machine. The project of automatic wire-cutting machine and single-cut wire-cutting machine is under development.

PIZ completed the trial production of automatic feeding shoe machine, short shearing shoe machine and PFAFF welding machine and extended version of Powerline; Mauser 591 has started mass production; the cost of three machines such as DA 1767 have been reduced. The trial production of 11 types of parts such as the needle bar swing frame and the column was completed, and the mass production capability was obtained.

SGGEMSY strives to expand production capacity in 2018, and the volume of self-produced machines has increased by 21% year-on-year. At the same time, the integration and improvement of products have been continuously promoted. Mauser 8125 sewing machine and Mauser EX overlock sewing machine have begun to produce in small batches. The automatic sewing machine, the 8802E single-stop sewing machine and the program-controlled tying machine have been prototyped.

In Europe, the Company invested 13.33 million euros in 2018 to build a European intelligent product research and development center and a trial production base in Bensheim, Germany, which is expected to be completed by the end of 2019. This investment is conducive to meeting the rising demand for automation and

intelligent upgrading of sewing machinery; it can expand the production capacity of KSL Branch, solve the problem of limited production sites, achieve capacity balance and meet market demand. This project is conducive to enhancing the Company's research and development capabilities and improving the trial production level of new products; it is also conducive to the Company's continued integration and promotes the Company's globalization strategy.

In China, the Company invested 154 million yuan to build an intelligent manufacturing base in Huangyan District, Taizhou, Zhejiang Province. The investment in the construction of Taizhou Huangyan Intelligent Manufacturing Base is conducive to better grafting German DA and PFAFF product technology based on the Company's existing industry, developing multi-brand and intelligent product manufacturing, and creating the largest sewing machine production base in China.

(4) Continue to do a good job in internal control management and continuously improve operational efficiency

In 2018, the Company completed the revision of the Company's ISO 9001:2015 quality management system. Combined with the new standards, such as performance appraisal and risk prevention, based on the Company's new organizational structure, the Company has sort out the related processes of quality control.

In 2018, the Company will do a good job in the implementation and management of the Group's annual budget, do a good job in fund arrangement and fund pooling within the Group, and expand financing channels. In addition, the Company continued to build the internal control system of the Company and its subsidiaries, and rectified the 2017 internal control re-evaluation test and defects. Nine internal audit engineering audits were also completed.

## 2. Main Operating Condition

During the reporting period, the Company achieved operating income of 3.2 billion yuan, a year-on-year increase of 4.42%, mainly due to the year-on-year increase of 11.31% in sewing equipment and intelligent manufacturing equipment. Operating profit was 200 million yuan, down 30.92% year-on-year, mainly due to the loss of Stoll in current period and the year-on-year reduction of housing relocation compensation income. The net profit attributable to shareholders of listed companies was 141 million yuan, a year-on-year decrease of 28.59%. The net profit attributable to shareholders of listed companies after deducting non-recurring gains and losses decreased by 19.45% year-on-year.

### 1) Main Business Analysis

#### A. Analysis of Changes of Items in Income Statement and Cash Flow Statement

Item	2018	2017	Increase/Decrease (%)
Operating income	3,200,527,741.09	3,064,971,500.79	4.42
Operating cost	2,322,152,730.89	2,245,537,329.26	3.41
Selling expenses	322,696,906.11	284,810,887.21	13.30
General and administration expenses	230,502,679.98	207,021,408.70	11.34
R & D expenses	97,647,657.57	84,350,255.40	15.76
Finance expenses	16,859,739.48	-5,263,527.90	N/A
Net cash flow from operating activities	79,553,871.30	117,335,869.17	-32.20
Net cash flow from investing activities	-352,612,604.58	-119,869,574.99	N/A
Net cash flow from financing activities	113,452,905.75	-60,325,135.90	N/A

#### B. Income and Cost Analysis

During the reporting period, the Company achieved operating income of 3.2 billion yuan, a year-on-year increase of 4.42%, mainly due to the year-on-year increase of 11.31% in sewing equipment and intelligent

manufacturing equipment. The main reason is that the Company is committed to the development of intelligent manufacturing. In 2018, SGG acquired 65% of stake in Richpeace and incorporated it in the scope of consolidation.

**a) Main Business by Industry/Region**

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 & intelligent equipment	2,159,131,523.78	1,399,795,850.60	35.17	11.31	14.42	Decrease 1.76 percent point
Logistic service	761,681,126.67	695,390,097.46	8.70	-0.94	-2.71	Increase 1.66 percent point
Export trade	95,223,904.21	93,291,211.22	2.03	-51.97	-52.16	Increase 0.4 percent point
Office equipment and film materials	46,474,027.84	39,231,617.54	15.58	-17.62	-20.80	Increase 3.38 percent point
Others	12,168,911.64	7,764,028.10	36.20	19.45	-6.69	Increase 17.87 percent point
Total	3,074,679,494.14	2,235,472,804.92	27.29	3.41	2.03	Increase 0.98 percent point
Main Business by Region						
Industry	Operating income	Operating cost	Gross margin (%)	Operating income increase/decrease (%)	Operating cost increase/decrease (%)	Gross margin increase/decrease (%)
Domestic	1,734,368,475.06	1,477,335,063.27	14.82	9.00	4.02	Increase 4.08 percent point
Overseas	1,500,442,605.74	918,269,328.31	38.80	1.23	5.47	Decrease 2.46 percent point

**b) Analysis of Production and Sales**

Major Product	Product output	Sales volume	Inventory	Increase/Decrease in production over the previous year (%)	Increase/Decrease in sales over the previous year (%)	Increase/Decrease in inventory over the previous year (%)
Industrial sewing equipment (domestic)	193,344	187,215	37,964	3.4%	3.5%	19.3%
Industrial sewing equipment (domestic, OEM)	45,053	45,063	135	76.1%	76.1%	-7.4%
Industrial sewing equipment (overseas)	29,837	32,419		-2.9%	-11.6%	
Industrial sewing equipment (Total)	268,234	264,697	35,517	10.3%	8.9%	11.1%
Household sewing machine (OEM)	293,523	293,341	677	40.9%	39.4%	36.8%
Multi-functional household sewing machine (OEM)	85,604	87,091	18,976	-14.0%	-6.4%	-7.3%
Household sewing machine (Total)	379,127	380,432	19,653	23.1%	25.4%	-6.2%

**c) Cost Analysis**

Industry	Cost item	2018	Current period proportion (%)	2017	Previous period proportion (%)	Change (%)	Notes
Sewing equipment & intelligent equipment	Material	941,826,785.27	42.13	774,957,920.33	35.37	21.53	
	Labor	341,566,272.60	15.28	296,611,105.46	13.54	15.16	
	Depreciation	44,765,110.83	2.00	38,158,659.16	1.74	17.31	
	Manufacture cost	71,637,681.90	3.20	113,687,326.29	5.19	-36.99	
	Total	1,399,795,850.60	62.62	1,223,415,011.24	55.84	14.42	
Logistic service	Logistics cost	695,390,097.46	31.11	714,752,388.59	32.62	-2.71	
Export trade		93,291,211.22	4.17	195,004,666.92	8.90	-52.16	
Office	Material	26,314,943.38	1.18	37,664,031.50	1.72	-30.13	



equipment and film materials	Labor	9,983,697.47	0.45	7,587,657.23	0.35	31.58	
	Depreciation	264,644.22	0.01	338,835.76	0.02	-21.90	
	Manufacture cost	2,668,332.47	0.12	3,943,876.00	0.37	-32.34	
	Total	39,231,617.54	1.75	49,534,400.49	2.26	-20.80	
Others		7,764,028.10	0.35	8,320,443.37	0.38	-6.69	

#### d) Main Consumers and Main Suppliers

The sales of the top five customers were 357.62 million yuan, accounting for 11.17% of the total annual sales; the purchase amount of the top five suppliers was 149.95 million yuan, accounting for 7.72% of the total annual purchase.

#### C. Expense

Item	2018	2017	Increase/Decrease (%)
Selling expenses	322,696,906.11	284,810,887.21	13.30
General and administration expenses	230,502,679.98	207,021,408.70	11.34
R & D expenses	97,647,657.57	84,350,255.40	15.76
Finance expenses	16,859,739.48	-5,263,527.90	N/A
Income tax expenses	45,789,835.67	82,928,869.66	-44.78

Note 1: Financial expenses increased by RMB 22.12 million year-on-year, mainly due to the year-on-year decrease in interest income and the increase in exchange losses.

Note 2: Income tax expenses decreased by 44.58% year-on-year, mainly due to the year-on-year decrease in net profit of DA AG with high income tax rate.

#### D. Investment in R & D

R & D investment capitalized in 2018	97,647,657.57
R & D investment expensing in 2018	6,768,028.94
Total	104,415,686.51
Total R & D investment in proportion in operating income	3.26
Proportion of R & D investment capitalized (%)	6.48

#### E. Cash Flow

Item	2018	2017	Increase/Decrease (%)
Net cash flow from operating activities	79,553,871.30	117,335,869.17	-32.20
Net cash flow from investing activities	-352,612,604.58	-119,869,574.99	N/A
Net cash flow from financing activities	113,452,905.75	-60,325,135.90	N/A
Impact of exchange rate changes on cash and cash equivalents	4,033,729.47	26,314,632.54	N/A

Note 1: Mainly due to the year-on-year decrease in the sales-to-revenue ratio, the increase in cash paid to employees and the year-on-year increase in cash paid for employees and the year-on-year decrease in taxes paid.

Note 2: Mainly due to the increase in the purchase of Richpeace's 65% equity and the purchase and construction of fixed assets and the year-on-year decrease in the receipt of housing relocation compensation income.

Note 3: Mainly due to the increase in bank loans.

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

#### 2) Explanation of major changes in profits caused by non-core business

(1) Detailed description of major changes in the company's profit composition or source of profit

Item	2018	2017	Increase/Decrease (%)	Reason
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Finance expense	16,859,739.48	-5,263,527.90	N/A	Note 1
Investment income	12,758,268.06	45,607,259.29	-72.03	Note 2
Asset disposal income	443,708.05	23,963,103.89	-98.15	Note 3
Income tax expense	45,958,015.67	82,928,869.66	-44.58	Note 4
Net after tax for other comprehensive income	-3,215,557.02	36,930,889.17	-108.71	Note 5

Note 1: Mainly due to the year-on-year decrease in interest income and the increase in exchange loss year-on-year.

Note 2: Mainly due to the decrease in investment income of the joint venture Stoll.

Note 3: Mainly due to the compensation for housing relocation in 2017.

Note 4: Mainly due to the year-on-year decrease in the net profit of the DA Group with high income tax rate.

Note 5: Mainly due to the decrease in the net assets of the European subsidiaries' re-measurement of the defined benefit plan and the translation of the foreign currency statement.

### 3) Analysis of Assets and Liabilities

Item	Ending balance of current period	Ending balance to total assets of current period (%)	Ending balance of previous period	Ending balance to total assets of current period (%)	Change (%)	Notes
Prepayments	39,695,762.85	0.96	64,393,627.71	1.74	-38.35	Mainly due to the transfer of intangible assets by the transfer of land transferred by SG Zhejiang in the previous year.
Other receivables	120,422,496.29	2.91	58,966,056.94	1.59	104.22	Mainly due to the dividends distributed by Stoll KG and the increase in the current development of the welding business of the domestic subsidiary DAMSH and the increase in the export tax rebate in the current period.
Other current assets	249,326,335.31	6.02	366,533,356.84	9.90	-31.98	Due to the company's reduction of the purchase of bank-guaranteed wealth management products in the current period.
Long-term receivables	31,427,418.92	0.76	0.00	0.00		Due to the financing lease receivable from the domestic subsidiary ShangGong SMPIC Finance Leasing Co., Ltd.
Construction in progress	119,166,627.75	2.88	12,665,274.09	0.34	840.89	Mainly due to the expenditures of construction projects such as production, R&D bases and modern logistics management centers increased by domestic and foreign subsidiaries during the current period.
Intangible assets	270,072,349.34	6.52	149,988,157.46	4.05	80.06	Mainly due to the acquisition of 65% equity of Tianjin Richpeace in the current period, which was included in the scope of consolidation





Item	Ending balance of current period	Ending balance to total assets of current period (%)	Ending balance of previous period	Ending balance to total assets of current period (%)	Change (%)	Notes
						and increased land use rights.
Development expenditure	6,798,312.48	0.16	16,683,772.84	0.45	-59.25	Mainly due to the overseas subsidiaries' carryover of capitalized R&D expenditures to intangible assets
Goodwill	140,074,270.28	3.38	72,482,033.43	1.96	93.25	Mainly due to the company's premium acquisition of 65% equity of Richpeace
Long-term prepaid expenses	3,875,409.77	0.09	1,631,013.88	0.04	137.61	Mainly due to the increase in fixed assets improvement expenses of domestic subsidiaries in the current period
short-term loan	206,614,015.12	4.99	330,389,201.62	8.92	-37.46	Mainly due to the company's overseas subsidiary DA AG reduced the short-term bank loans in the current period
Notes payable and accounts payable	318,803,039.91	7.69	206,343,320.56	5.57	54.50	Mainly due to the increase in bank acceptance bills of SGGEMSY and Richpeace was include in the consolidation scope in the current period.
Advance receipt	75,412,987.77	1.82	38,326,094.65	1.03	96.77	Mainly due to the acquisition of 65% equity of Richpeace in the current period.
Taxes payable	21,208,862.17	0.51	14,074,587.91	0.38	50.69	Mainly due to the inclusion of unpaid corporate income tax and value-added tax at the end of the period in which Richpeace was included in the the scope of consolidation.
Other payables	254,827,223.50	6.15	195,761,119.66	5.29	30.17	Mainly due to the increase of Tianjin Baoying's minority shareholders' loans
Non-current liabilities due within one year	4,173,297.07	0.10	1,260,000.00	0.03	231.21	Mainly due to the technology development funds received by the company in the current period and the financing leases due within one year.
Long term loan	340,477,650.27	8.22	62,956,504.27	1.70	440.81	Mainly due to the increase in bank borrowings for more than one year of the company's overseas subsidiary DA AG
Deferred income	0.00	0.00	2,340,000.00	0.06	-100.00	The development service industry guidance fund project received by SHENSY will be accepted by the government in



Item	Ending balance of current period	Ending balance to total assets of current period (%)	Ending balance of previous period	Ending balance to total assets of current period (%)	Change (%)	Notes
						2018, so it is adjusted to the subject of "other non-current liabilities due within one year".
Deferred income tax liabilities	70,805,236.44	1.71	52,863,141.42	1.43	33.94	Mainly due to the income tax liabilities arising from the taxable temporary differences arising from the increase in the identifiable assets calculated by Richpeace on the date of purchase.

Not applicable.

#### 4) Industry Business Information Analysis

See Chapter 3 for details.

#### 5) Investment Analysis

##### A. General Analysis

Unit: 10,000 Yuan

Long-term equity investment in 2018	28,351.59
Increase/Decrease	27,331.59
Long-term equity investment in 2017	1,020
Increase/Decrease (%)	2,679.57%

##### a) Significant equity investment

Name	Business	Total Amount	Shareholding ratio	Investment in 2018	Cumulative investment amount	Sources of funds	Other shareholders	Lawsuit
Richpeace	Automation special equipment, high-tech content (light, machine, electricity integration) special sewing equipment manufacturing; high-end textile and apparel software design, development; computer textile machinery manufacturing and software development, production, sales and related technical products consulting services; Import and export business; ordinary freight.	RMB 15,613,780	65%	RMB 12,881,300,300	RMB 12,881,300,300	Self-owned funds	Shenzhen Yingning Venture Capital Co., Ltd., Tianjin Tongshang Software Co., Ltd.	No
Squeeze-out of 5.99% minority shareholders of DA AG		20 million euro	/	20.35 million euros	20.517 million euros	Self-owned funds		Yes The Squeeze-out is completed. Lawsuit on the Purchase price is in progress.



**b) Major non-equity investment**

Item	Total amount	Actual investment amount for the current year	Cumulative actual investment amount	Sources of funds	Project progress
Investment in the construction of Taizhou Manufacturing Base	394 million yuan	RMB 28.61 million	RMB 65 million	Self-owned funds	Under construction
Investment in the construction of the European intelligent product research and development center and manufacturing base	13.39 million euros	271.34 million euros	271.34 million euros	Self-owned funds	Under construction

**c) Financial assets measured at fair value**

Securities code	Abbreviation	Initial investment cost	Proportion of the company's equity (%)	Book value as of December 31, 2018	Profi/loss in 2018	Changes in owner's equity during the reporting period	Accounting item	Source of Shares
600757	Changjiang Publishing & Media	72,085,722.82	0.85	67,146,441.68	1,029,853.40	-4,428,369.62	Available for sale financial assets	The transferee's interest in the bankruptcy and reorganization
900932	Lujia B Share	773,099.71	0.0067	1,975,180.91	100,135.76	-157,523.95		Enforcement
000166	Shenwan & Hongyuan	200,000.00	0.0011	889,791.54	10,931.10	-284,208.60		Purchased
601229	Bank of Shanghai	951,400.00	0.013	16,395,364.20	523,278.50	1,555,185.94		Purchased
Total		74,010,222.53	-	86,406,778.33	1,664,198.76	-3,314,916.23	-	-

**6) Major assets and equity sales**

Not applicable.

**7) Analysis of Major Subsidiaries**

Unit: 10,000 Yuan

Name	Business Scope	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
DAAG	Production, processing and sale of machines, machines and related parts and software, in particular sewing machines and conveyors and other industrial products	€12.5 million	191,230	87,448	147,620	12,681	8,954
SHENSY	Transportation of goods	17,882	47,658	26,092	76,294	1,912	1,419
SGGEMSY	Manufacturing and sales of various sewing equipment	21,600	36,061	21,413	35,556	143	320
Richpeace	Automatic special equipment, high-tech content (light, machine, electricity integration) special sewing equipment manufacturing; high-end textile and apparel software design, development	5,000	21,225	4,961	9,541	2,191	1,913

**3. Discussion and Analysis of the Company's Future Development**

**1) Industry Pattern and Trend**

From the perspective of the external environment, there are still many opportunities in the industry. First,

the demand for replacement of the international sewing equipment market will continue to be released. Second, the national "One Belt, One Road" policy strategy will be further promoted. Exports to the countries in the "Belt and Road" accounted for 62.3% of the total in the industry, which has increased by about nine percentage points in the past five years. It is expected that the future growth will remain huge. Third, the government has actively introduced various policies to reduce burdens for manufacturing enterprises and promote the high-quality development of manufacturing industries. Fourth, the upgrading of consumer demand for downstream industries represented by garment, leather, home textiles and other industries and the acceleration of the construction of smart factories in China will provide a broader space for development and growth in innovation and intelligent transformation of products, service expansion, value extension, and structural upgrading in the sewing machinery industry. At the same time, the unstable global economic situation has also brought challenges to the industry. First, the impact of Sino-US trade disputes will continue to be uncertain, downstream enterprises will continue to wait and see, and many manufacturing enterprises will shift to Southeast Asia. Second, the emerging US dollar will continue to raise interest rates. The market currency crisis and sluggish demand pose challenges to industry exports.

From the perspective of the internal environment of the industry, the industry has gradually entered a new round of industry growth cycle from automation to intelligence. The combination of strong and strong industries and complementary advantages has become an important development option for enterprises. The integration of new technologies, new models, new formats, and sewing machinery industries such as Internet of Things, big data, and intelligent manufacturing will strongly promote industry transformation and upgrading. "Automation" + "Big Data" + "Artificial Intelligence" may become the core competitiveness of the future. However, the challenges and operational pressures faced by enterprises are still unabated. First, under the impetus of environmental protection and supply-side reform, the cost of enterprises will rise irreversibly. Second, the adverse effects of the staged overcapacity caused by the rapid downturn of the market in the second half of 2018 will soon appear, and a new round of market and price competition will have an adverse impact on the industry. Third, in the process of transformation, the shortage of talents is more prominent, and enterprises lack effective talent support.

## 2) Company Development Strategy

In 2019, the Company will continue to adhere to the Market-oriented, Benefit-first business philosophy, comprehensively promote institutional adjustment, mechanism reform, achieve rapid response to the market, and strive to create a market-oriented enterprise oriented to customer demand. The Company will adhere to technological innovation, increase investment in research and development, accelerate product technology upgrades, consolidate product technology advantages, and continue to maintain its leading position in the global sewing equipment industry. Meanwhile, the Company will continue to do a good job in internal control management, reduce costs and increase efficiency, and complete the business objectives set by the Board of Directors.

Main tasks of SGG in 2019:

1. Vigorously promote institutional reform and explore the diversified development of manufacturing industry

In 2019, the Company will further deepen the mechanism reform and continue to promote the operator's shareholding operation. The Company will seize market opportunities, conduct financing investments in a timely manner, and explore and promote the moderate diversification of manufacturing products.

In 2019, the Company will vigorously promote the comprehensive reform of the customer-oriented organization. The enterprises and departments of SGG will adjust the system based on the rapid response to the market, and allocate the salary of the cadre and employees based on the economic benefits.

In Europe, the Company will accelerate the full integration of DA Group with PFAFF and KSL, and

achieve break-even of PFAFF by reducing costs. In China, the Company will steadily advance the follow-up work of SMPIC Electronics Co., Ltd., and integrate DAMSH, SMPIC Electronics and the Group's Manufacturing Branch to promote the development of robot application technology and intelligent manufacturing equipment business.

In addition, according to the decision of the Board, the Company will also make a follow-up capital increase for Richpeace and promote the cooperation between Richpeace and PFAFF/KSL.

## 2. Adhere to market orientation and actively expand sales

The Company will always adhere to the Market-oriented, Benefit-first business philosophy, continue to implement a professional multi-brand marketing strategy, and strive to expand the market. The Company and its subsidiaries will work together to actively carry out the exhibitions of the two major exhibitions of CISMA and Texprocess in 2019, and vigorously promote the company's brands.

DA Group will further increase the revenue of DAC electronic control business, actively promote Qondac system, and plan to launch M-Type Delta machine at Texprocess in 2019.

In China, the Company will continue to integrate the domestic DAP sales platform, and integrate DAP Shanghai, DAP Taizhou and Richpeace's domestic branches, and implement localized management of sales and maintenance personnel. For the basic products of the DA, Pfaff and Mauser brands, the Company will strive to increase sales significantly; in the field of heavy material machine sales, it will gradually form a classified sales comparable to the sales of automotive products. In 2019, try to realize the significant increase of sales in heavy/medium material machine applid for luggages and sofas. The sales of KSL automatic equipment products are also striving to achieve substantial growth; further improve the evaluation and elimination mechanism of dealers and vigorously expanding the dealer network; in addition, promote sales of the full series of the Mauser brand which is also identified as an important marketing strategy task.

In Southeast Asia, the Company will strengthen the coordinated sales of its subordinate DAP Singapore, Richpeace and SGGEMSY in Southeast Asia, integrate customer resources, and make full use of SGG's marketing platform to tap market potential and expand market share. In the Vietnamese market, the Company will consolidate the dealer network and do contract management. According to the customer country, choose different agents; at the same time, strengthen the training of local sales staff, rapidly expand the sales of local Vietnamese companies, and significantly increase the sales of the PFAFF brand in the Vietnamese market. In the Thai market, the Company will set up a sales and service team as soon as possible, taking the automotive industry as a breakthrough point, focusing on serving large customers, and vigorously promoting basic products such as DA, PFAFF, Masuer and Richpeace, resulting in a large increase in sales. In addition, the Company will actively expand its market in the Indonesian market, the Myanmar market and the Cambodian market.

In 2019, the Company's production companies will share sales responsibilities and achieve budgetary targets with sales organizations, and organize efforts to assist sales organizations to meet customer requirements for product price, functional performance, quality improvement and maintenance services, and jointly control sales expenses. .

In 2019, the Company's household sewing machine will make full use of the "Butterfly" brand's centennial celebration, promoting the "Butterfly" brand, and striving to achieve a substantial increase in domestic sewing machine sales in China. Continue to improve the "Sewn Embroidery Home" network platform, actively promote the network platform, and strive to achieve a full coverage of the country. In addition, SGG will continue to build the industrial sewing machine network sales platform, realize the breakthrough of the standard industrial sewing machine online sales, and expand the online sales range of industrial sewing machine parts. In addition, the Company will focus on the development of major markets such as India, Russia, Algeria, Sri Lanka and Brazil, and deploy a network of distribution agents.

### 3. Consolidate product technology advantages and steadily promote intelligent manufacturing

In 2019, the Company will continue to build the Bensheim trial base in Germany and enhanced KSL production capacity. SG Zhejiang will continue to promote the construction of the Taizhou intelligent manufacturing base, and with the assistance of SGGemsy, do a good job in equipment selection and site layout of the base, and strive to complete the integration and commissioning of the Taizhou factory by the end of 2019.

In terms of research and development, the Company will continue to do research and development of embroidery electrical control, integrated flat seam electrical control (automatic), integrated overlock electrical control and automatic feeding shoe electrical control (improved); Development and trial production of L-Type sewing machine; advancement of M-Type 3 development as planned; and together with Shanghai Jiaotong University to further promote the design-manufacturing-service integrated cloud platform development for apparel customization.

In 2019, the Company completed the trial production of the sleeve card machine and the improvement of the forklift machine, completed the manufacture of the DA 806 and PFAFF 3588 templates and other important parts and accessories of the sewing unit; optimize the cost, focus on the rectification of existing product quality problems and after-sales service; do a good job of item management of intelligent equipment to ensure that the gross profit margin reaches 15% or more. PFAFF welding machine and short-cutting shoe machine must have mass production capacity in China; the Company will strengthen supply chain management, reorganize the supplier system, and strive to reduce the cost of Mauser machine raw materials and parts by 10% under the premise of ensuring quality. In addition, accelerate the trial production and mass production of key components, and try to sell some third-party products in addition to the Company's internal support.

### 4. Improve operational efficiency and manage risk

In 2019, the Company will continue to build the internal control system of the parent company and its subsidiaries, and continue to complete the rectification of the internal control re-evaluation test and defects in 2018, as well as the combing, supervision and improvement of the internal control standardization of the group system in 2019 and the independent testing of the Internal Control Evaluation Work Programme for 2019.

Richpeace should further improve the system construction, establish a suitable internal control management system on the premise of meeting the requirements of internal control, implement comprehensive management, advocate full participation, establish internal control system that restricts each other and connects each other, and improves Enterprise management level and anti-risk ability; at the same time, self-diagnosis of the status quo of internal institutions, analysis of the division of functions, past performance, cooperation ability, personnel composition, cost and other aspects of various agencies, judging the implementation of separation of main and auxiliary, streamlining and simple administration, collaborative production The feasibility of other aspects, and do a good job of reform and adjustment.

Actively explore the establishment of an efficient financial management and control system, do a good job in the preparation of comprehensive budget management in 2019, do a good job in financial risk early warning, realize early warning management of major financial risks, prevent financial risks; actively explore and establish a "fund pool" of the group company Improve capital gains and strengthen fund supervision. Continue to do a good job of maintaining stability, further tap effective assets, and properly handle historical issues. Continue to implement the safety production responsibility system and continue to do a good job in safety production and environmental protection.

### 3) Business plan

Operating income: 3.7 billion yuan; operating profit: 290 million yuan; ROE: not less than 8%.

#### 4) Possible risks

##### (1) Industrial and market risk

The sewing equipment industry is an industry full of market competition, with obvious periodicity, and has strong dependence on downstream textile and garment, leather bags and other industries, and is greatly affected by the macroeconomic environment. Due to the large proportion of the Company's sewing equipment industry, the Company is more likely to be affected by the overall industry fluctuations. The Company may face increased competition in the industry, lower gross profit margins and lower product prices.

##### (2) Transnational operations and integration risk

With the expansion of the Company's overseas assets and business scale, transnational operations put forward higher requirements for the Company's organizational structure, business model, management team and staff. In the process of production, operation and the integration of overseas subsidiaries, the Company will face challenges arising from differences in domestic and international policy systems, corporate culture and management concepts.

##### (3) Risk of exchange rate fluctuations

The bookkeeping base currency of the Company's consolidated statements is RMB. Domestic product exports are mostly settled in US dollars. The daily operations of the Company's subsidiary DAP AG and its holding subsidiaries are mainly settled in foreign currencies such as the Euro. Fluctuations in the RMB exchange rate will bring certain exchanges on the future operation of the Company, resulting in asset depreciation risk.

## Chapter 5 Important Matters

### 1. Common stock profit distribution plan or capital reserve fund transfer plan

According to the documentary spirit of the China Securities Regulatory Commission's "Guidelines for the Supervision of Listed Companies No. 3 - Cash dividends of listed companies" and the relevant documents of the Shanghai Stock Exchange on the "Guidelines for Cash Dividends of Listed Companies of the Shanghai Stock Exchange", combined with the actual situation of the company, The company has formulated a clear cash dividend policy and its decision-making and adjustment mechanism in the Articles of Association. During the reporting period, the company implemented the dividend policy in strict accordance with the relevant dividend regulations formulated by the Company's Articles of Association.

During the reporting period, the 2017 annual profit distribution plan reviewed and approved by the Company's 2017 Annual General Meeting of Shareholders was implemented without the implementation of cash dividend distribution, non-shareholding or transfer of share capital.

Audited by BDO China Shu Lun Pan Certified Public Accountants LLP., the Company achieved the consolidated net profit of 158,449,643.95 yuan in 2018, of which, the net profit attributable to parent company owners is 140,828,047.20 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 deficit of previous years, the Company did not draw the legal accumulation fund. The current-period net profit of the parent company is 32,898,977.07 yuan; the undistributed profits at the beginning of 2018 are -143,892,809.85 yuan; thus the practical profit available for distribution is -110,993,832.78 yuan at the end of 2018. As the parent company's profit available for distribution is negative, the profit distribution cannot be made in 2018, neither the transferring of capital reserves into share capital.

**2. Commitment**

PKFR promised that its shareholding ratio will not be reduced to less than the shareholding ratio of Pudong SASAC within 36 months from the date of stock delivery. The commitment period is from December 29, 2016 to December 28, 2019. It is being strictly implemented.

**3. The situation of funds being occupied and the progress of debts during the reporting period**

Not applicable.

**4. Explanation of “non-standard opinion audit report”**

Not applicable.

**5. Analysis of the Reasons and Impacts of Changes in Accounting Policies, Changes in Accounting Estimates, or Major Accounting Errors**

The Content and reasons of accounting policy changes	Item and amount affected
(1) The “receivable notes” and “accounts receivable” in the balance sheet are combined as “receivable notes and accounts receivable”; “payable notes” and “accounts payable” are combined as “payable” “Notes and accounts payable”; “interest receivable” and “dividends receivable” are included in “other receivables”; “interest payable” and “dividend payable” are included in “other payables”; “Asset Clearance” is included in “Fixed Assets”; “Engineering Materials” is included in “Construction in Construction”; “Special Payables” is included in “Long-term Payables”. The comparison data is adjusted accordingly.	The “receivable notes” and “accounts receivable” are combined into “receivable notes and accounts receivable”. The current amount is 617,760,694.90 yuan, and the previous period amount is 526,096,919.07 yuan; The “Accounts payable” and “Accounts payable” are combined into “Accounts payable and accounts payable”. The current amount is 318,803,039.91 yuan, and the previous amount is 206,343,320.56 yuan; Increasing the amount of “other receivables” for the current period of 27,041,989.94 yuan, and increasing the amount of the previous period by 21,645.73 yuan; Increasing the amount of “other payables” for the current period was 1,838,717.63 yuan, and the amount of the previous period was 2,143,371.92 yuan; The amount of the “fixed assets” in the current period and the amount in the previous period have not been increased; The current amount of the “construction in progress” and the amount of the previous period have not been increased; The amount of the “long-term payables” for the current period and the amount of the previous period have not been increased.
(2) Add “R&D Expenses” item in the income statement, reclassify the R&D expenses in the original “Management Expenses” to “R&D Expenses” separately; add “Including: Interest” under the financial expenses in the income statement.: Fees and interest income items. The comparison data is adjusted accordingly.	The amount of “administrative expenses” was reduced to 97,647,657.57 yuan, and the previous amount was 84,350,255.40 yuan, which was reclassified to “R&D expenses”.
In the table of changes in owner's equity, the item “Setting the benefit of the change in the defined benefit plan to carry forward the retained income” is added. The comparison data is adjusted accordingly.	N/A

**6. Appointment of Accounting Firms**

Unit: 10,000 Yuan

Name	BDO China Shu Lun Pan Certified Public Accountants LLP.
Payment	100
Audit Years	12

	Name	Payment
Internal control audit accounting firm	BDO China Shu Lun Pan Certified Public Accountants LLP.	45

**7. Risk of Suspension of Listing**

Not applicable.

**8. The Situation and Reasons for the Termination of Listing**

Not applicable.



**9. Bankruptcy**

Not applicable.

**10. Major lawsuits and arbitrations**

According to the capital increase agreement signed by DAP AG, a subsidiary of the Company, on August 29, 2015, the calculation of the 26% share price of the capital increase is based on the net assets in the 2014 audited consolidated statement of Stoll. It is agreed that the share price will be adjusted according to the net assets in the 2015 audited consolidated statement of Stoll and the relevant terms of the agreement. Due to the dispute between the two parties on the calculation of Stoll's 2015 net asset value and the relevant provisions in the agreement, there are differences in the calculation of the equity price adjustment. On July 20, 2017, DAP AG received an arbitration application from 12 Stoll shareholders including Michael Stoll and Corinna Stoll, except for DAP AG. The Company will settle the dispute through arbitration in accordance with the German legal procedures in accordance with the terms of the agreement.

As of December 31, 2018, DAP AG absorbed and merged DA AG and changed its name to DA AG. The arbitration is still in progress and will be resolved together with the company's disposal of 26% equity of Stoll.

**11. Penalties and rectification of listed companies and their directors, supervisors, senior management personnel, controlling shareholders, actual controllers and purchaser**

Not applicable.

**12. Explanation of the integrity of the company and its controlling shareholders and actual controllers during the reporting period**

Not applicable.

**13. The Company's Equity Incentive Plan, Employee Stock Ownership Plan or Other Employee Incentives**

Not applicable.

**14. Major related party transactions**

Shanghai SGSB Electronic Co., Ltd., a wholly-owned subsidiary of the Company, sells products to Fiji Xerox of Shanghai Limited., and is its permanent accessory supplier. The above-said transaction constitutes the daily associated transaction. It is estimated that in 2018, the amount of products that it will sell to Fiji Xerox is 20 million yuan, and in the report period, the sales amount was 17.43 million yuan, decreased by 12.85%. It is mainly due to the year-on-year decrease in the sales volume of Shanghai Fuji Xerox Co., Ltd. and the adjustment of production models.

**15. Significant contracts and their implementation**

**1) Trusteeship, contracting and lease**

Not applicable.

**2) Guarantee**

Unit: 10,000 Yuan, Currency: RMB

Guarantor	Relations of the guarantor to listed company	Security party	Amount guaranteed	Guarantee date (agreement signoff 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	2014/3/25	2014/3/25	2018/11/15	Joint liability guarantee	Yes	No	0	No	No	
SGG	The Company	Commerzbank Shanghai Branch	6,866	2014/6/30	2014/7/1	2018/11/15	Joint liability guarantee	Yes	No	0	No	No	
SGG	The Company	Commerzbank Shanghai Branch	10,299	2016/9/19	2016/9/19	2018/11/15	Joint liability guarantee	Yes	No	0	No	No	
SGG	The Company	Commerzbank Shanghai Branch	8,583	2015/8/28	2015/8/28	2018/11/15	Joint liability guarantee	Yes	No	0	No	No	

SGG	The Company	Industrial & Commercial Bank of China Shanghai Hongkou Branch	6,278	2015/12/21	2015/12/21	2020/12/21	Joint liability guarantee	No	No	0	No	No	
DAAG	Wholly-owned subsidiary	Commerzbank	2,146	2016/1/7	2016/1/7	2018/7/30	Joint liability guarantee	Yes	No	0	No	No	
Guarantee amounts spent during the report period (excluded guarantee to affiliate company).										-34,858			
Total balance of guarantee at the end of period (affiliate companies are not quailed.) (A)										6,278			
Guarantee of company to affiliates													
Total guarantee amounts of subsidiaries in the report period										6,000			
Total balance of guarantee to subsidiaries at the end of report period (B)										6,000			
Company total guarantee amounts (including those to subsidiaries)													
Total guarantee amounts (A+B)										12,278			
Ratio of total guarantee amounts to company net assets (%)										5.55			
In which:													
Guarantee amounts provided to stockholders, actual controller and affiliated parties (C)										0			
Guarantee amounts directly or indirectly provided for liabilities of guarantor whose assets liabilities ratio is higher than 70% (D)										6,000			
Differences of total guarantee amounts exceeds 50% of the net assets (E)										0			
Total guarantee amounts of the above-mentioned three items (C+D+E)										6,000			

On 21st December 2015, the Company's wholly owned subsidiary DAP AG applied to the Frankfurt Branch of ICBC for a limit loan of 7.878 million euro so as to pay the acquisition fee to Stoll KG. ICBC 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.

On November 20, 2018, Tianjin Richpeace Computer Machinery Co., Ltd., a subsidiary of the Company, applied to the Shanghai Branch of China Minsheng Bank Co., Ltd. for a comprehensive credit of 60 million yuan. The company provides the highest comprehensive credit guarantee. Tianjin Tongshang Software Co., Ltd. and Shenzhen Yingning Venture Capital Co., Ltd., minority shareholders of Richpeace, respectively provided 15% and 20% of the shares of Richpeace to provide 15% and 20% guarantee fro the company's guarantee responsibility.

### 3) Cash asset management

#### A. Entrusted financing

Unit: 100 million yuan, Currency: RMB

Type	Resource	Total amount	Amount unexpired	Amount overdue
Structured deposits	Idle raised funds	1.11	1.1	0
Structured deposits	Idle self-owned funds	2.22	0.7	0

With the review and approval of the 35th meeting of the Seventh Board of Directors on 31st March 2017, it is resolved that idle raised funds of 110 million yuan and self-owned funds of 222 million yuan were managed in purchasing RMB financial products of the bank with principal guaranteed. With the review and approval of the 4th meeting of the Eighth Board of Directors on 12 April 2018, it is resolved that idle raised funds of 110 million yuan and self-owned funds of 222 million yuan were managed in purchasing RMB financial products of the bank with principal guaranteed.

Unit: 10,000 yuan, Currency: RMB

Name of partner	Product name	Amount	Starting date	Ending date	Fund resource	Method of determining gains	Annualized rate of return	Gains actually obtained	
BOS Fumin Branch	Wenjin No. SD21706M041B	2	8,000	2017/7/6	2018/1/4	Self-owned	Floating gains with guaranteed principal	4.20%	167.54
BOS Fumin Branch	Wenjin No. SD21706M051B	2	2,500	2017/8/1	2018/1/30	Self-owned	Floating gains with guaranteed principal	4.35%	54.23
BOS Fumin Branch	Wenjin No. SD21706M051B	2	2,500	2017/8/1	2018/1/30	Raised	Floating gains with guaranteed principal	4.35%	54.23
BOS Fumin Branch	Wenjin No. SD21706M091B	2	6,500	2017/11/28	2018/5/29	Raised	Floating gains with guaranteed principal	4.30%	139.37
BOS Fumin Branch	Wenjin No. SD21706M091B	2	1,500	2017/11/28	2018/5/29	Self-owned	Floating gains with guaranteed principal	4.30%	32.16
BOS Fumin Branch	Wenjin No. SD21703M114B	2	2,000	2017/12/7	2018/3/8	Raised	Floating gains with guaranteed principal	4.40%	21.94





BOS Fumin Branch	Wenjin No. SD21706M094B	2	10,200	2017/12/7	2018/6/7	Self-owned	Floating gains with guaranteed principal	4.30%	218.70
BOS Fumin Branch	Wenjin No. SD21803M004B	2	7,000	2018/1/9	2018/4/10	Self-owned	Floating gains with guaranteed principal	4.55%	79.41
Shanghai Pudong Development Bank	JG903 Structured deposit		1,000	2018/1/9	2018/7/9	Self-owned	Floating gains with guaranteed principal	4.60%	23.00
BOS Fumin Branch	Wenjin No. SD21806M012A	2	2,500	2018/2/1	2018/8/2	Self-owned	Floating gains with guaranteed principal	4.60%	57.34
BOS Fumin Branch	Wenjin No. SD21806M012A	2	2,500	2018/2/1	2018/8/2	Raised	Floating gains with guaranteed principal	4.60%	57.34
BOS Fumin Branch	Wenjin No. SD21803M048B	2	2,000	2018/4/17	2018/7/17	Raised	Floating gains with guaranteed principal	4.60%	22.94
BOS Fumin Branch	Wenjin No. SD21806M037B	2	7,000	2018/4/17	2018/10/16	Self-owned	Floating gains with guaranteed principal	4.60%	160.56
BOS Fumin Branch	Wenjin No. SD21803M078C	2	6,000	2018/6/12	2018/9/11	Self-owned	Floating gains with guaranteed principal	4.55%	68.06
BOS Fumin Branch	Wenjin No. SD21801M088A	2	6,500	2018/6/19	2018/7/24	Raised	Floating gains with guaranteed principal	4.20%	26.18
China Merchants Bank	BBSJ 8688		2,000	2018/6/15	2018/8/14	Self-owned	Floating gains with guaranteed principal	3.15%—3.90%	10.73
China Merchants Bank	BBSJ 8688		1,500	2018/7/10	2018/8/14	Self-owned	Floating gains with guaranteed principal	3.15%—3.70%	4.60
BOS Fumin Branch	Wenjin No. SD21803M105B	2	8,500	2018/7/26	2018/10/25	Raised	Floating gains with guaranteed principal	4.20%	89.01
Bank of Communications	Yuntong Wealth Days	91	2,500	2018/8/6	2018/11/5	Raised	Floating gains with guaranteed principal	4.30%	26.80
BOS Fumin Branch	Wenjin No. SD21801M137A	2	4,000	2018/10/16	2018/11/20	Self-owned	Floating gains with guaranteed principal	3.60%	13.81
BOS Fumin Branch	Wenjin No. SD21803M158B	2	8,500	2018/11/8	2019/2/14	Raised	Floating gains with guaranteed principal	4.00%	
BOS Fumin Branch	Wenjin No. SD21803M162A	2	2,500	2018/11/20	2019/2/19	Raised	Floating gains with guaranteed principal	4.00%	
PING AN BANK	Structured deposits		1,500	2018/11/20	2019/2/19	Self-owned	Floating gains with guaranteed principal	4.10%	
BOS Fumin Branch	Wenjin No. SD21803M170A	2	4,000	2018/12/6	2019/3/7	Self-owned	Floating gains with guaranteed principal	4.00%	
PING AN BANK	Structured deposits 92Days		1,500	2018/12/4	2019/1/4	Self-owned	Floating gains with guaranteed principal	3.80%	

## B. Entrusted loan

Unit: 10,000 yuan, Currency: RMB

Trustee	Type	Amount	Starting date	Ending date	Fund resource	Investment targets	Annualized rate of return	Actual gain or loss	Note
BOS Fumin Branch	Others	5,300	2018/5/22	2018/11/22	Self-owned	Richpeace	4.7%	125.08	Principal and interest are fully recovered

### 16. Other Major Issues

Not applicable.

### 17. Implementation of Social Responsibility

#### 1) Poverty alleviation work of listed companies

Not applicable.

#### 2) Social responsibility work situation

The Company always regards the operation according to law as the basic principle of the Company's operation, and pays attention to the simultaneous and win-win situation of the economic and social benefits of the enterprise. In 2018, the Company earnestly abides by the requirements of national laws, regulations and policies, always operates according to law, actively pays taxes, strictly controls product quality, develops jobs, actively participates in Pudong New Area charity donations and volunteers for the people, and supports local economic development. There have been no cases of social responsibility such as social and economic development and environmental protection.

#### 3) Environmental information

The company and its Subsidiaries are not key pollutant discharge units announced by the environmental protection department. During the reporting period, the Company and its subsidiaries strictly implemented the national laws and regulations on environmental protection, formulated strict environmental practices, and adopted corresponding measures for pollution sources.

**18. Convertible Corporate Bonds**

Not applicable.

**Chapter 6 Changes in Common Shares and Shareholders**

**1. Changes in common stock capital**

Not applicable.

**2. Securities issuance and listing**

Not applicable.

**3. Shareholders and actual controllers**

**1) Total number of shareholders**

As of the end of the reporting period, the company had a total of 57,633 ordinary shareholders, including 31,036 shareholders of A shares and 26,597 shareholders of B shares.

As of the end of January last year, the total number of common shareholders of the company was 55,234, including 28,805 A-share shareholders and 26,429 B-share shareholders.

**2) The shareholdings of the top ten shareholders as of the end of the reporting period**

Unit: Share

Top Ten Unrestricted Shareholders' Shareholdings							
Name	Changer in 2018	Amount of shares held at the end of the period	Proportion (%)	Amount of shares held under restricted conditions	Pledge or freeze		Nature of shareholders
					Type	Amount	
Shanghai Puke Flyingman Investment Co., Ltd.	-789,457	60,000,000	10.94	0	Pledge	60,000,000	Domestic non-state legal person
State-owned Assets Supervision and Administration Commission of Shanghai Pudong New Aear People's Government	0	45,395,358	8.27	0	/		State
China GreatWall Asset Management Co., Ltd.	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
SCBHK A/C KG INVESTMENTS ASIA LIMITED	520,985	5,430,440	0.99	0	/		Foreign legal person
ISHARES CORE MSCI EMERGING MARKETS ETF	1,427,060	4,989,260	0.91	0	/		Foreign legal person
GreatWall Guorong Investment Management Co., Ltd.	0	4,770,654	0.87	0	/		State-owned legal person
VANGUARD EMERGING MARKETS STOCK INDEX FUND	0	3,678,113	0.67	0	/		Foreign legal person
Zeng Weili	3,487,900	3,487,900	0.64	0	/		Domestic natural persons
Chen Yan	3,263,500	3,263,500	0.59	0	/		Domestic natural persons
Top Ten Unrestricted Shareholders' Shareholdings							
Name	Number of shares held in unrestricted conditions	Type & Amount					
		Type	Amount				
Shanghai Puke Flyingman Investment Co., Ltd.	60,000,000	A Share	60,000,000				
State-owned Assets Supervision and Administration Commission of Shanghai Pudong New Aear People's Government	45,395,358	A Share	45,395,358				
China GreatWall Asset Management Co., Ltd.	22,200,000	A Share	22,200,000				
Shanghai International Group Asset Management Co., Ltd.	10,968,033	A Share	10,968,033				
SCBHK A/C KG INVESTMENTS ASIA LIMITED	5,430,440	B Share	5,430,440				



ISHARES CORE MSCI EMERGING MARKETS ETF	4,989,260	Share	4,989,260
GreatWall Guorong Investment Management Co., Ltd.	4,770,654	A Share	4,770,654
VANGUARD EMERGING MARKETS STOCK INDEX FUND	3,678,113	Share	3,678,113
Zeng Weili	3,487,900	A Share	3,487,900
Chen Yan	3,263,500	A Share	3,263,500

Note: PKFR is a wholly-owned subsidiary of Shanghai Pudong Technology Investment Co., Ltd., which has a relationship. Shanghai Pudong Technology Investment Co., Ltd. directly holds 789,457 A shares of the company, and PKFR holds 60,000,000 A shares of the company. GreatWall Guorong Investment Management Co., Ltd. is a wholly-owned subsidiary of China GreatWall Asset Management Co., Ltd., and there is a relationship; the Company is not aware of any relationship or concerted action among other shareholders.

The top ten shareholders with restricted sales and restricted sales: Not applicable.

#### 4. The Situation of Controlling Shareholders and Actual Controllers

As the Company's largest shareholder PKFR and the second largest shareholder Pudong SASAC holds a relatively low proportion of shares of the Company, and the shareholding ratio is relatively close, no more than 30%, no shareholder can form a separate control over the Company, the Company is a listed company with no controlling shareholder and no actual controller.

#### 5. Other corporate shareholders holding more than 10% of shares

Name	Legal representative	Date of establishment	Organization Code	Registered capital	Main business
Shanghai Puke Flyingman Investment Co., Ltd.	Zhu Xudong	2016/6/16	91310115MA1K3D9W81	7.235 million yuan	Industrial investment, investment management, investment consulting

#### 6. Explanation of the restrictions on shareholding reduction

Not applicable.

## Chapter 7 Preferred Stock

Not applicable.



## Chapter 8 Directors, Supervisors, Senior Management and Employees

### 1. Share change and compensation

#### 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 Compensation Payable in the Report Period (Unit: 10,000 yuan)	Compensation Payable by Related Parties
Zhang Min	Chairman	Male	56	2004/7/30	2020/4/26	170,000	170,000			105.92	No
	President			2017/4/27	2020/4/26						
Zhu Xudong	Director	Male	54	2017/4/27	2020/4/26						Yes
Yin Qiang	Director	Male	40	2017/4/27	2020/4/26						Yes
Huang Yingjian	Director	Female	42	2017/4/27	2020/4/26						Yes
Lu Yujie	Director	Male	49	2009/6/30	2020/4/26						Yes
Li Chen	Director	Male	35	2018/6/20	2020/4/26						No
Xi Lifeng	Independent director	Male	52	2017/4/27	2020/4/26					12	No
Rui Meng	Independent director	Male	51	2017/4/27	2020/4/26					12	Yes
Chen Zhen	Independent director	Male	44	2017/4/27	2020/4/26					12	Yes
Qiao Junhai	Chairman of the Supervisory Board	Male	61	2014/4/28	2020/4/26						No
Chen Mengzhao	Supervisor	Male	41	2017/4/27	2020/4/26						Yes
Zhang Jianguo	Supervisor	Male	59	2017/4/27	2020/4/26					64.30	No
Li Jiaming	Vice president (Chief)	Male	58	2008/4/18	2020/4/26					80.17	No
Fang Haixiang	Vice president	Male	52	2008/4/18	2020/4/26						No
Li Xiaofeng	Vice president	Male	44	2012/12/27	2020/4/26					78.44	No
Xia Guoqiang	Vice president	Male	54	2018/10/29	2020/4/26	54,900	54,900			11.51	No
Zhang Jianrong	CFO	Male	46	2018/10/29	2020/4/26					8.20	No
Zhao Lixin	Secretary of the board	Male	52	2019/1/30	2020/4/26						No
Li Wenhao	Director	Male	36	2017/4/27	2018/4/4						No
Zheng Ying	Vice president	Female	54	2008/10/27	2018/2/26	21,500	23,500	2,000	Purchase in the secondary market		No
Zhou Yongqiang	Secretary of the Board	Male	56	2017/4/27	2018/10/30					50.02	No
Total	/	/	/	/	/	246,400	248,400	2,000	/	434.56	/

Name	Main work experience
Zhang Min	He has a bachelor degree in engineering from Shanghai Jiao Tong University, an EMBA from China Europe International Business School, a professor-level senior engineer. He has won the title "China's Light Industry Model Worker", "Shanghai Labor Model Worker", "National Model Worker", "National Outstanding Entrepreneur" from 2015 to 2016, and "2018 Shanghai Outstanding Entrepreneur". He took part in the work in July 1983. He used to be the engineer of the introduction office., the deputy section chief of the quality control department, the chief section of the supply section, the director of the full quality office, the chief of the financial section, the head of the investment and development section, and general manager of Shanghai Refrigerator Compressor Co., Ltd. Assistant; General Manager of Shanghai Zanussi Electric Machinery Co., Ltd.; Deputy Party Secretary, Vice Chairman and General Manager, Chairman of Shanghai SMPIC Office Machinery Co., Ltd.;



	Chairman and CEO of ShangGong Group Co., Ltd. Since April 2017, he has served as chairman of the eighth Board of Directors and the General Manager of SGG. Now he is concurrently the vice chairman of China National Light Industry Council and vice chairman of the China Sewing Machinery Association.
Zhu Xudong	He has a doctor degree from Tongji University, a EMBA from China Europe International Business School, senior engineer. He used to be Assistant Engineer of Aeronautics and Aircraft Design Institute of Ministry of Transportation, Chief Staff Officer and Assistant to the Director of Urban Construction Bureau of Pudong New Area, Deputy Director and Chief Engineer of Pudong New Area Municipal Construction Administration, General Manager of Pudong New Area Construction and Management Co., Ltd., Deputy Director of the Planning and Development Bureau of Pudong New Area, Secretary of Science and Technology Bureau of Pudong New Area, Secretary of the Party Group (Director of Intellectual Property Office and Director of the Information Commission), Director of Science and Technology Committee of Pudong New Area, Party Secretary and First Vice-President and Party Secretary of the Pudong New Area Science and Technology Association. He is currently the chairman and president of Shanghai Pudong Science and Technology Investment Co., Ltd., and serves as the board chairman of Shanghai Wanye Enterprise Co., Ltd. and the director of Shanghai Xinmei Real Estate Co., Ltd. Since April 2017, he has served as a director of the eighth Board of Directors of the Company.
Yin Qiang	He holds a master's degree in financial investment from the School of Management of the University of Rotterdam in Netherlands, and is a first-tier financial analyst. He used to be a programmer in the financial software development department of the Shanghai Institute of Computing Technology; a staff member of the Investment Banking Department and the Investment Finance Department of Pudong Development Group Finance Co., Ltd.; a director of the Office of Pudong Public Rental Housing Company; an assistant to the director of office of Pudong Development Group Co., Ltd.; assistant director (Presiding) of Pudong SASAC. He is currently the general manager of the investment management department of Shanghai Pudong Investment Holdings Co., Ltd. and chairman of Shanghai Shine-link International Logistics Co., Ltd.. Since April 2017, he has served as a director of the eighth Board of Directors of the Company.
Huang Yingjian	She graduated from the University of Braunschweig in Germany with a master's degree and is an economist. She used to be a project consultant of Desun Trading & Consulting GmbH, a researcher at Fuka Economic Forecasting Institute, investment staff and employee director of Shanghai Digital Industry (Group) Co., Ltd., assistant director of the property rights section of Pudong SASAC; Deputy Manager of the Equity Management Department of Shanghai Pudong Investment Holding (Group) Co., Ltd. (Presiding), Legal Representative of Shanghai Pudong Asset Management Co., Ltd., Director of Shanghai Digital Industry Group Co., Ltd. Since April 2017, she has served as a director of the eighth Board of Directors of the Company.
Lu Yujie	Fudan University Master of Business Administration, Senior Economist. Previously worked at Shanghai Metro Corporation; once served as head of the investment bank of Shanghai International Trust & Investment Corporation; project manager of Financial Advisory Department, manager of Investment Banking Department and financial manager of Shanghai International Group Asset Management Co., Ltd.; operations director, financial director, and investment director of asset management of Shanghai International Group Asset Management Co., Ltd. Currently he is deputy general manager of Shanghai International Group Asset Management Co., Ltd. Since April 2017, he has served as a director of the eighth Board of Directors of the Company.
Li Chen	
Xi Lifeng	He is a senior professor in Shanghai Jiao Tong University. He received his Ph.D. from Shanghai Jiaotong University in 1995. Since September 1995, he has taught at Shanghai Jiao Tong University and served as vice president and dean of School of Mechanical and Power Engineering of Shanghai Jiao Tong University. Currently He serves as Vice President of Shanghai Jiao Tong University and Dean of Gas Turbine Research Institute, Executive Deputy Dean of China Institute of Quality Development, and Deputy Director of the Machinery Engineering Professional Steering Committee of the Ministry of Education, founded Fellow of International Engineering Asset Management Society, Standing Director of China Quality Association, and deputy chief editor of "Industrial Engineering and Management" journal. Since April 2017, he has served as an independent director of the 8th Board of Directors of the Company.
Rui Meng	He holds a Ph.D. in Finance from University of Houston. He is also professionally designated as Certified Financial Analyst (CFA) and Financial Risk Manager (FRM). He used to be a tenured Professor at Chinese University of Hong Kong. He was the Programme Director of Executive Master of Professional Accountancy which is a joint programme between the CUHK and Shanghai National Institute of Accounting. He was a deputy director of the Center for Institutions and Governance and a senior research fellow of Institute of Economics and Finance. He also serves as an independent director for COSCO Shipping Energy Transportation Co., Ltd. and Shanghai Winner Information Technology Co., Inc. He is a Member of American Finance Association, Financial Management Association, American Accounting Association, Hong Kong Securities Institute. He was a former member of the Panel of Examiners of the Securities Industry Examination of the Hong Kong Stock Exchange and a former member of the Advisory Board of the Business Valuation Forum in Hong Kong. He was a visiting financial economist at Shanghai Stock Exchange, research fellow at Hong Kong Institute for Monetary Research and research fellow at Asian Development Bank Institute. He was also a vice president of Hong Kong Financial Engineering Association. Since April 2017, he has served as an independent director of the eighth Board of Directors of the Company.
Chen Zhen	Bachelor of law. Chinese practicing lawyers. Since 1999, He has worked as a lawyer and partner in Links Law Offices. Since April 2017, he has served as an independent director of the 8th Board of Directors of the Company.
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 the Supervisory Board Chairman of the Company.
Chen Mengzhao	Bachelor of Engineering, Bachelor of Law, Lawyer. He used to be a lawyer at Shanghai Allbright Law Offices and Shanghai HIWAYS Law Firm. He joined Shanghai Pudong Science & Technology Investment Co., Ltd. in 2011 and has served as Senior Legal Manager of the Legal Department, Deputy General Manager of the Legal Department and Legal Director. He has also served as Director of Shanghai Wanye Enterprise Co., Ltd.; currently he serves as Partner of Shanghai Pudong Science &



	Technology Investment Co., Ltd., and Director & General Manager of Shanghai Xinmei Real Estate Co., Ltd. Since April 2017, he has served as a supervisor of the Company's 8th Supervisory Board.
Zhang Jianguo	University degree, senior engineer. He once served at Shanghai Washing Machine Third Factory and was the Chief of the Production Unit and Technical Unit; Deputy Chief of the Technical Department and the Workshop Director of Shanghai Washing Machine Factory; Director of the Enterprise Management Department, the Director of the Technology Development Department and the Deputy General Manager of Shanghai Shui Xian Electric Appliance Co., Ltd.; Chief engineer and deputy general manager of Shanghai SMPIC Office Machinery Co., Ltd., party secretary and deputy general manager of Shanghai Fuji Xerox Co., Ltd., secretary of the board of directors of ShangGong Group Co., Ltd. Now he is the deputy party secretary of the Company and the chairman of the labor union. Since April 2017, he has served as the supervisor of the 8th Supervisory Board of the Company.
Li Jiaming	He holds a bachelor's degree in science from Fudan University and is a professor-level senior engineer. 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.; Director and deputy general manager of ShangGong Group Co., Ltd.. Since April 2008, he served as deputy general manager of the Company.
Fang Haixiang	Master of engineering, senior engineer. Former deputy general manager and chief engineer of Shanghai Xiechang Feiren Co., Ltd.; former director of the Company. Since April 2017, he served as deputy general manager of the Company.
Li Xiaofeng	EMBA from China Europe International Business School, MBA from Shanghai University of Finance and Economics, Senior Economist. 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 DAPSH. Since December 2012, he served as the Company's deputy general manager.
Xia Guoqiang	Shanghai University of Technology (now Shanghai University) undergraduate degree, senior engineer. He used to be the technical technician and deputy section chief of Shanghai Jiangwan Machinery Factory, the marketing manager of Venus Needle Shanghai Co., Ltd. (Taiwan-funded), and the marketing director of Jinmingdun Water Heater Co., Ltd. (China-Canada Cooperation), Singer (Shanghai) Sewing Machine Co., Ltd. Engineering Manufacturing Manager, Product Manager, China Sales Director, Global Industrial Products Purchasing Manager; joined Shang Gong Group Co., Ltd. in February 2012, and served as Manager of Shanghai Purchasing Center of DA AG, Germany. Deputy General Manager of DAMSH, General Manager of Pfaff Industrial Sewing Machine (Taicang) Co., Ltd., General Manager of SGGEMSY, Assistant to President of SGG. Director of Manufacturing Management; from October 2019 to present, served as Vice President of the Company.
Zhang Jianrong	Master of Zhongnan University of Economics and Law, China Certified Public Accountant, China Registered Asset Appraiser. He used to be a trader of Wuhan Stock Exchange, the financial director of the Hong Kong and Macao Securities Hankou business department, the financial supervisor of Huawei Technologies Co., Ltd. (Wuhan); the assistant director of the financial direction of Shanghai Mingyuan Industrial Group Co., Ltd., the head of the audit department, and the assistant to the chairman; Guangwei Holdings General Manager of Risk Control Department. From October 2018 to present, he served as the Company's CFO.
Zhao Lixin	Undergraduate degree, accountant title. He used to be a financial officer of Shanghai Shenbei Office Machinery Co., Ltd., manager of the financial department of Shanghai Shenbei Real Estate Development Co., Ltd., manager of the finance department of Shanghai Suoying Real Estate Co., Ltd., and deputy manager of the finance department, Finance Director, and Assistant to the President of SGG. Since January 2019, he has served as Secretary of the Board of Directors and Director of the Finance Department.

Note 1: During the reporting period, Mr. Fang Haixiang, the Company's vice president, worked in Germany and received remuneration from overseas subsidiaries. He did not receive remuneration from the company headquarters.

Note 2: The Company's ninth meeting of the eighth board of directors held on January 30, 2019, appointed Mr. Zhao Lixin as the company's board secretary.

## 2) Equity incentives granted to directors and senior managers during the reporting period

Not applicable.

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

### 1) Employment with shareholders

Name	Shareholder	Title	Starting date	Ending date
Zhu Xudong	PKFR	Director, Legal Representative	June 2016	
Zhang Min	PKFR	Director	October 2018	
Huang Yingjian	Pudong SASAC	Assistant Director	February 2013	
Lu Yujie	Shanghai International Group Asset Management Co., Ltd.	Deputy general manager	May 2015	
Li Chen	GreatWall Guorong Investment Management Co., Ltd.	Manager (Senior)	July 2015	
Chen Mengzhao	PKFR	Supervisor	June 2016	

### 2) Employment with other institutions





Name	Company name	Title	Starting date	Ending date
Zhang Min	China Sewing Machinery Association	Deputy Director	26 September 2011	
	China Light Industry Federation	Deputy Director	21 June 2016	
	Ningbo Meishan Bonded Port Area Shangshen Investment Management Co., Ltd.	Executive Director, Manager, Legal Representative	23 March 2018	
	Ningbo Meishan Bonded Port Area Gongbei Investment Management Co., Ltd.	Chairman, legal representative	17 April 2018	
	Ningbo Meishan Bonded Port Area Shendie Equity Investment Partnership	Delegated representative	28 April 2018	
Zhu Xudong	Shanghai Pudong Technology Investment Co., Ltd.	Founding Partner, Chairman, President	January 2018	
	Shanghai Wanye Enterprise Co., Ltd.	Director	18 December 2015	14 January 2022
	Shanghai Xinmei Real Estate Co., Ltd.	Director	16 November 2016	
Yin Qiang	Shanghai Pudong Investment Holdings Co., Ltd.	General Manager of Investment Management	January 2018	
	Shanghai Changlian International Logistics Co., Ltd.	Chairman	June 2016	
Huang Yingjian	Shanghai Pudong Investment Holdings Co., Ltd.	Deputy Manager of Equity Management Department (presiding)	January 2016	
	Shanghai Digital Industry (Group) Co., Ltd.	Director	August 2014	
	Shanghai Pudong Asset Management Co., Ltd.	Legal representative	February 2016	
Lu Yujie	Shanghai International Group Asset Management Co., Ltd.	Executive director	March 2009	
	Gimpo Industrial Investment Fund Management Co., Ltd.	Director	December 2015	
	Shanghai Baoding Investment Co., Ltd.	Director	June 2014	
	Longjiang Bank Co., Ltd.	Director	July 2015	
	Tonglian Payment Network Service Co., Ltd.	Supervisor	August 2014	
Li Chen	Luoyang Axis Technology Co., Ltd.	Director	11 July 2018	
	Space Intelligence Co., Ltd.	Director	15 May 2018	
Rui Meng	COSCO Shipping Energy Transportation Co., Ltd.	Independent director	June 2015	
	Shanghai Huina Information Technology Co., Ltd.	Independent director	December 2015	
	Midea Group Co., Ltd.	Independent director	December 2015	26 September 2018
	China Education Group Holdings Limited	Independent director	December 2017	
Chen Zhen	KONE Law Firm	Lawyer, partner	January 1999	
	China Longgong Holdings Co., Ltd.	Independent director	October 2014	
	Ashridge Technology (Shanghai) Co., Ltd.	Independent director	May 2014	
	Chengdu Nibilu Technology Co., Ltd.	Independent director	July 2014	
Chen Mengzhao	Shanghai Pudong Technology Investment Co., Ltd.	Partner	January 2018	
	Shanghai Wanye Enterprise Co., Ltd.	Director	18 December 2015	15 January 2019
	Shanghai Xinmei Real Estate Co., Ltd.	Director	November 2016	
	Shanghai Xinmei Real Estate Co., Ltd.	General manager	25 May 2018	
Li Jiaming	Shanghai Fuji Xerox Co., Ltd.	Vice Chairman	June 2014	
	Ningbo Meishan Bonded Port Area Gongbei Investment Management Co., Ltd.	Director	April 2018	
Li Xiaofeng	Ningbo Meishan Bonded Port Area Gongbei Investment Management Co., Ltd.	Director	April 2018	

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

Decision making procedure for director, supervisor and officer compensation	Apply the regulation on Officers' Salary in Senior Management Personnel Remuneration Management Regulation
Basis for director, supervisor and officer compensation	Implement according to Senior Management Personnel Remuneration Management Regulation and other corporate internal control system
Director, supervisor and officer compensation payable	Compensation will be paid according to KPI, according to independent director



Total compensation at end of reporting period for director, supervisor and officer	compensation standard and procedure approved by the shareholder general meeting. RMB 4.3456 million yuan, before tax
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#### 4. Change of directors, supervisors and senior managers of the Company

Name	Title	Change	Reason
Zheng Ying	Vice President	Outgoing	Resignation
Li Wenhao	Director	Outgoing	Resignation
Li Chen	Director	Election	Election
Xia Guoqiang	Vice President	Appointment	Appointment
Zhang Jianrong	CFO	Appointment	Appointment
Zhou Yongqiang	Secretary of the board	Outgoing	Resignation

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

Not applicable.

#### 6. Staff condition of parent company and major subsidiaries

##### 1) Staff condition

Population of serving staff in parent company	194
Population of serving staff in major subsidiary companies	3,885
Total population of serving staff	4,079
Professional composition	
Type of professional composition	Population of professional composition
Production Staff	2,432
Sales Personnel	486
Technician	534
Financial Staff	154
Administrative Staff	473
Total	4,079
Education	
Type of educational degree	Population
Postgraduate, undergraduate and above	814
Junior college	2,078
Junior college and below	1,187
Total	4,079

##### 2) Compensation policy

In 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.

##### 3) Training plan

The Company will do a good job in budget implementation of training costs according to the annual training plan, especially for the special training of the enterprises, so as to have an after-the-fact evaluation and focus on the training effect. The Company urges all enterprises to improve the continuing education of all kinds of professional and technical personnel and management personnel, establish training files, and link the training effectiveness with performance. At the same time, it is one of the basis for promotion of positions and forms a positive learning atmosphere. It reflects the concept of common development between the company and its employees.

In order to get closer to the market, the Company continued to arrange the training of young cadres in 2018, and exercised in practice by exercising at the grassroots level. In the second half of 2018, the Company



concentrated on training and evaluation of sales management and financial management for young cadres, and continuously improved the quality and management level of young cadres. In 2018, the Company organized and completed 30 continuing financial trainings for financial auditing professionals in the group's corporate finance personnel; organized and completed 12 "labor management personnel continuing education in the 2018 annual labor management cadres organized by the Shanghai Light Industry Labor Branch". Training with 33 person labor contracts and individual tax deductions; organize personnel to participate in special trainings such as brand management, equity incentives, and new accounting standards. Through training, we continuously improve the comprehensive quality of professionals.

#### 4) Outsourcing

Not applicable.

## Chapter 9 Corporate Governance

### 1. Description of Corporate Governance

In the report period, the Company has continuously improved the corporate governance structure and regulated 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. 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 governance complies with the requirement of relevant laws and regulations, and there is no rectification within a limited time required by any supervision department. The shareholders' 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 the Company

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.

(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.

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 2017 Annual Shareholders' Meeting	2018/6/20	www.sse.com.cn	2018/6/21
First Extraordinary General Meeting of Shareholders in 2018	2018/9/18	www.sse.com.cn	2018/9/18

## 3. Directors' performance of duties

### 1) Attendance of Directors in Board Meeting and Shareholders Meeting

Name	Whether Independent Director	Attendance in Board Meeting						Whether two times in a row did not personally attend the meeting	Attendance in Shareholders' Meeting
		Scheduled Meeting	Personal Attendance	By Telecommunication	By Proxy	Absent			
Zhang Min	No	5	5	3	0	0	No	2	
Zhu Xudong	No	5	5	5	0	0	No	0	
Yin Qiang	No	5	5	3	0	0	No	1	
Huang Yingjian	No	5	5	3	0	0	No	2	
Lu Yujie	No	5	5	3	0	0	No	0	
Li Chen	No	3	3	3	0	0	No	0	
Xi Lifeng	No	5	5	5	0	0	No	0	
Rui Meng	No	5	5	3	0	0	No	1	
Chen Zhen	No	5	5	4	0	0	No	2	
Li Wenhao	No	0	0	0	0	0	No	0	

Number of Board Meetings Held During the Year	5
Including on-site meeting	0
meetings by telecommunication	3
On-site with telecommunication meeting	2

### 2) Independent directors' objection against significant events of the Company

Not applicable.

### 4. Important opinions and recommendations of special committees under the board in 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.

### 7. Appraisal and incentive system for senior managers

According to the requirements of the Company's marketization and centralized management, through the project consultation of PricewaterhouseCoopers Management Consulting (Shanghai) Co., Ltd., the Company revised and improved the compensation performance optimization plan of the executive team. On the basis of

the salary incentive design plan of the middle management staff of SGG, the program design is further carried out in the medium and long-term incentives, and the incentive projects are basically completed.

In 2018, senior executive compensation is linked to the completion of the Company's business objectives, the performance of individual in charge of work, and the completion of key tasks. The Remuneration and Appraisal Committee of the Board of Directors determines the evaluation of senior management personnel based on the completion of the company's business indicators in 2018 and the completion of the duties of the senior executives.

#### **8. 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.

#### **9. 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 Corporate Bond**

Not applicable.

## Chapter 11 Financial Report

### 1. Audit Report

XinKuaiShiBaoZi[2019]No. ZA11614

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

#### 1. Audit Opinion

We have audited the 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 31st December 2018, consolidated statement of comprehensive income and statement of comprehensive income, consolidated statement of cash flows and statement of cash flows, consolidated statement of changes in equity and statement of changes in equity and notes to the financial statements for the Year 2018.

In our opinion, the accompanying financial statements are prepared in all material respects in accordance with the Accounting Standards for Business Enterprises and fairly reflect the consolidated financial position and the parent company’s financial position as of 31st December 2018 and the consolidated and the parent company’s operating results and cash flows for the Year 2018.

#### 2. Basis of Forming Audit Opinion

We performed the audit in accordance with the Chinese Certified Public Accountants Auditing Standards. The “CPA’s Responsibility for Auditing Financial Statements” section of the audit report further elaborated our responsibilities under these guidelines. According to the Code of Ethics of Chinese Certified Public Accountants, we are independent of the Company and perform other professional ethics duties. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for issuing an audit opinion.

#### 3. Key Audit Matters

The key audit matters are the matters that we believe are most important for the audit of the current financial statements based on professional judgment. The response to these matters is based on the audit of the financial statements as a whole and the formation of an audit opinion. We do not comment on these matters separately. We confirm that the following matters are key audit matters that need to be communicated in the audit report.

Key audit matter	How is this matter handled in the audit
<b>(1) Impairment of inventory</b>	
As of December 31, 2018, the book balance of your company's inventory was 1,036,353,124.60 yuan, the inventory depreciation reserve amount was 139,375,239.77 yuan, and the inventory depreciation loss occurred in the current period was 9,068,644.01 yuan. Your company's inventories are measured at the lower of cost and net realisable value. The net realizable value of the completed product is determined by the estimated selling price of the inventory minus the estimated sales expenses and related taxes; The net realizable value of inventory which needs to be processed, in the normal production and operation process, is determined by the estimated selling price of the finished product produced minus the estimated cost, estimated selling expenses, and related taxes and fees that will be incurred when the finished product is completed. The service cost is determined by the settlement unit price and the carrier amount confirmed by both parties of the service. Determining the net realisable value of inventory involves the use of significant accounting estimates and judgments by the management, and the provision for inventory devaluation reserve is of importance for the consolidated	<p>① Understand and evaluate the design and operation effectiveness of key internal controls related to the provision of inventory impairment by your Company's management.</p> <p>② Carry out the inventory monitoring process, check the quantity and status of the inventory. Carry out a major inspection of the long-age inventory, and analyze the adequacy of the depreciation reserve for the inventory with indications of impairment.</p> <p>③ Check the changes in the inventory depreciation reserve provision of the Company in previous years and analyze the rationality of inventory depreciation reserve changes.</p> <p>④ Acquire the Company's inventory depreciation reserve calculation table, review the net realizable value of inventory and the amount of provision for impairment of inventory, and check the estimated selling price, settlement unit price, and sales expense when the management determines the net realizable value with the actual amount incurred. In this way to assess whether management's judgment in determining the</p>

<p>financial statements. Therefore, we recognize the provision for inventory devaluation reserve as a key audit matter.</p> <p>For details of the relevant accounting policies for inventory depreciation provision, please refer to Note V. (12). For details of the provision for inventory depreciation, please refer to Note VII. (VII).</p>	<p>net realizable value of inventory is reasonable.</p>
<p><b>(2) Impairment of goodwill</b></p>	
<p>As of December 31, 2018, the book value of the goodwill of the company was 173,308,163.56 yuan, the impairment provision of goodwill was 33,233,893.28 yuan, and the impairment loss of goodwill occurred during the period was 10,370,000.00 yuan. The management of the Company conducts impairment test on goodwill at the end of each year and adjusts the book value of goodwill based on the results of the impairment test. Goodwill impairment testing involves management using significant accounting estimates and judgments, primarily including estimates of estimated future cash flows and discount rates for subsidiaries. The provision for goodwill impairment provision is of importance to the consolidated financial statements, so we recognise the provision for impairment of goodwill as a key audit matter.</p> <p>For details of the accounting policies for impairment of goodwill, please refer to Note V. (22). For details of the provision for impairment of goodwill, please refer to Note VII (22).</p>	<p>① Understand the historical performance and development plan of the acquired subsidiary, as well as the development trend of the industry.</p> <p>② Understand and evaluate how the Company's management utilizes the work of assessment experts. Assess the rationality of the valuation method chosen by the management and the key assumptions adopted.</p> <p>③ Review the rationality of the estimated cash flow and the discount rate adopted, and compare and analyze the historical data of the relevant subsidiaries.</p> <p>④ Review the calculation accuracy of the impairment test of goodwill.</p>
<p><b>(3) Confirmation of sales related to sales of sewing equipment and intelligent manufacturing equipment</b></p>	
<p>In 2018, your company's annual sales revenue totaled 3,200,527,741.09 yuan, of which the sales of sewing equipment and intelligent manufacturing equipment confirmed a total of 2,159,131,523.78 yuan.</p> <p>Your company has confirmed the realization of sales revenue when transferring the main risks and rewards of ownership of the goods to the purchaser. For domestic sales, your company recognizes revenue primarily when the product is handed over or the product is fully accepted. For export sales, your company recognizes revenue primarily when the risk transfer conditions agreed in the applicable international trade terms are met.</p> <p>Since sales of sewing equipment revenue is one of your company's key performance indicators, and there is inherent risk that management will manipulate revenue recognition in order to achieve specific goals or expectations, we identify your company's revenue recognition as a key audit matter.</p> <p>For the relevant accounting policies on revenue recognition, please refer to Note V. (28); for the confirmation of income, please refer to Note VII (52).</p>	<p>① Understand and evaluate the design and operational effectiveness of key internal controls related to your company's management and sales of product revenue.</p> <p>② Implement an analytical review procedure to analyze performance indicators such as gross profit margin and turnover rate, and pay attention to whether there are abnormal fluctuations.</p> <p>③ Select important customer, implement letter procedures.</p> <p>④ Select important sales orders to perform detailed testing, obtain various internal and external documents for the sales process, and verify whether the sales revenue actually occurs.</p> <p>⑤ Perform a cut-off test on the revenues recognized near the balance sheet date to verify that the sales revenue is included in the correct period.</p>

**4. Other information**

The management of the Company (hereinafter referred to as “management”) is responsible for other information. Other information includes information contained in the Annual Report 2017, but exclude financial statements and our audit report.

Our audit opinion on financial statements does not contain any other information, nor do we publish any form of forensic conclusion on other information.

In combination with our audit of financial statements, our responsibility is to read other information. In the process, it is important to consider whether other information is in significant disagreement with the financial statements or what we know in the process of auditing, or if there seems to be a material misstatement.

Based on the work we have performed, if we determine that there is a material misstatement of other information, we should report that fact. In this regard, we have nothing to report.

**5. Responsibility of the management and the governance for financial statements**



The management is responsible for preparing financial statements in accordance with the requirements of the Accounting Standards for Business Enterprises to enable them to achieve fair reflection. And design, implement and maintain necessary internal controls so that there are no material misstatements due to fraud or errors in the financial statements.

In preparing the financial statements, the management is responsible for assessing the Company's continuing operations capabilities, disclosing issues related to going-concern (if applicable), and applying the going-concern assumption unless the plan is to liquidate, terminate operations or have no other realistic options.

The governance layer is responsible for overseeing the Company's financial reporting process.

#### **6. Auditors' responsibilities**

Our objective is to obtain reasonable assurance as to whether the entire financial statements are free from material misstatement due to fraud or error and to issue an audit report containing audit opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit performed in accordance with auditing standards can always be discovered when a material misstatement exists. Misstatement may be caused by fraud or mistakes, and if a reasonable expectation of misstatement alone or aggregated may affect the economic decision made by users of financial statements based on the financial statements, the misstatement is generally considered to be material.

In the process of auditing in accordance with auditing standards, we use professional judgment and maintain professional suspicion. At the same time, we also perform the following tasks:

(1) Identify and assess risks of material misstatement of financial statements due to fraud or errors, design and implement audit procedures to address these risks, and obtain adequate and appropriate audit evidence as a basis for issuing audit opinions. Since fraud may involve collusion, falsification, intentional omissions, misrepresentation or override of internal controls, the risk of failing to detect a material misstatement due to fraud is higher than the risk of failing to detect a material misstatement due to an error.

(2) Understand the internal control related to auditing to design appropriate auditing procedures, but the purpose is not to express opinions on the effectiveness of internal control.

(3) Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures.

(4) Conclusions are reached on the appropriateness of management's use of going-concern. At the same time, according to the audit evidence obtained, reach conclusions on whether there are significant uncertainties in the matters or circumstances that have major doubts about the Company's ability to continue to operate. If we conclude that there are significant uncertainties, the auditing standards require us to request the users of the report to pay attention to the relevant disclosures in the financial statements in the audit report; if the disclosure is insufficient, we should publish non-unqualified opinions. Our conclusions are based on the information available as of the date of the audit report. However, future events or circumstances may prevent the Company from continuing to operate.

(5) Evaluate the overall presentation, structure, and content (including disclosures) of the financial statements and evaluate whether the financial statements fairly reflect the relevant transactions and events.

(6) Obtain sufficient and appropriate audit evidence on the financial information of entities or business activities in the Company to express an opinion on the financial statements. We are responsible for directing, supervising and executing group audits and assume full responsibility for audit opinions.

We communicate with the governance on planned audit scope, timing, and major audit findings, including communication of the internal control deficiencies that we identified during the audit.

We also provide a statement to the governance on compliance with ethical requirements related to independence, and communicate with the governance on all relationships and other matters that may



reasonably be considered to affect our independence, as well as related preventive measures (if applicable).

From matters communicated with the governance, we determine which items are most important for the audit of financial statements for current period and thus constitute the key audit matters. We describe these matters in our audit report, unless laws and regulations prohibit the public disclosure of these matters, or in rare cases, if it is reasonably expected that the negative consequences of communicating something in the audit report will outweigh the benefits in the public interest, we determine that the matter should not be communicated in the audit report.

**BDO China Shu Lun Pan**  
**Certified Public Accountants LLP**

Certified Public Accountant of China: Li Ping (Project Partner)  
Certified Public Accountant of China: Zhang Yongmei

Shanghai • China

12<sup>th</sup> April 2019

**2. Financial Statement**

**Shang Gong Group Co., Ltd.**  
**Consolidated Statement of Financial Position**  
**As of 31<sup>st</sup> December 2018**

Unit: Yuan, Currency: RMB

Item	Note	Ending Balance	Beginning Balance
<b>Current assets:</b>			
Cash and cash equivalents		595,034,146.11	723,337,878.53
Deposit reservation for balance			
Lending funds			
Financial assets at fair value whose fluctuation is attributed to profit or loss for current period			
Derivative financial assets			
Notes receivable and Accounts receivable		617,760,694.90	526,096,919.07
Including: Notes receivable		81,482,151.15	61,337,538.87
Accounts receivable		536,278,543.75	464,759,380.20
Prepayment		39,695,762.85	64,393,627.71
Premiums receivable			
Reinsurance accounts receivable			
Provision of cession receivable			
Other receivables		120,422,496.29	58,966,056.94
Including: Interest receivable			21,645.73
Dividends receivable		27,041,989.94	
Redemptory monetary capital for sale			
Inventories		896,977,884.83	705,141,821.59
Assets held for sale			
Non-current assets maturing within one year			
Other current assets		249,326,335.31	366,533,356.84
Total current assets		2,519,217,320.29	2,444,469,660.68
<b>Non-current assets:</b>			
Loans and payments on behalf			
Available-for-sale financial assets		117,733,027.78	118,959,944.05
Held-to-maturity investments			
Long-term receivables		31,427,418.92	
Long-term equity investments		248,368,207.89	275,799,606.70
Investment properties		145,386,135.12	149,502,332.46
Fixed assets		473,157,221.59	397,788,367.78
Construction in progress		119,166,627.75	12,665,274.09





Item	Note	Ending Balance	Beginning Balance
Productive biological assets			
Oil and gas assets			
Intangible assets		270,072,349.34	149,988,157.46
Development expenditures		6,798,312.48	16,683,772.84
Goodwill		140,074,270.28	72,482,033.43
Long-term deferred expenses		3,875,409.77	1,631,013.88
Deferred income tax assets		68,850,860.84	63,544,908.23
Other non-current assets			
Total non-current assets		1,624,909,841.76	1,259,045,410.92
Total assets		4,144,127,162.05	3,703,515,071.60
<b>Current liabilities:</b>			
Short-term loans		206,614,015.12	330,389,201.62
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 and accounts payable		318,803,039.91	206,343,320.56
Receipt in advance		75,412,987.77	38,326,094.65
Financial assets sold for repurchase			
Handling charges and commissions payable			
Employee benefits payable		101,169,469.49	91,112,179.00
Taxes and surcharges payable		21,208,862.17	14,074,587.91
Other payables		254,827,223.50	195,761,119.66
Including: Interest payable		805,898.77	1,110,553.06
Dividends payable		1,032,818.86	1,032,818.86
Reinsurance accounts payable			
Provision for insurance contracts			
Acting trading securities			
Acting underwriting securities			
Liabilities held for sale			
Non-current liabilities maturing within one year		4,173,297.07	1,260,000.00
Other current liabilities		47,083.80	48,330.03
Total current liabilities		982,255,978.83	877,314,833.43
<b>Non-current liabilities:</b>			
Long-term loans		340,477,650.27	62,956,504.27
Bonds payable			
Including: preference shares			
Perpetual bond			
Long-term payables		3,403,296.49	3,121,893.11
Long-term employee benefits payable		234,036,612.41	247,420,777.32
Estimated liabilities		672,720.00	546,461.91
Deferred income			2,340,000.00
Deferred income tax liabilities		70,805,236.44	52,863,141.42
Other non-current liabilities		520,000.00	520,000.00
Total non-current liabilities		649,915,515.61	369,768,778.03
Total liabilities		1,632,171,494.44	1,247,083,611.46
<b>Owners' equity</b>			
Share capital		548,589,600.00	548,589,600.00
Other equity instruments			
Including: preference shares			
Perpetual bond			
Capital reserves		916,215,448.24	972,000,595.56
Less: treasury stock			
Other comprehensive income		-75,701,094.41	-72,163,452.90



Item	Note	Ending Balance	Beginning Balance
Special reserves			
Surplus reserves		4,546,242.52	4,546,242.52
General risk reserves			
Undistributed profits		819,208,053.71	692,241,691.51
Total owners' equity attributable to the parent company		2,212,858,250.06	2,145,214,676.69
Minority equity		299,097,417.55	311,216,783.45
Total owners' equity		2,511,955,667.61	2,456,431,460.14
Liabilities and owners' equity		4,144,127,162.05	3,703,515,071.60

Legal representative: Zhang Min

Financial director: Zhang Jianrong

Financial manager: Zhao Lixin

**Shang Gong Group Co., Ltd.**  
**Statement of Financial Position**  
**As of 31<sup>st</sup> December 2018**

Unit: Yuan, Currency: RMB

Item	Note	Ending Balance	Beginning Balance
<b>Current assets:</b>			
Cash and cash equivalents		125,257,400.64	137,028,156.51
Financial assets at fair value whose fluctuation is attributed to profit or loss for current period			
Derivative financial assets			
Notes receivable and Accounts receivable		49,567,114.47	55,466,452.06
Including: Notes receivable		8,713,253.21	18,619,880
Accounts receivable		40,853,861.26	36,846,572.06
Prepayment		1,013,250.66	3,488,722.53
Other receivables		154,756,949.21	107,954,125.03
Including: Interest receivable			
Dividends receivable		1,050,356.92	
Inventories		116,010,332.72	114,386,355.60
Assets held for sale			
Non-current assets maturing within one year			
Other current assets		182,331,726.62	310,981,332.13
Total current assets		628,936,774.32	729,305,143.86
<b>Non-current assets:</b>			
Available-for-sale financial assets		117,733,027.78	118,959,944.05
Held-to-maturity investments			
Long-term receivables		132,003,607.99	135,720,449.62
Long-term equity investments		795,948,021.03	639,310,221.03
Investment properties		82,357,348.39	88,389,027.77
Fixed assets		5,108,388.24	8,036,379.04
Construction in progress		2,804,766.05	2,871,501.40
Productive biological assets			
Oil and gas assets			
Intangible assets		10,991,616.43	11,541,893.86
Development expenditures			
Goodwill			
Long-term deferred expenses		1,600,982.68	1,496,482.78
Deferred income tax assets		940,809.20	587,977.83
Other non-current assets			
Total non-current assets		1,149,488,567.79	1,006,913,877.38
Total assets		1,778,425,342.11	1,736,219,021.24
<b>Current liabilities:</b>			
Short-term loans		9,348,148.62	348,148.62
Financial liabilities at fair value whose fluctuation is attributed to profit or loss for			



Item	Note	Ending Balance	Beginning Balance
current period			
Derivative financial liabilities			
Notes payable and Accounts payable		95,996,884.11	123,067,605.01
Receipt in advance		19,890,459.82	14,500,867.77
Employee benefits payable		9,208,635.04	9,133,348.57
Taxes and surcharges payable		4,352,572.60	579,085.22
Other payables		174,326,023.74	154,311,408.71
Including: Interest payable		805,898.77	1,110,553.06
Dividends payable		1,032,818.86	1,032,818.86
Liabilities held for sale			
Non-current liabilities maturing within one year		2,700,000.00	1,260,000.00
Other current liabilities			
Total current liabilities		315,822,723.93	303,200,463.90
<b>Non-current liabilities:</b>			
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	1,574,312.63
Long-term employee benefits payable			
Estimated liabilities			
Deferred income			
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		4,781,364.91	4,781,364.91
Total liabilities		320,604,088.84	307,981,828.81
<b>Owners' equity:</b>			
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		12,396,555.80	15,711,472.03
Special reserves			
Surplus reserves		4,546,242.52	4,546,242.52
Undistributed profits		-110,993,832.78	-143,892,809.85
Total owners' equity		1,457,821,253.27	1,428,237,192.43
Liabilities and owners' equity		1,778,425,342.11	1,736,219,021.24

Legal representative: Zhang Min

Financial director: Zhang Jianrong

Financial manager: Zhao Lixin



Shang Gong Group Co., Ltd.  
Consolidated Statement of Comprehensive Incomes  
From 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018

Unit: Yuan, Currency: RMB

Item	Note	2018	2017
1. Incomes		3,200,527,741.09	3,064,971,500.79
Including: operating income		3,200,527,741.09	3,064,971,500.79
Interest income			
Premiums earned			
Income from handling charges and commissions			
2. Costs		3,023,493,792.82	2,856,099,579.43
Including: Cost of sales		2,322,152,730.89	2,245,537,329.26
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		13,033,211.21	13,445,563.98
Selling expenses		322,696,906.11	284,810,887.21
General and administrative expenses		230,502,679.98	207,021,408.70
R & D expenses		97,647,657.57	84,350,255.40
Financial expenses		16,859,739.48	-5,263,527.90
Including: Interest expense		14,154,020.93	13,537,239.17
Interest income		4,431,325.55	12,388,093.76
Losses from asset impairment		20,600,867.58	26,197,662.78
Plus: gains from changes in fair value ("-" for losses)		10,190,505.23	11,713,174.75
Investment income ("-" for losses)		12,758,268.06	45,607,259.29
Including: income from investment in associates and joint ventures		-12,972,718.90	17,990,723.92
Fair gains from changes in fair value ("-" for losses)			
Gains on disposal of assets		443,708.05	23,963,103.89
Foreign exchange gains ("-" for losses)			
3. Operating profits ("-" for losses)		200,426,429.61	290,155,459.29
Plus: non-operating income		7,878,704.50	9,192,748.08
Less: non-operating expenses		4,065,654.49	3,766,348.69
4. Total profits ("-" for total losses)		204,239,479.62	295,581,858.68
Less: income tax expenses		45,789,835.67	82,928,869.66
5. Net profit ("-" for net loss)		158,449,643.95	212,652,989.02
(1) Classified by operating sustainability			
a. Net profit from continuing operations ("-" for losses)		158,449,643.95	212,652,989.02
b. Net profit from discontinued operations ("-" for losses)			
(2) Classified by ownership			
a. Non-controlling interests		140,828,047.20	197,487,226.27
b. Net profit attributable to owners of the parent company		17,621,596.75	15,165,762.75
6. Net of tax of other comprehensive income		-3,215,557.02	36,930,889.17
Net of tax of other comprehensive income attributable to owners of the parent company		-3,537,641.51	30,980,593.25
(1) Other comprehensive income can't be reclassified to gains and losses later		-195,235.00	5,682,076.80
a. Changes in net liabilities or assets due to the remeasurement and redefinition of the benefit plan		-195,235.00	5,682,076.80
b. The shares in other comprehensive income of the investee that can't be reclassified to gains and losses under the equity method			



Item	Note	2018	2017
(2) Other comprehensive income to be reclassified to gains and losses later		-3,342,406.51	25,298,516.45
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		-3,314,916.23	-18,259,294.75
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		-27,490.28	43,557,811.20
f. Others			
Net of tax of other comprehensive income attributable to non-controlling shareholders		322,084.49	5,950,295.92
7. Total comprehensive incomes		155,234,086.93	249,583,878.19
Total comprehensive income attributable to owners of the parent company		137,290,405.69	228,467,819.52
Total comprehensive income attributable to non-controlling shareholders		17,943,681.24	21,116,058.67
8. Earnings per share			
(1) Basic earnings per share (yuan/share)		0.2567	0.3600
(2) Diluted earnings per share (yuan/share)		0.2567	0.3600

Legal representative: Zhang Min

Financial director: Zhang Jianrong

Financial manager: Zhao Lixin

**Shang Gong Group Co., Ltd.**  
**Statement of Comprehensive Incomes**  
**From 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018**

Unit: Yuan, Currency: RMB

Item	Note	2018	2017
1. Operating income		367,960,667.27	207,618,193.06
Less: Operating cost		259,199,202.19	139,483,153.60
tax and surcharges		4,684,246.76	4,092,703.92
Selling expenses		46,138,151.55	24,026,800.66
General and Administration expenses		50,965,593.67	47,523,439.27
R & D expenses		4,057,999.93	145,292.60
Finance expenses		-4,544,544.30	-20,567,218.74
Including: Interest expense		684,673.61	343,483.78
Interest income		5,048,704.81	13,899,856.76
Impairment losses on assets		1,261,403.29	6,083,598.81
Plus: Other income		524,968.70	1,873,821.10
Investment income ("-" for losses)		27,172,011.05	30,708,465.14
Including: Investment income in associates and joint ventures			
gains from changes in fair value ("-" for losses)			
Gain on disposal of assets ("-" for losses)		-4,246.42	21,997,891.55
2. Operating profits ("-" for losses)		33,891,347.51	61,410,600.73
Plus: Non-operating income		3,419,360.11	1,196,634.66
Less: Non-operating expenses		763,346.00	256,782.69
3. Total profits ("-" for total losses)		36,547,361.62	62,350,452.70
Less: income tax expenses		3,648,384.55	-587,977.83
4. Net profit ("-" for net loss)		32,898,977.07	62,938,430.53
a. Net profit from continuing operations ("-" for losses)		32,898,977.07	62,938,430.53
b. Net profit from discontinued operations ("-" for losses)			
5. Net of tax of other comprehensive income		-3,314,916.23	-18,259,294.75
Net of tax of other comprehensive income attributable to owners of the parent company			
(1) Other comprehensive income can't be reclassified to gains and losses later			



Item	Note	2018	2017
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		-3,314,916.23	-18,259,294.75
(2) Other comprehensive income to be reclassified to gains and losses later			
a. The shares in other comprehensive income of the investee that can be reclassified to gains and losses under the equity method		-3,314,916.23	-18,259,294.75
b. Gains and losses from changes in fair value of available-for-sale financial assets			
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			
6. Total comprehensive incomes		29,584,060.84	44,679,135.78
7. Earnings per share			
(1) Basic earnings per share (yuan/share)			
(2) Diluted earnings per share (yuan/share)			

Legal representative: Zhang Min

Financial director: Zhang Jianrong

Financial manager: Zhao Lixin

**Shang Gong Group Co., Ltd.**  
**Consolidated Statement of Cash Flows**  
**From 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018**

Unit: Yuan, Currency: RMB

Item	Note	2018	2017
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods and provision of services		3,236,145,513.33	3,164,760,853.53
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		76,064,162.93	43,906,468.45
Cash received from other operating activities		52,723,527.37	50,445,946.85
Sub-total of cash inflows from operating activities		3,364,933,203.63	3,259,113,268.83
Cash paid for goods purchased and services received		2,123,866,868.13	2,017,747,474.86
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			





Item	Note	2018	2017
Cash paid to and on behalf of employees		723,853,477.52	658,533,406.62
Cash paid for taxes and surcharges		125,411,834.31	185,158,629.33
Cash paid for other operating activities		312,247,152.37	280,337,888.85
Sub-total of cash outflows from operating activities		3,285,379,332.33	3,141,777,399.66
<b>Net cash flows from operating activities</b>		79,553,871.30	117,335,869.17
<b>2. Cash flows from investing activities:</b>			
Cash inflow from divestment		874,980,665.96	1,012,030,235.06
Cash inflow from investment incomes		12,600,885.09	16,326,012.85
Cash gain from disposal of fixed assets, intangible assets, and other long-term investment		848,621.30	36,421,255.81
Cash inflow from disposal of subsidiaries and other operating units			
Cash received from other investing activities		393,810.60	
Sub-total of cash inflows from investing activities		888,823,982.95	1,064,777,503.72
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		225,273,247.86	158,264,625.96
Cash paid for investments		921,981,573.80	1,005,380,152.75
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units		94,181,765.87	21,002,300.00
Cash paid for other investing activities			
Sub-total of cash outflows from investing activities		1,241,436,587.53	1,184,647,078.71
<b>Net cash flows from investing activities</b>		-352,612,604.58	-119,869,574.99
<b>3. Cash flows from financing activities</b>			
Cash received from investors			
Including: cash received by subsidiaries from investments by non-controlling shareholders			
Cash received from loans		624,144,720.00	224,230,000.00
Cash received from bonds issuance			
Cash received from other financing activities			3,897,697.51
Sub-total of cash inflows from financing activities		624,144,720.00	228,127,697.51
Cash paid for debt repayments		487,840,810.20	273,539,464.00
Cash paid for distribution of dividends and profits or payment of interest		21,685,176.55	14,913,369.41
Including: dividends and profits paid to non-controlling shareholders by subsidiaries			
Cash paid for other financing activities		1,165,827.50	
Sub-total of cash outflows from financing activities		510,691,814.25	288,452,833.41
<b>Net cash flows from financing activities</b>		113,452,905.75	-60,325,135.90
<b>4. Effect of fluctuation in exchange rate on cash and cash equivalents</b>		4,033,729.47	26,314,632.54
<b>5. Net increase in cash and cash equivalents</b>		-155,572,098.06	-36,544,209.18
Plus: beginning balance of cash and cash equivalents		713,813,720.45	750,357,929.63
<b>6. Ending balance of cash and cash equivalents</b>		558,241,622.39	713,813,720.45

Legal representative: Zhang Min

Financial director: Zhang Jianrong

Financial manager: Zhao Lixin

**Shang Gong Group Co., Ltd.**  
**Statement of Cash Flows**  
**From 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018**

Unit: Yuan, Currency: RMB

Item	Note	2018	2017
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods and provision of services		387,054,926.14	229,795,360.70
Refunds of taxes and surcharges		1,536,599.94	
Cash received from other operating activities		78,486,350.81	63,397,907.63
Sub-total of cash inflows from operating activities		467,077,876.89	293,193,268.33



Cash paid for goods purchased and services received		282,896,673.53	156,824,506.55
Cash paid to and on behalf of employees		51,443,489.27	36,908,166.30
Cash paid for taxes and surcharges		7,870,185.99	7,411,003.59
Cash paid for other operating activities		159,293,598.74	117,490,277.69
Sub-total of cash outflows from operating activities		501,503,947.53	318,633,954.13
<b>Net cash flows from operating activities</b>		-34,426,070.64	-25,440,685.80
<b>2. Cash flows from investing activities:</b>			
Cash inflow from divestment		865,342,851.82	932,849,014.15
Cash inflow from investment incomes		14,210,229.53	21,090,100.93
Cash gain from disposal of fixed assets, intangible assets, and other long-term investment		32,017.27	23,855,652.27
Cash inflow from disposal of subsidiaries and other operating units			
Cash received from other investing activities			
Sub-total of cash inflows from investing activities		879,585,098.62	977,794,767.35
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		3,101,244.10	4,925,918.01
Cash paid for investments		862,354,965.00	929,584,425.75
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities			
Sub-total of cash outflows from investing activities		865,456,209.10	934,510,343.76
<b>Net cash flows from investing activities</b>		14,128,889.52	43,284,423.59
<b>3. Cash flows from financing activities</b>			
Cash received from investors			
Cash received from loans		9,000,000.00	
Cash received from bonds issuance			
Cash received from other financing activities			
Sub-total of cash inflows from financing activities		9,000,000.00	
Cash paid for debt repayments			
Cash paid for distribution of dividends and profits or payment of interest		41,325.00	
Cash paid for other financing activities			
Sub-total of cash outflows from financing activities		41,325.00	
<b>Net cash flows from financing activities</b>		8,958,675.00	
<b>4. Effect of fluctuation in exchange rate on cash and cash equivalents</b>		-432,249.75	-25,815.69
<b>5. Net increase in cash and cash equivalents</b>		-11,770,755.87	17,817,922.10
Plus: beginning balance of cash and cash equivalents		137,028,156.51	119,210,234.41
<b>6. Ending balance of cash and cash equivalents</b>		125,257,400.64	137,028,156.51

Legal representative: Zhang Min

Financial director: Zhang Jianrong

Financial manager: Zhao Lixin



Shang Gong Group Co., Ltd.  
Consolidated Statement of Changes in Equity  
From 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018

Unit: Yuan, Currency: RMB

Item	2018												
	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 bonds	Others										
1. Previous year ending balance brought forward	548,589,600.00				972,000,595.56		-72,163,452.90		4,546,242.52		692,241,691.51	311,216,783.45	2,456,431,460.14
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				972,000,595.56		-72,163,452.90		4,546,242.52		692,241,691.51	311,216,783.45	2,456,431,460.14
3. Increase/ (decrease) for the current year ("-" for losses)					-55,785,147.32		-3,537,641.51				126,966,362.20	-12,119,365.90	55,524,207.47
(1) Total comprehensive incomes							-3,537,641.51				140,828,047.20	17,943,681.24	155,234,086.93
(2) Investment/ (divestment)					-55,785,147.32						-13,861,685.00	-30,063,047.14	-99,709,879.46
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					-55,785,147.32						-13,861,685.00	-30,063,047.14	-99,709,879.46
(3) Distribution of profits													
a. Surplus reserves													
b. General risk reserves													
c. Distribution to owners or shareholders													
d. Others													
(4) Internal transfer of owners' equity													
a. Capital reserve turn to stock													



equity													
b. Surplus reserve turn to stock equity													
c. Surplus reserve to recover loss													
d. Defined benefit plans change amount to carry forward retained earnings													
e. 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				916,215,448.24		-75,701,094.41		4,546,242.52		819,208,053.71	299,097,417.55	2,511,955,667.61

Item	2017												
	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 bonds	Others										
1. Previous year ending balance brought forward	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
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				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
3. Increase/ (decrease) for the current year ("-" for losses)					397,475.29		30,980,593.25				197,487,226.27	19,232,215.27	248,097,510.08
(1) Total comprehensive incomes							30,980,593.25				197,487,226.27	21,116,058.67	249,583,878.19
(2) Investment/ (divestment)					397,475.29								397,475.29
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				397,475.29								397,475.29
(3) Distribution of profits											-1,883,843.40	-1,883,843.40
a. Surplus reserves												
b. General risk reserves												
c. Distribution to owners or shareholders											-1,883,843.40	-1,883,843.40
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. Defined benefit plans change amount to carry forward retained earnings												
e. 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			972,000,595.56		-72,163,452.90		4,546,242.52		692,241,691.51	311,216,783.45	2,456,431,460.14

Legal representative: Zhang Min      Financial director: Zhang Jianrong      Financial manager: Zhao Lixin

**Shang Gong Group Co., Ltd.**  
**Statement of Changes in Equity**  
**From 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018**

Unit: Yuan, Currency: RMB

Item	2018										
	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 bonds	Others							
1. Previous year ending balance brought forward	548,589,600.00				1,003,282,687.73		15,711,472.03		4,546,242.52	-143,892,809.85	1,428,237,192.43
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		15,711,472.03		4,546,242.52	-143,892,809.85	1,428,237,192.43
3. Increase/(decrease) for the current year ("-" for losses)							-3,314,916.23			32,898,977.07	29,584,060.84
(1) Total comprehensive incomes							-3,314,916.23			32,898,977.07	29,584,060.84
(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. Defined benefit plans change amount to carry forward retained earnings											
e. 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		12,396,555.80		4,546,242.52	-110,993,832.78	1,457,821,253.27

Item	2017										
	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 bonds	Others							
1. Previous year ending balance brought forward	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
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		33,970,766.78		4,546,242.52	-206,831,240.38	1,383,558,056.65
3. Increase/(decrease) for the current year ("-" for losses)							-18,259,294.75			62,938,430.53	44,679,135.78
(1) Total comprehensive incomes							-18,259,294.75			62,938,430.53	44,679,135.78
(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. Defined benefit plans change amount to carry forward retained earnings											
e. 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		15,711,472.03		4,546,242.52	-143,892,809.85	1,428,237,192.43

Legal representative: Zhang Min

Financial director: Zhang Jianrong

Financial manager: Zhao Lixin

### 3. Company basic information

#### 1) Company profile

Shang Gong Group Co., Ltd.( hereinafter referred to as "Company" or "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 (Unified social credit code) in 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 548,589,600.00 yuan. The registered address is Room A-D, 12th Floor, Orient Mansion, No. 1500, Century Avenue, China (Shanghai) Pilot Free Trade Zone and the head office is located in No. 1566 New Jinqiao Road, Pudong New Area, Shanghai. The legal representative is Mr. Zhang Min.

On 22<sup>nd</sup> May 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 31<sup>st</sup> December 2013, there were 448,886,777 shares in total.

On 28<sup>th</sup> February 2014, CSRC 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 yuan and had been verified by the Verification Report (PCPAR [2014] No.111126) issued by BDO CHINA Shu Lun Pan Certified Public Accountants LLP on 26<sup>th</sup> March 2014.

On 29<sup>th</sup> December 2016, Pudong SASAC, 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, PKFR held A shares accounted for 10.94% of the total share capital of the Company, which is the largest shareholder of the Company; Pudong SASAC held A shares accounted for 8.27%, which is 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 31<sup>st</sup> December 2018, the Company's total share capital was 548,589,600.00, including 548,589,600 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 resolution of the 11<sup>th</sup> meeting of the 8<sup>th</sup> board of directors, the financial statements were approved for disclosure by all directors of the Company on 12<sup>th</sup> April 2019.

#### 2) Scope of the consolidated financial statements

As of 31<sup>st</sup> December 2018, the subsidiaries within the consolidated financial statements of the Company are as follows:

Name of subsidiary
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 Aktiengesellschaft (Note 2)
8. Zhejiang ShangGong GEMSY Co., Ltd.
9. Shanghai Shensy Enterprise Development Co., Ltd.
10. Shanghai ShangGong Financial Leasing Co., Ltd.
11. PFAFF Industrial Sewing Machine (Zhangjiagang) Co., Ltd.
12. DAP (Vietnam) Co., Ltd.
13. ShangGong Sewing Equipment (Zhejiang) Co., Ltd.
14. Dürkopp Adler Manufacturing(Shanghai) Co., Ltd.
15. Tianjin Richpeace (Note 1)

Note 1: The company's subsidiary DAP Trading (Shanghai) Co., Ltd. was renamed as DAP Industrial (Shanghai) Co., Ltd. in January 2019, and its subsidiary T Tianjin Richpeace was renamed as Tianjin Richpeace Computer & Machinery Co., Ltd in February 2019.

Note 2: DAP Industrial Co., Ltd., a subsidiary of the Company, absorbed the Dürkopp Adler Aktiengesellschaft, a third-tier subsidiary of the Company in 2018 and changed its name to Dürkopp Adler Aktiengesellschaft.

See "Note 8 Changes in the scope of consolidation" and "Note 9 Equity in other subjects" for details of the scope of consolidated financial statements in the current year and the changes thereof.

#### 4. Preparation basis of financial statements

##### 1) Preparation basis of financial statements

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) Going concern

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

#### 5. Principal accounting policies and accounting estimates

Specific 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.

##### 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 report period.

##### 2) Accounting period

The accounting year is from 1<sup>st</sup> January to 31<sup>st</sup> December in calendar year.

##### 3) Operating cycle

The Company's operating cycle is 12 months.

##### 4) Functional currency

The Company adopts RMB as its functional currency.

### **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 acquire 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 acquire 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 acquire 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.

### **6) Preparation methods of consolidated financial statements**

#### **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.

#### **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 report 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 acquire, 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 acquire 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 report 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 report 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 acquire 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 acquire 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

① 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.

If other investors increase their shareholdings due to the increase in capital of their subsidiaries and lose control, they shall be accounted for in accordance with the above principles.

#### ② 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.

### 7) Classification of joint venture arrangements and accounting methods for joint operation

Not applicable.

### 8) Determination of cash and cash equivalents

Cash equivalents refer to short-term (usually due within three months from the date of purchase), highly



liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **9) Foreign currency transactions and translation of foreign currency statements**

##### **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.

##### **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.

#### **10) Financial instruments**

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

##### **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.

##### **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 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. 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 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.

#### 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.

#### 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.

#### 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.

**11) Receivables**

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 individually significant	An impairment test shall be separately made. Provision for bad debts shall be accrued based on the difference between the present value of estimated future cash flow and its book value. And it shall be recorded into the current profit and loss. If the difference between expected future cash flow of short-term receivables and its present value is very small, it does not discount its expected future cash flows when determining the relevant impairment losses.

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	
Portfolio1	Balances of receivables other than accounts receivable subject to provisions for bad debts on an individual basis and other receivables
Portfolio2	Amount due from government agencies and institutions
Portfolio3	Security deposit
Portfolio4	Employee reserve and employee collection and payment
Portfolio5	Balances of receivables other than accounts receivable subject to provisions for bad debts on an individual basis and other receivables

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

The receivables of the overseas subsidiaries of the Company were all tested separately and provision for bad debts was made separately.

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 shall be separately made. If there is objective evidence that it has been impaired, provision for bad debts is made based on the difference between the present value of expected future cash flows and its book value, which is included in the current profit or loss.

**12) Inventories**

1. Classification of inventories

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

## 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. 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.

## 4. Inventory system

Perpetual inventory system is adopted.

### **13) Assets held for sale**

Not applicable.

### **14) Long-term equity investments**

#### 1、Criteria for judgment of common control and significant influence

The term “common control” refers to the sharing of control over an arrangement in accordance with the relevant agreement, and related activities of the arrangement must be unanimously agreed by the parties that share the right of control. Where the Company and other investors exert common joint control over the investee and have rights over the net assets of the investee, the investee is a 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.

#### 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 acquire 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 acquire 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、 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.

### 15) Investment property

If using the cost measurement model:

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.

### 16) Fixed assets

#### A. 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.

#### B. Depreciation method

Category	Depreciation Method	Depreciation Life (years)	Residual Rate (%)	Annual Depreciation Rate (%)
Buildings and constructions	Straight-line method	5-50	0-10%	2.00%-25.00%
Machinery equipment	Straight-line method	3-15	0-10%	6.00%-33.33%
Transportation equipment	Straight-line method	3-14	0-10%	6.43%-33.33%
Electronic equipment	Straight-line method	3-14	0-10%	6.43%-33.33%
Renovations of fixed assets	Straight-line method	5-15	0	6.67%-20.00%
Other equipment	Straight-line method	3-14	0-10%	6.43%-33.33%

#### C. Identification basis and pricing method of financing lease fixed assets

If one of the following conditions is stipulated in the terms of the lease agreement signed between the Company and the lessor, it is recognized as a leased asset under finance:

- (1) The ownership of the leased assets after the lease expires belongs to the Company;
- (2) The Company has the option to purchase assets. The purchase price is much lower than the fair value of the assets when the option is exercised;
- (3) The lease period accounts for the majority of the useful life of the leased asset;
- (4) The present value of the minimum lease payment on the lease start date is not significantly different from the fair value of the asset.

At the beginning of the lease, the Company uses the lower of the fair value of the leased asset and the present value of the minimum lease payments as the entry value of the leased asset, and uses the minimum lease payment as the entry value of long-term payables. The difference is as unrecognized financing fee.

### 17) 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.

### 18) Borrowing costs

#### A. 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.

#### B. 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.

#### C. 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.

#### D. 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.

**19) Biological assets**

Not applicable.

**20) Oil and gas assets**

Not applicable.

**21) Intangible assets**

A. Valuation method, service life, impairment test

(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.

(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 are

not different from those estimated before.

(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.

B. Internal research and development expenditure accounting policy

Specific criteria divided the research stage and development stage:

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.

**22) Impairment of long-term assets**

The Company will conduct the impairment test if any evidence suggests that the long-term 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 amount is the higher of the fair value of the asset minus the disposal expenses and the present value of the estimated future cash flow of the asset. The provision for assets impairment is calculated and recognized by the individual asset. If it is difficult to estimate the recoverable 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.

Goodwill is tested for impairment at least at the end of each year.

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.

### **23) Long-term Deferred Expenses**

Not applicable

### **24) Employee compensation**

#### **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.

#### **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. 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.

## 25) Estimated liabilities

### 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) The 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.

### 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.

## 26) Share payment

Not applicable.

## 27) Other financial instruments such as preferred shares and perpetual bonds

Not applicable.

## 28) Incomes

### 1. Specific criteria for determining the timing of income recognition for sales of goods

The Company will confirm that the sales income of the goods is realized when the Company has transferred the major risks and rewards of ownership of the goods to the purchaser; the Company does not retain the right to continue management linked to ownership, nor does it have effective control over the products sold; the amount of income can be measured reliably; the related costs incurred or to be incurred can



be reliably measured.

The specific judgment criteria are as follows:

(1) Domestic sales: After the delivery of the goods, the Company confirms the sales income. According to the delivery method agreed in the sales order, the detailed standards for income recognition are:

When the customer goes directly to the warehouse of the Company to pick up goods, based on the outbound documents confirmed by the parties in various ways, the income is confirmed when the goods leave the warehouse.

When the customer appoints a carrier, based on the logistics document issued by the carrier, income is recognized when the goods are delivered to the carrier.

When the Company appoints a carrier, based on the logistics receipts signed and confirmed by the customer, income is recognized when the customer actually signs the receipt.

When the Company sells through the e-commerce platform, income is recognized when the electronic order received by the customer to confirm the receipt or the e-commerce receipt period expires.

If an unconditional return period or acceptance period has been agreed upon, the income recognition will be delayed to the expiry of unconditional return period or acceptance period.

For sales on behalf of distributors, the income is recognized when the dealership list with the final customer confirmation is received.

(2) International sales: If choose to apply international trade terms, sale income is recognized according to the time point of risk transfer agreed in the specific applicable international trade terms. If an unconditional return period or acceptance period is agreed upon, the income recognition will be extended to the unconditional return period or the acceptance period after meeting the applicable trade term risk transfer point. If no international trade terms have been selected, the Company will recognize income after obtaining various types of risk transfer documents according to the agreed delivery method and the time of risk transfer.

(3) Sales of specialized sewing machine: As the customer has deeply customized the machine, according to the relevant agreement in the contract signed by both parties, the specific delivery obligations under each technical clause are distinguished, and the corresponding income is confirmed according to the completion of the customer demand and the relevant confirmation documents.

## **2. Recognition of income from transfer of assets use right**

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

(1) Interest income is measured based on the length of time for which the Company's monetary funds is used by others and the applicable interest rate;

(2) Royalty income is measured according to the period and method of charging as stipulated in the relevant agreements or contracts.

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

The Company confirmed the income from the labor service when obtain the written settlement confirmation from the customer and issue the settlement certificate.

If the outcome of transactions can be estimated reliably at the balance sheet date, income from rendering of labor service is 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.

Income from rendering of labor service is determined by prices stated in the contracts or agreements, whether already received or to be received, unless such relevant prices are unfair. The current income from the rendering of labor service is recognized at the amount of multiplying the total income from the rendering of

labor service by completion progress and deducting the accumulated income from the rendering of labor service recognized in previous accounting periods on the balance sheet date; meanwhile, the current cost of labor service is carried forward by the amount of multiplying the total costs of the rendering of labor service by completion progress and deducting the accumulated cost 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, income is 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 incomes 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 income from the rendering of labor services not recognized.

The Company's income from logistics service and sewing equipment maintenance services is recognized when related services have been provided, service costs have actually occurred, and service settlement documents confirmed by the service recipient have been obtained.

## **29) Government grants**

### **1. Types**

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

Government grants related to assets refer to government grants obtained by the Company that are used to purchase, construct or form long-term assets, including financial allocations for purchases of fixed assets or intangible assets, and financial discounts for special loans for fixed assets. Government grants related to income refer to government grants other than those related to assets.

The Company's specific criteria for classifying government grants as related to assets are: government grants obtained by the Company that are used to purchase, construct or form long-term assets.

The Company's specific criteria for classifying government grants as related to income are: government grants other than those related to assets.

If the government documents do not clearly specify the target of the grant, the judgment basis of classifying the government grant as related to the assets or related to the income is whether it is used to purchase or construct or form long-term assets.

### **2. Accounting treatment**

Government grants related to assets: write down the carrying amount of the related assets or recognize them as deferred income. If it is recognized as deferred income, it shall be recorded into current profits and losses in a reasonable and systematic way within the useful life of the relevant assets (related to the Company's daily activities, included in other income; unrelated to the Company's daily activities, included in non-operating income).

Government grants related to income: grants used to compensate for the related costs or losses of the Company in the future period, shall be recognized as deferred income, and shall be recorded in the current profits and losses (related to the Company's daily activities, included in other income; unrelated to the Company's daily activities, included in non-operating income), or be used to reduce the related costs, expenses or losses during the period for confirming the relevant costs, expenses or losses.

## **30) 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.

### **31) Lease**

#### **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.

#### **2. Accounting treatment of financial lease**

(1) Assets rented in by financial lease: At the beginning of the lease, the Company uses the lower of the fair value of the leased assets and the present value of the minimum lease payments as the entry value of the leased assets, and uses the minimum lease payment as the entry value of the long-term payables. The difference is used as unrecognized financing expenses. The Company adopts the actual interest rate method to amortize the unrecognized financing expenses during the asset lease period and count it into financial expenses. The initial direct costs incurred by the company are included in the value of the leased assets.

(2) Assets rented out by financial lease: At the lease beginning date, the Company recognizes the financial lease receivables, difference between the sum of unguaranteed residual value and its current value as unrealized financing income. It is recognized as lease income in each period during which rent is received in the future. The initial direct costs incurred by the Company in relation to the lease transaction are included in

the initial measurement of the financial lease receivable, and the amount of income recognized in the lease period is reduced.

**32) Other important accounting policies and accounting estimates**

Not applicable.

**33) Adjustment for changes in principal accounting policies and accounting estimates**

1. Adjustment for changes in accounting policies

The Content and reasons of accounting policy changes	Approval procedure	Item and amount affected
(1) The “receivable notes” and “accounts receivable” in the balance sheet are combined as “receivable notes and accounts receivable”; “payable notes” and “accounts payable” are combined as “payable” “Notes and accounts payable”; “interest receivable” and “dividends receivable” are included in “other receivables”; “interest payable” and “dividend payable” are included in “other payables”; “Asset Clearance” is included in “Fixed Assets”; “Engineering Materials” is included in “Construction in Construction”; “Special Payables” is included in “Long-term Payables”. The comparison data is adjusted accordingly.	The Eleventh Session of the Eighth Board of Directors	The “receivable notes” and “accounts receivable” are combined into “receivable notes and accounts receivable”. The current amount is 617,760,694.90 yuan, and the previous period amount is 526,096,919.07 yuan; The “Accounts payable” and “Accounts payable” are combined into “Accounts payable and accounts payable”. The current amount is 318,803,039.91 yuan, and the previous amount is 206,343,320.56 yuan; Increasing the amount of “other receivables” for the current period of 27,041,989.94 yuan, and increasing the amount of the previous period by 21,645.73 yuan; Increasing the amount of “other payables” for the current period was 1,838,717.63 yuan, and the amount of the previous period was 2,143,371.92 yuan; The amount of the “fixed assets” in the current period and the amount in the previous period have not been increased; The current amount of the “construction in progress” and the amount of the previous period have not been increased; The amount of the “long-term payables” for the current period and the amount of the previous period have not been increased.
(2) Add “R&D Expenses” item in the income statement, reclassify the R&D expenses in the original “Management Expenses” to “R&D Expenses” separately; add “Including: Interest” under the financial expenses in the income statement.: Fees and interest income items. The comparison data is adjusted accordingly.	The Eleventh Session of the Eighth Board of Directors	The amount of “administrative expenses” was reduced to 97,647,657.57 yuan, and the previous amount was 84,350,255.40 yuan, which was reclassified to “R&D expenses”.
In the table of changes in owner’s equity, the item “Setting the benefit of the change in the defined benefit plan to carry forward the retained income” is added. The comparison data is adjusted accordingly.	The Eleventh Session of the Eighth Board of Directors	N/A

2. Adjustment for changes in principal accounting estimates

Not applicable.

**6. Tax**

1) Major taxes and tax rates

Tax type	Basis of tax assessment	Tax rate
Value-added tax (VAT)	Calculated based on the income 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%、10%、16%、17%、19%
consumption tax		
Business tax		
Urban maintenance and construction tax	Levied based on the actual payment of business tax and VAT.	1%、5%、7%
Enterprise income tax (EIT)	Levied based on the taxable income	16%-38%、15%、25%
Education	Levied based on the actual payment of VAT.	3%、2%、1%



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Note: The VAT rate applicable to DAAG and its subsidiaries is 19% or 7%.

If there are different corporate income tax rate taxpayers, see the disclosure statement

Tax subject name	Income tax rate (%)
Dürkopp Adler AG	16-38
DAP (Vietnam) Co., Ltd.	20
Zhejiang ShangGong GEMSY Co., Ltd.	15
Dürkopp Adler Manufacturing(Shanghai) Co.,Ltd.	15
SG Richpeace	15

## 2) Tax incentives

The company's subsidiary Zhejiang ShangGong GEMSY Co., Ltd., Dürkopp Adler Manufacturing(Shanghai) Co.,Ltd., Tianjin Richpeace are state-level high-tech enterprises, enjoying corporate income tax at 15%.

The Company and all subsidiaries in Mainland China are entitled to a tax benefit of 75% deduction for research and development expenses.

Shanghai ShangGong Financial Leasing Co., Ltd., a subsidiary of the Company, provides tangible movable property financing leasing services and tangible movable property financing after-sales leaseback services, and enjoys the tax incentives for the portion of the VAT that exceeds 3% of the actual tax burden.

The company's three-tier subsidiary Shenzhen Yingruiheng Technology Co., Ltd. and Tianjin Yingrui'an Technology Co., Ltd. sell their own software products developed and produced, and enjoy the tax rebate of the part of the VAT actual tax burden of more than 3%.

## 7. Notes to items of consolidated financial statements

### 1) Cash and cash equivalents

Item	Ending Balance	Beginning Balance
Cash on hand	743,089.39	707,925.98
Bank deposit	556,653,249.22	712,794,196.15
Other monetary funds	37,637,807.50	9,835,756.40
Total	595,034,146.11	723,337,878.53
Including: total amount of cash and cash equivalents offshore	261,229,432.22	373,357,927.57

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

Item	Ending Balance	Beginning Balance
Bank Acceptance Deposit Guarantee	35,374,936.26	6,539,032.60
Security deposit	712,626.09	400,000.00
Deposit held for foreign exchange inspection	320,825.64	2,585,125.48
Other guaranteed deposit	384,135.73	
Total	36,792,523.72	9,524,158.08

Note 1: The balance of December 31, 2018 is the monetary fund that SGGEMSY and Richpeace, which are subsidiaries of the Company, cannot withdraw at any time due to the opening of bank acceptance bills. .

Note 2: The balance of December 31, 2018 is the electricity security deposit of Richpeace, a subsidiary of the Company, and the counterfeit deposit of Shanghai Butterfly Import & Export Co., Ltd., a third-level subsidiary of the Company.

Note 3: The balance of December 31, 2018 is the foreign exchange supervisor of the company's subsidiary DAPSH and the company's third-level subsidiary Shanghai Butterfly Import and Export Co., Ltd. The department has reviewed and has not transferred to the retained funds in the general trade account.

Note 4: The balance of December 31, 2018 is that the bank account information of Shanghai Shangong

Import & Export Co., Ltd., a third-level subsidiary of the Company, has not been completed yet. The bank temporarily freezes the retained funds in the account.

**2) Financial assets at fair value whose fluctuation is attributed to profit and loss for current period**

Not applicable.

**3) Derivative financial assets**

Not applicable.

**4) Notes receivable and accounts receivable**

Item	Ending Balance	Beginning Balance
Notes receivable	81,482,151.15	61,337,538.87
Accounts receivable	536,278,543.75	464,759,380.20
Total	617,760,694.90	526,096,919.07

**Notes receivable**

**A. Presentation of notes receivable by category**

Item	Ending Balance	Beginning Balance
Bank acceptance bills	71,718,740.15	47,405,556.75
Commercial acceptance bills	9,763,411.00	13,931,982.12
Total	81,482,151.15	61,337,538.87

**B. Notes receivable pledged as at the end of period**

Item	Ending Balance
Bank acceptance bills	2,380,000.00
Total	2,380,000.00

**C. Notes receivable endorsed or discounted at the end of the period and have not yet expired at the balance sheet date**

Item	Closing confirmed amount	Closing unconfirmed amount
Bank acceptance bills	16,562,902.94	
Total	16,562,902.94	

**D. Notes receivable transferred to accounts receivable due to the issuer's performance failure**

Not applicable.

**Accounts receivable**

**A. 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	%	Amount	%		Amount	%	Amount	%	
Accounts receivable with significant individual amount and provision for bad debt is accrued separately	43,578,964.20	6.71	19,784,571.25	45.40	23,794,392.95	79,818,629.27	13.64	19,622,784.50	24.58	60,195,844.77
Accounts receivable with provision for bad debt accrued by credit risk characteristics of a portfolio	209,297,564.65	32.21	73,592,992.61	35.16	135,704,572.04	119,721,460.79	20.46	72,220,264.69	60.32	47,501,196.10





Accounts receivable with insignificant individual amount but provision for bad debt is accrued separately	396,860,846.20	61.08	20,081,267.44	5.06	376,779,578.76	385,572,745.19	65.90	28,510,405.86	7.39	357,062,339.33
Total	649,737,375.05	100.00	113,458,831.30	17.46	536,278,543.75	585,112,835.25	100.00	120,353,455.05	20.57	464,759,380.20

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

Accounts receivable (By entity)	Ending Balance			
	Accounts receivable	Provision for bad debt	Proportion of provision (%)	Reason for provision
No.2 Client	19,735,959.50	19,735,959.50	100.00	Impaired according to the separate test
No.3 Client	12,315,321.00	48,611.75	0.39	Impaired according to the separate test
No.5 Client	11,527,683.70			Unimpaired according to the separate test
Total	43,578,964.20	19,784,571.25	45.40	/

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	77,476,546.06	3,873,827.29	5.00
1-2 years	4,362,501.88	872,500.38	20.00
2-3 years	3,349,564.89	1,674,782.46	50.00
Over 3 years	67,171,882.48	67,171,882.48	100.00
Total	152,360,495.31	73,592,992.61	48.30

Accounts receivable with provision for bad debt accrued using other methods in the portfolio

Name	Accounts receivable	Provision for bad debt	Proportion of provision (%)
Receivables guaranteed by financial institutions	56,937,069.34		
Total	56,937,069.34		

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

Accounts Receivable (By Entity)	Ending Balance			
	Accounts Receivable	Provision for Bad Debt	Proportion of Provision	Reason for Provision
Other insignificant accounts receivable (Note 1)	24,356,242.98	7,295,176.66	29.95	Impaired according to the separate test
Other insignificant accounts receivable (Note 2)	11,616,479.63	6,335,462.38	54.54	Impaired according to the separate test
Other insignificant accounts receivable (Note 3)	7,831,016.87	7,590.41	0.10	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)	238,883,440.57	6,296,805.05	2.64	Impaired according to the separate test
Other insignificant accounts receivable (Note 6)	169,198.40	216.55	0.13	Impaired according to the separate test
Other insignificant accounts receivable (Note 7)	113,495,813.28	134,300.00	0.12	Impaired according to the separate test
Other insignificant accounts receivable (Note 8)	306,725.49	106.39	0.03	Impaired according to the separate test
Other insignificant accounts receivable (Note 9)	190,318.98			Unimpaired according to separate test
Total	396,860,846.20	20,081,267.44	5.06	

Note 1: Mainly for the accounts receivable of the parent company of SGG, the impairment provision is made according to the individual amount test.

Note 2: Mainly for the accounts receivable of the subsidiary Shanghai Shangong Butterfly Sewing



Machine Co., Ltd., the impairment provision is made according to the individual amount test.

Note 3: Mainly for the accounts receivable of the subsidiary DAPSH, the impairment provision is made according to the individual amount test.

Note 4: Mainly for the subsidiary of Shanghai SGSB Electronics Co., Ltd., the accounts receivable are accrued for impairment according to the individual amount test.

Note 5: Mainly for the accounts receivable of the subsidiary DA AG, the impairment provision is made according to the individual amount test.

Note 6: Mainly for the subsidiary of SGGEMSY, the accounts receivable are accrued for impairment according to the individual amount.

Note 7: Mainly for the subsidiary of Shanghai Shensy Enterprise Development Co., Ltd., the accounts receivable are depreciated according to the individual amount test.

Note 8: Mainly for the accounts receivable of the subsidiary PFAFF Industrial Sewing Machine (Zhangjiagang) Co., Ltd., the impairment provision is made according to the individual amount test.

Note 9: Mainly due to the accounts receivable of the subsidiary DAP Vietnam Co., Ltd., no impairment occurred according to the individual amount test.

**B. 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 7,764,954.65 yuan. The amount reversed or recovered of the provision for bad debts in the current period is 7,097,708.43 yuan.

**C. Accounts receivable actually write-off in the current period**

Item	Amount
Accounts receivable actually write-off	8,644,485.21

Note: Due to the liquidation and cancellation of Shanghai SMPIC Photosensitive Material Factory, the Company's President's Office Meeting agreed to write off the accounts receivable totaling RMB 3,436,227.61; the Company's President's Office Meeting agreed to write off the accounts receivable of the industrial sewing machine branch that have been determined to be uncollectible and have been fully withdrawn for bad debts totaling RMB 2,582,333.45.

**D. 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	22,361,217.60	3.44	
No.2 Client	19,735,959.50	3.04	19,735,959.50
No.3 Client	12,315,321.00	1.90	48,611.75
No.4 Client	11,530,775.39	1.77	11,530,775.39
No.5 Client	11,527,683.70	1.77	
Total	77,470,957.19	11.92	31,315,346.64

**5) Prepayment**

**A. Presentation of prepayments by aging**

Aging	Ending Balance		Beginning Balance	
	Amount	%	Amount	%
Within 1 year	33,268,163.01	83.81	58,228,035.05	90.43
1-2 years	257,817.83	0.65	9,442.01	0.01
2-3 years	15,583.50	0.04	6,153,752.47	9.56
Over 3 years	6,154,198.51	15.50	2,398.18	
Total	39,695,762.85	100.00	64,393,627.71	100.00

**B. 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	6,147,650.83	15.49



No.2 Supplier	3,913,507.58	9.86
No.3 Supplier	2,874,815.44	7.24
No.4 Supplier	1,948,300.55	4.91
No.5 Supplier	1,469,583.19	3.70
Total	16,353,857.59	41.20

**6) Other receivables**

Item	Ending Balance	Beginning Balance
Interest receivable		21,645.73
Dividends receivable	27,041,989.94	
Other receivables	93,380,506.35	58,944,411.21
Total	120,422,496.29	58,966,056.94

**A. Interest receivable**

Item	Ending Balance	Beginning Balance
Fixed deposit		21,645.73
Total		21,645.73

**B. Dividends receivable**

Company Name	Ending Balance	Beginning Balance
H. Stoll AG & Co. KG	27,041,989.94	
Total	27,041,989.94	

**Other receivables**

**C. Disclosure of other receivables by category**

Type	Ending Balance					Beginning Balance				
	Book Balance		Provision for Bad Debt		Book Value	Book Balance		Provision for Bad Debt		Book Value
	Amount	%	Amount	%		Amount	%	Amount	%	
Other receivables with significant individual amount and provision for bad debt is accrued separately	32,015,520.86	24.82	15,933,916.53	49.77	16,081,604.33	30,666,334.88	33.51	13,304,781.50	43.39	17,361,553.38
Other receivables with provision for bad debt accrued by credit risk characteristics of a portfolio	87,820,109.01	68.08	16,921,209.59	19.27	70,898,899.42	24,977,450.21	27.29	16,622,435.95	66.55	8,355,014.26
Other receivables with insignificant individual amount but provision for bad debt is accrued separately	9,165,563.42	7.10	2,765,560.82	30.17	6,400,002.60	35,869,414.39	39.20	2,641,570.82	7.36	33,227,843.57
Total	129,001,193.29	100.00	35,620,686.94	27.61	93,380,506.35	91,513,199.48	100.00	32,568,788.27	35.59	58,944,411.21

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

Other Receivables (By Entity)	Ending Balance			
	Other receivables	Provision for bad debt	Proportion of provision(%)	Reason for Provision
No.1 Client	18,028,004.56	1,946,400.23	10.80	Impaired according to the



				separate test
No.3 Client	13,987,516.30	13,987,516.30	100.00	Impaired according to the separate test
Total	32,015,520.86	15,933,916.53	49.77	/

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	5,922,821.39	296,141.06	5.00
1-2 years	1,404,446.92	280,889.38	20.00
2-3 years	285,469.04	142,734.52	50.00
Over 3 years	16,201,444.63	16,201,444.63	100.00
Total	23,814,181.98	16,921,209.59	71.06

Other receivables with provision for bad debt accrued using other method in the portfolio:

Name	Receivables	Provision for bad debt	Proportion of provision (%)
Receivables from government agencies and institutions	17,823,075.77		
Deposit in security	44,239,906.50		
Employee Standby Fund and Employee Collection and Payment	1,942,944.76		
Total	64,005,927.03		

Other receivable with insignificant individual amount but provision for bad debt is accrued separately at the end of period

Other receivables (By entity)	Ending Balance			Reason for provision
	Other receivables	Provision for bad debt	Proportion of provision (%)	
Other insignificant other receivables (Note 1)	4,529,575.94	17,725.00	0.39	Impaired according to the separate test
Other insignificant other receivables (Note 2)	1,780,485.31	1,780,485.31	100.00	Impaired according to the separate test
Other insignificant other receivables (Note 3)	674,943.00			Unimpaired according to separate test
Other insignificant other receivables (Note 4)	50,000.00	50,000.00	100.00	Impaired according to the separate test
Other insignificant other receivables (Note 5)	1,194,446.34			Unimpaired according to separate test
Other insignificant other receivables (Note 6)	917,350.51	917,350.51	100.00	Impaired according to the separate test
Other insignificant other receivables (Note 7)	18,762.32			Unimpaired according to separate test
Total	9,165,563.42	2,765,560.82	30.17	

Note 1: Mainly for other receivables of the parent company of SGG, the impairment provision is made according to the individual amount test.

Note 2: Mainly for the other receivables of the subsidiary Shanghai Shangong Butterfly Sewing Machine Co., Ltd., the impairment provision is made according to the individual amount test.

Note 3: Mainly for the other receivables of the subsidiary DAPSH, no impairment occurred according to the individual amount test.

Note 4: Mainly for the other receivables of the subsidiary Shanghai SGSB Electronics Co., Ltd., the impairment provision is made according to the individual amount test.

Note 5: Mainly for other receivables of the subsidiary DA AG, no impairment occurred according to the individual amount test.

Note 6: Mainly for the other receivables of the subsidiary Shanghai Shensy Enterprise Development Co., Ltd., the impairment provision is made according to the individual amount test.

Note 7: Mainly for the other receivables of the subsidiary DAP Vietnam Co., Ltd., no impairment was found according to the individual amount test.

**D. 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 3,958,712.82 yuan. The amount reversed or recovered of the provision for bad debts in the current period is 3,823,650.77 yuan.

**E. Other receivables actually write-off in the current period**

Item	Amount
Other receivables actually write-off	534,288.45

**F. 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	18,028,004.56	Within 1year	13.98	1,946,400.23
Export tax refund receivable	Export tax rebate	17,823,075.77	Within 1year	13.82	
No.3 Client	Current accounts	13,987,516.30	From within 1year to over 3 years	10.84	13,987,516.30
No.4 Client	Security deposit	4,000,000.00	Within 1year	3.10	
No.5 Client	Security deposit	3,500,000.00	Within 1year	2.71	
Total	/	57,338,596.63		44.45	15,933,916.53

**G. Receivables involving government grants**

Not applicable.

**H. Other receivables derecognized due to the transfer of financial assets**

Not applicable.

**I. Amount of assets and liabilities transferred from other receivables and continue to be involved**

Not applicable

**7) Inventories**

**A. Classification of inventories**

Item	Ending Balance			Beginning Balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	344,109,150.92	57,005,053.46	287,104,097.46	285,435,138.31	52,813,472.76	232,621,665.55
Goods in progress	243,900,021.71	39,753,513.85	204,146,507.86	153,406,126.71	28,555,276.42	124,850,850.29
Finished goods	301,330,071.32	40,953,279.20	260,376,792.12	283,033,493.86	39,909,017.40	243,124,476.46
Revolving materials	1,847,268.54	1,158,016.41	689,252.13	1,427,640.89		1,427,640.89
Consigned processing materials	1,312,325.29		1,312,325.29	3,273,904.32		3,273,904.32
Dispatched goods	32,403,336.09		32,403,336.09	20,569,892.77		20,569,892.77
Semi finished product	10,818,745.22	505,376.85	10,313,368.37			
Labor cost	100,632,205.51		100,632,205.51	79,273,391.31		79,273,391.31
Total	1,036,353,124.60	139,375,239.77	896,977,884.83	826,419,588.17	121,277,766.58	705,141,821.59

Note 1: For details of the restricted inventory, please refer to "VII. (70) Assets with limited ownership or use rights" in this note.

Note 2: The Company's semi finished products include intelligent equipment projects that have not yet been assembled.

**B. Inventory depreciation reserve**

Item	Beginning Balance	Increase in current period		Decrease in current period		Ending Balance
		Provision	Others	Reversal or write-off	Others	
Raw materials	52,813,472.76	1,165,070.61	8,084,531.48	4,693,127.87	364,893.52	57,005,053.46



Item	Beginning Balance	Increase in current period		Decrease in current period		Ending Balance
		Provision	Others	Reversal or write-off	Others	
Goods in progress	28,555,276.42	8,478,272.88	3,556,023.51	248,353.85	587,705.11	39,753,513.85
Finished goods	39,909,017.40	3,127,872.07	805,549.73	2,464,395.94	424,764.06	40,953,279.20
Revolving materials		1,065,536.74	167,479.18	74,999.51		1,158,016.41
Semi finished product			985,271.08	479,894.23		505,376.85
Total	121,277,766.58	13,836,752.30	13,598,854.98	7,960,771.40	1,377,362.69	139,375,239.77

C. Explanation of the amount of capitalization of borrowing costs in the ending balance of inventory

Not applicable.

8) Assets held for sale

Not applicable.

9) Non-current assets maturing within one year

Not applicable.

10) Other current assets

Item	Ending Balance	Beginning Balance
Unamortized expense	565,112.42	400,169.64
Input tax to be credited	15,243,281.57	31,638,470.24
Rentals and insurance fees	2,580,239.87	1,592,432.66
Overpaid enterprise income tax	50,937,701.45	902,284.30
Structured deposit	180,000,000.00	332,000,000.00
Total	249,326,335.31	366,533,356.84

11) Available-for-sale financial assets

A. Available-for-sale financial assets

Item	Ending Balance			Beginning Balance		
	Book Balance	Provision for Impairment	Book Value	Book Balance	Provision for Impairment	Book Value
Available for sale debt instruments						
Available for sale equity instruments	119,431,159.69	1,698,131.91	117,733,027.78	120,658,075.96	1,698,131.91	118,959,944.05
Including:						
Measured at fair value	86,406,778.33		86,406,778.33	89,721,694.56		89,721,694.56
Measured at cost	33,024,381.36	1,698,131.91	31,326,249.45	30,936,381.40	1,698,131.91	29,238,249.49
Total	119,431,159.69	1,698,131.91	117,733,027.78	120,658,075.96	1,698,131.91	118,959,944.05

B. Available-for-sale financial assets measured at fair value as at the end of report period

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	86,406,778.33		86,406,778.33
Accumulated changes in fair value included in other comprehensive income	12,396,555.80		12,396,555.80
Accrued provision for impairment			

C. Available-for-sale financial assets measured at cost at the end of report period

Investee	Book balance				Provision for impairment				Shareholding ratio in investee (%)	Cash dividend in report period
	Beginning balance	+	-	Ending balance	Beginning balance	+	-	Ending balance		
Shanghai Fuji Xerox Co., Ltd.	29,140,749.49			29,140,749.49					15.92	9,949,000.00
Shanghai Hirose									30.00	900,000.00



Precision Industrial Co., Ltd. (Note 1)									
Changshu Qixing Elec-plating Co., Ltd.								90.00	
Shanghai Huazhijie Plastic Co., Ltd. (Note 2)	736,283.66		736,283.66	736,283.66			736,283.66	23.04	
Shanghai Xingguang Underwear Factory (South Africa)	308,033.99		308,033.99	308,033.99			308,033.99	14.30	
Wuxi Shangong Sewing Machines Co., Ltd. (Note 3)	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					0.099	10,227.55
Shanghai Baoding Investment Co., Ltd.	7,500.00		7,500.00					0.008	2,875.50
Shanghai Shangong Jiarong Sewing Machine Trade Co., Ltd.	500,000.00		500,000.00	500,000.00			500,000.00	12.50	
Shanghai Pacific Industrial Co., Ltd. (Note 4)		2,087,999.96	2,087,999.96					48.00	
Total	30,936,381.40	2,087,999.96	33,024,381.36	1,698,131.91			1,698,131.91		10,862,103.05

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

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

Note 3: Shang Gong Group Co., Ltd. holds 80.00% shares of Wuxi Shangong 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, the Company does not participate in the decision-making process of daily operations, and does not have significant influence on the invested enterprise. Therefore, it adopts cost accounting to measure its revenue from its shares of Wuxi Shangong Sewing Machines Co., Ltd.

Note 4: The Company holds 48% equity of Shanghai Pacific Industrial Co., Ltd. Since the Company does not participate in the business activities of the invested entity, it does not have a significant impact on the invested entity, so it is accounted for by the cost method.

D. Changes in the impairment of available-for-sale financial assets during the reporting period

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 1 <sup>st</sup> January 2018	1,698,131.91		1,698,131.91
Provision in Report Period			
Including: transfer-in from other comprehensive income			
Decrease in Report Period			
Including: reversal due to the subsequent increase in fair value			
Balance of provision for impairment accrued as at 31 <sup>st</sup> December 2018	1,698,131.91		1,698,131.91

12) Held-to-maturity investments

Not applicable.

13) Long-term receivables

Item	Ending Balance			Beginning Balance			Discount Rate
	Book balance	Provision for bad debt	Book value	Book balance	Provision for bad debt	Book value	
Financing lease	31,427,418.92		31,427,418.92				
Of which: unrealized financing income	5,591,540.26		5,591,540.26				
Total	31,427,418.92		31,427,418.92				/

14) Long-term equity investment

Investees	Beginning Balance	Change in current period							Ending Balance	Ending Balance of Provision of Impairment	
		Invest se in	Invest se in	Return on Investment under Equity Method	Other Comprehensive Income Adjustment	Change es in	Declared Cash Dividends or Profit	Other			Invest se in
H. Stoll AG & Co. KG	275,799,606.70			-12,972,718.90			27,041,989.94		12,583,310.03	248,368,207.89	
Total	275,799,606.70			-12,972,718.90			27,041,989.94		12,583,310.03	248,368,207.89	

15) Investment properties

A. Investment property measured at cost

Item	Buildings and Constructions	Leased Land Use Rights	Investment Real Estate Decoration	Total
1. Original book value				
(1) Beginning balance	226,181,075.92	50,523,752.24	2,583,492.92	279,288,321.08
(2) Increase in current period	2,837,434.34			2,837,434.34
① Outsourcing	2,315,430.07			2,315,430.07
② Transfer in from inventories, fixed assets or construction in progress				
③ Increase from business combination				
④ Exchange rate fluctuation	522,004.27			522,004.27
(3) Decrease in current period				
① Disposal				
4. Ending Balance	229,018,510.26	50,523,752.24	2,583,492.92	282,125,755.42
2. Accumulated depreciation and accumulated amortization				
(1) Beginning balance	105,181,671.01	16,183,322.31	688,931.76	122,053,925.08
(2) Increase in current period	5,632,800.53	1,104,003.24	172,233.00	6,909,036.77
① Amortization or accrual	5,501,506.05	1,104,003.24	172,233.00	6,777,742.29
② Exchange rate fluctuation	131,294.48			131,294.48
(3) Decrease in current period				
① Disposal				
(4) Ending balance	110,814,471.54	17,287,325.55	861,164.76	128,962,961.85
3. Provision for impairment				
(1) Beginning balance	7,732,063.54			7,732,063.54
(2) Increase in current period	44,594.91			44,594.91
① Accrual				
② Exchange rate fluctuation	44,594.91			44,594.91
(3) Decrease in current period				
① Disposal				





②Others				
(4) Ending balance	7,776,658.45			7,776,658.45
4. Book value				
(1) Book value at the end of the period	110,427,380.27	33,236,426.69	1,722,328.16	145,386,135.12
(2) Book value at the beginning of the period	113,267,341.37	34,340,429.93	1,894,561.16	149,502,332.46

Note: For details of the restricted circumstances such as investment real estate mortgage, please refer to “VII. (70) Assets with limited ownership or use rights and 14. (II) Contingencies”.

## 16) Fixed assets

### A. Classification

Item	Ending Balance	Beginning Balance
Fixed assets	473,157,221.59	397,788,367.78
Liquidation of Fixed Assets		
Total	473,157,221.59	397,788,367.78

### B. Fixed assets

Item	Buildings and Constructions	Machinery Equipment	Transportation Equipment	Electronic Equipment	Other Equipment	Total
1. Original book value						
(1) Beginning balance	449,191,194.52	391,885,505.83	14,935,691.94	3,916,967.73	280,602,586.17	1,140,531,946.19
(2) Increase in current period	82,762,170.09	39,282,629.74	6,758,433.32	4,868,116.16	24,903,764.72	158,575,114.03
① Purchase	18,043,421.67	27,554,064.83	2,334,223.77	549,580.01	23,394,982.59	71,876,272.87
② Transfer from construction in progress		94,167.60		61,327.34	439,448.80	594,943.74
③ Increase from business combination	63,267,378.54	11,360,584.66	4,424,209.55	4,255,522.28	249,313.00	83,557,008.03
④ Exchange rate fluctuation	1,451,369.88	273,812.65		1,686.53	820,020.33	2,546,889.39
(3) Decrease in current period	2,043,450.90	11,831,012.24	806,064.83	1,425,971.50	4,726,217.31	20,832,716.78
① Disposal or scrap	2,042,503.40	11,803,269.44	806,064.83	1,425,971.50	4,669,628.27	20,747,437.44
② Exchange rate fluctuation	947.50	27,742.80			56,589.04	85,279.34
(4) Ending Balance	529,909,913.71	419,337,123.33	20,888,060.43	7,359,112.39	300,780,133.58	1,278,274,343.44
2. Accumulated depreciation						
(1) Beginning balance	226,646,410.27	261,274,240.20	7,965,828.54	2,667,327.07	231,928,699.23	730,482,505.31
(2) Increase in current period	32,423,745.25	22,170,957.15	3,574,444.67	4,277,096.69	16,441,556.94	78,887,800.70
① Accrual	10,569,402.64	18,457,620.31	1,731,248.03	1,429,545.36	15,734,314.41	47,922,130.75
② Increase in the business scope of consolidation	20,882,854.70	3,472,088.48	1,843,196.64	2,846,896.08	226,884.23	29,271,920.13
③ Exchange rate fluctuation	971,487.91	241,248.36		655.25	480,358.30	1,693,749.82
(3) Decrease in current period	1,638,098.62	8,936,083.34	591,460.24	1,275,229.13	4,298,915.65	16,739,786.98
① Disposal or scrap	1,637,605.92	8,914,366.64	591,460.24	1,275,229.13	4,280,913.15	16,699,575.08
② Exchange rate fluctuation	492.70	21,716.70			18,002.50	40,211.90
(4) Ending balance	257,432,056.90	274,509,114.01	10,948,812.97	5,669,194.63	244,071,340.52	792,630,519.03
3. Provision for impairment						
(1) Beginning balance	4,913,777.92	7,232,165.07	75,908.67	37,818.61	1,402.83	12,261,073.10
(2) Increase in current period		409,415.30				409,415.30
① Accrual		409,415.30				409,415.30
(3) Decrease in current period		156,147.61	27,737.97			183,885.58
① Disposal or scrap		156,147.61	27,737.97			183,885.58
(4) Ending balance	4,913,777.92	7,485,432.76	48,170.70	37,818.61	1,402.83	12,486,602.82
4. Book value						
(1) Book value at the end of the period	267,564,078.89	137,342,576.56	9,891,076.76	1,652,099.15	56,707,390.23	473,157,221.59
(2) Book value at the beginning of the period	217,631,006.33	123,379,100.56	6,893,954.73	1,211,822.05	48,672,484.11	397,788,367.78

Note: For details of the restrictions on fixed assets mortgage, please refer to “VII. (70) Assets with limited ownership or use rights and 14. (II) Contingencies”.

### C. Idle fixed assets

Item	Book value	Accumulated depreciation	Impairment	Book value	Note
Machinery and equipment	1,060,570.30	758,706.83	295,393.48	6,500.00	
Total	1,060,570.30	758,706.82	295,393.48	6,500.00	

### D. Fixed assets leased through finance leases

Item	Book value	Accumulated depreciation	Impairment	Book value
Machinery and equipment	5,834,516.29	634,265.41		5,200,250.88
Transportation Equipment	5,905,280.88	1,230,693.18		4,674,587.70



Total	11,739,797.17	1,864,958.59	9,874,838.58
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**E. Fixed assets leased out through operating leases**

Item	Ending Book Value
Machinery and equipment	120,960.00
Electronic equipment	175,960.00
Total	296,920.00

**F. Fixed assets without certificate of title**

Item	Book value	Reason for failure in completing the formalities for obtaining certificates of title
Buildings and constructions	1,793,232.40	Self-built housing, the certificates are in the process

Note: Self-built housing for the Company's subsidiary Shanghai SGSB Asset Management Co., Ltd.

**17) Construction in progress**

Item	Ending Balance			Beginning Balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Household multifunctional sewing machine	1,304,367.87		1,304,367.87	1,025,599.74		1,025,599.74
Software development project	1,589,858.17		1,589,858.17	186,166.68		186,166.68
Sewing Equipment Engineering	14,361,655.65		14,361,655.65	4,347,153.83		4,347,153.83
Bensheim base project	7,140,762.85		7,140,762.85			
Modern logistics management center	54,755,378.01		54,755,378.01	4,858,082.75		4,858,082.75
Taizhou manufacturing project	28,259,697.79		28,259,697.79			
Construction Project	6,269,885.19		6,269,885.19	2,248,271.09		2,248,271.09
Equipment project	1,657,178.48		1,657,178.48			
Production process improvement project	3,827,843.74		3,827,843.74			
Total	119,166,627.75		119,166,627.75	12,665,274.09		12,665,274.09

**A. Changes in major construction in progress for current period**

Item	Budget	Beginning balance	Increase in current period	Proportion of the accumulated investment in project in budget (%)	Ending balance	Proportion of the accumulated investment in project in budget (%)	Source of Fund
Household multifunctional sewing machine		1,025,599.74	278,768.13		1,304,367.87		Self-owned
Software development project		186,166.68	1,616,797.82	61,327.34	1,589,858.17	151,778.99	Self-owned/raised
Sewing Equipment Engineering		4,347,153.83	10,548,118.22	533,616.40	14,361,655.65		Self-owned
Bensheim base project			7,140,762.85		7,140,762.85		Self-owned
Modern logistics management center		4,858,082.75	49,897,295.26		54,755,378.01		Self-owned
Taizhou manufacturing project			28,259,697.79		28,259,697.79		Self-owned
Construction Project		2,248,271.09	5,913,209.58		6,269,885.19	1,891,595.48	Self-owned
Equipment project			1,657,178.48		1,657,178.48		Self-owned/raised
Production process improvement project			3,827,843.74		3,827,843.74		Self-owned



Total	12,665,274.09	109,139,671.87	594,943.74	2,043,374.47	119,166,627.75	/	/	/	/
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Note 1: The software development project was transferred to intangible assets after partial acceptance this year.

Note 2: The construction project will be transferred to the long-term deferred expenses after partial completion and acceptance this year.

**18) Productive biological assets**

Not applicable.

**19) Oil and gas assets**

Not applicable.

**20) Intangible assets**

**A. Intangible assets**

Item	Land Use Right	Trademark Use Right	Patent and Non-patent Technology	Computer Software	Others	Total
<b>1. Original book value</b>						
(1) Beginning balance	101,054,020.23	20,161,268.51	134,827,412.78	5,273,690.04	6,187,223.90	267,503,615.46
(2) Increase in current period	67,917,887.04	12,000,000.00	64,365,166.81	3,755,633.37	35,685.00	148,074,372.22
① Purchase	37,499,895.00		24,271,951.35	351,724.20		62,123,570.55
② R & D						
② Increase from business combination	30,417,992.04	12,000,000.00	28,400,000.00	304,957.26		71,122,949.30
③ Exchange rate fluctuation			722,690.06		35,685.00	758,375.06
② Transfer from construction in progress/ development expenditure			10,970,525.40	3,098,951.91		14,069,477.31
(3) Decrease in current period			973,065.20			973,065.20
① Disposal			968,365.60			968,365.60
② Exchange rate fluctuation			4,699.60			4,699.60
(4) Ending Balance	168,971,907.27	32,161,268.51	198,219,514.39	9,029,323.41	6,222,908.90	414,604,922.48
<b>2. Accumulated amortization</b>						
(1) Beginning balance	9,445,749.34	20,161,268.51	79,996,390.86	1,724,825.39	6,187,223.90	117,515,458.00
(2) Increase in current period	5,300,467.94	400,000.00	20,821,229.67	1,432,797.73	35,685.00	27,990,180.34
① Accrual	3,673,475.90	400,000.00	20,414,779.18	1,258,980.16		25,747,235.24
② increase of scope of consolidation	1,626,992.04			173,817.57		1,800,809.61
③ Exchange rate fluctuation			406,450.49		35,685.00	442,135.49
(3) Decrease in current period			973,065.20			973,065.20
① Disposal			968,365.60			968,365.60
② Exchange rate fluctuation			4,699.60			4,699.60
(4) Ending Balance	14,746,217.28	20,561,268.51	99,844,555.33	3,157,623.12	6,222,908.90	144,532,573.14
<b>3. Provision for impairment</b>						
(1) Beginning balance						
(2) Increase in current period						
① Accrual						
(3) Decrease in current period						
① Disposal						
(4) Ending balance						
<b>4. Book value</b>						
(1) Book value at the end of the period	154,225,689.99	11,600,000.00	98,374,959.06	5,871,700.29		270,072,349.34
(2) Book value at the beginning of the period	91,608,270.89		54,831,021.92	3,548,864.65		149,988,157.46

For details of the intangible assets mortgage, please refer to “VII. (70) Assets with limited ownership or use rights” in this note.

**21) Development Expenditures**

Item	Beginning Balance	Increase in current period	Decrease in current period		Ending Balance
		Internal Development Expenditure	Recognized as Intangible Assets	Transferred to Current Profits and Losses	
Sewing equipment	11,968,675.38	5,732,180.04	10,970,525.40	535,790.98	6,194,539.04
WeChat platform	1,099,814.50		1,099,814.50		
Freight platform	3,615,282.96	1,035,848.90	4,047,358.42		603,773.44
Total	16,683,772.84	6,768,028.94	16,117,698.32	535,790.98	6,798,312.48

Note: The development expenditures of sewing equipment represent the development costs of DAP AG. The development expenditures of WeChat platform and Freight platform represent the development costs of SHENSY. During the year, Shanghai Shensy Enterprise Development Co., Ltd. transferred the developed WeChat platform and freight platform to intangible assets, and the government subsidies related to it received is used to offset the book value of intangible assets. For details, please refer to “Note 73”. Government

subsidiaries, (1) Basic information on government subsidies.”

## 22) Goodwill

### A. Book value of goodwill

Name of investee or goodwill formation events	Beginning Balance	Increase in Current Period		Decrease in Current Period		Ending Balance
		Acquisition	Exchange Rate Fluctuation	Disposal		
PFAFF GmbH	72,482,033.43		418,042.31			72,900,075.74
Beisler	22,732,781.28		131,112.00			22,863,893.28
Richpeace		77,544,194.54				77,544,194.54
Total	95,214,814.71	77,544,194.54	549,154.31			173,308,163.56

### B. Provision for impairment of goodwill

Name of investee or goodwill formation events	Beginning Balance	Increase in Current Period		Decrease in Current Period		Ending Balance
		Acquisition	Exchange Rate Fluctuation	Disposal		
Beisler	22,732,781.28		131,112.00			22,863,893.28
PFAFF GmbH		10,370,000.00				10,370,000.00
Total	22,732,781.28	10,370,000.00	131,112.00			33,233,893.28

### C. Information about the asset group or asset group combination in which the goodwill is located

The company's goodwill belongs to the sewing equipment and intelligent manufacturing equipment division. After the acquisition, the company re-planned the product portfolio of each subsidiary, and each subsidiary independently produced and operated according to the product portfolio planned by the company. Therefore, all the assets of each subsidiary constitute the smallest cash-generating unit. Based on this, the Company separately treats each subsidiary as a separate asset group, and distributes the goodwill formed by the acquisition to the corresponding asset group for impairment test.

The company acquired PFAFF and KSL in March 2013. In March 2015, PFAFF absorbed and merged with KSL. After the merger was completed, KSL became a subsidiary of PFAFF. However, KSL's product portfolio and various business activities remain unchanged and independent of PFAFF. The Company still conducts the goodwill impairment test of PFAFF and KSL as different asset groups, and the results of the goodwill impairment test are disclosed according to the independent legal entity.

D. The Company confirms the impairment loss of goodwill against the recoverable amount and book value of the asset group including goodwill. The recoverable amount is determined based on the present value of the estimated future cash flow of the asset group. The management of the Company prepares the cash flow forecast for the next five years based on the most recent financial budget, and estimates the cash flow for the following years, which is discounted accordingly. The key parameters used by the Company in conducting goodwill impairment testing are as follows:

	Operating income growth rate (%)	Gross profit margin (%)	Discount Rate (%)
PFAFF	0.00 or 4.00-13.00	25.00-28.00	10.24
KSL	0.00 or 7.00-33.00	22.00-25.00	10.25
Richpeace	0.00 or 5.00-10.00	40.00	14.70

The management of the Company determines the above parameters based on the historical situation before the budget period and the forecast of market development. The Company assumes that the operating income growth rate will be 0.00% in the next five years (after 2024 and after the period).

According to PFAFF's signed irrevocable sales orders, the company's estimated operating income growth rate for the year 2019 is 13.00%, and the expected operating income growth rate for the period 2020-2023 is 4.00%-5.00%.

As KSL's production site in Bensheim, Germany, is scheduled to be completed in 2019, the company's estimated operating revenue growth rate for the 2019 is 33.00% based on the capacity of the new production



base and KSL's irrevocable sales orders. The projected revenue growth rate for the period from 2020 to 2023 is 7.00%-25.00%.

E. Impact of goodwill impairment test

Based on the above assumptions, the results of the Company's goodwill impairment test this year are as follows:

Unit: RMB 10,000

	Asset group recoverable amount	Book value of asset group	Goodwill impairment loss
PFAFF	11,763.00	11,838.00	75.00
KSL	10,661.00	11,623.00	962.00
Richpeace	31,570.00	29,849.67	N/A

23) Long-term deferred expenses

Item	Beginning Balance	Increase in Current Period	Amortization in Current Period	Other Decreases in Current Period	Ending Balance
Enterprise Mailbox rental expense	142,249.20	63,786.66	53,395.04		152,640.82
Online brand registration fee	486,727.12	59,433.96	112,061.15		434,099.93
Landscape engineering	134,531.10		48,920.40		85,610.70
Leasehold improvements	123,916.71	2,737,816.86	248,418.88		2,613,314.69
Tooling cost	743,589.75		153,846.12		589,743.63
Total	1,631,013.88	2,861,037.48	616,641.59		3,875,409.77

24) Deferred income tax assets / deferred income tax liabilities

A. Deferred income tax assets

Item	Ending Balance		Beginning Balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Unrealized profits from internal transactions		9,942,558.47		11,066,767.51
Receivables		2,812,242.21		1,885,764.75
Inventories		23,969,903.97		19,654,766.53
Long-term assets		850,120.55		353,743.29
Pension (Europe)		32,606,465.72		34,005,022.74
Deferred income				550,000.00
Estimated liabilities		168,180.00		136,615.48
Other liabilities		3,171,305.91		3,796,682.43
Offset amount		-4,669,915.99		-7,904,454.50
Total		68,850,860.84		63,544,908.23

B. Deferred income tax liabilities

Item	Ending Balance		Beginning Balance	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Receivables		5,426,063.85		6,146,045.08
Inventories				446,228.60
Long-term assets		65,007,499.07		49,472,348.52
Other liabilities		5,041,589.51		4,702,973.72
Offset amount		-4,669,915.99		-7,904,454.50
Total		70,805,236.44		52,863,141.42

25) Other non-current assets

Not applicable.

**26) Short-term loans**

Item	Ending Balance	Beginning Balance	Note
Mortgage loans	15,000,000.00	10,221,013.00	Note 1
Guaranteed loans	157,900,000.00	319,820,040.00	Note 2
Credit loans	33,714,015.12	348,148.62	
Total	206,614,015.12	330,389,201.62	

Note 1: Richpeace, a subsidiary of the Company, secured the fixed assets with a book value of RMB 8,596,802.43 and intangible assets with a book value of RMB 5,389,231.47 as collateral to guarantee the company and its third-tier subsidiary Tianjin Richpeace Times Trading Co., Ltd. to borrow RMB 9,000,000.00 and RMB 6,000,000.00 from Tianjin Baodi Pufa Village Bank respectively. At the same time, natural persons Feng Hui and Zhou Jiao (a member of the management team of Richpeace) provided joint liability guarantee for the aforementioned loans.

Note 2: Please refer to “IV. Commitments and Contingencies, (II) Contingencies, Note 2, Note 5” for details of the guarantees related to guarantee loans.

**27) Financial liabilities measured at fair value through profit or loss for the current period**

Not applicable.

**28) Derivative financial liabilities**

Not applicable.

**29) Notes payable and accounts payable**

Item	Ending Balance	Beginning Balance
Notes payable	71,109,160.21	12,311,525.18
Accounts payable	247,693,879.70	194,031,795.38
Total	318,803,039.91	206,343,320.56

**Notes payable**

Type	Ending Balance	Beginning Balance
Bank acceptance bill	71,109,160.21	12,311,525.18
Total	71,109,160.21	12,311,525.18

**Accounts payable**

Item	Ending Balance	Beginning Balance
Payable to suppliers	247,693,879.70	194,031,795.38
Total	247,693,879.70	194,031,795.38

**30) Receipt in advance**

Item	Ending Balance	Beginning Balance
Advances on sales	75,412,987.77	38,326,094.65
Total	75,412,987.77	38,326,094.65

**31) Employee compensation payable**

**A. Employee compensation payable**

Item	Beginning Balance	Increase in current period	Decrease in current period	Ending Balance
Short-term remuneration	70,429,400.35	693,036,304.70	682,047,283.36	81,418,421.69
Post-employment benefits – defined benefit plans	591,856.15	23,126,011.64	22,761,103.49	956,764.30
Dismissal welfare		29,000.00	29,000.00	
Defined benefit plan maturing within one year	20,090,922.50	18,812,566.00	20,109,205.00	18,794,283.50
Total	91,112,179.00	735,003,882.34	724,946,591.85	101,169,469.49



B. Short-term remuneration

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
(1) Salary, bonus, allowance and subsidy	69,704,983.42	548,154,927.92	556,054,510.90	61,805,400.44
(2) Employee welfare	8,639.56	126,526,718.28	107,780,559.91	18,754,797.93
(3) Social insurance expenses	490,969.52	10,844,170.72	10,837,600.28	497,539.96
Including: medical insurance premium	342,596.18	8,990,949.83	8,981,683.24	351,862.77
Work-related injury insurance premium	37,465.61	651,488.90	650,774.99	38,179.52
Maternity insurance premium	20,885.53	801,099.48	794,330.57	27,654.44
Other	90,022.20	400,632.51	410,811.48	79,843.23
(4) Housing provident funds	160,871.34	5,806,497.60	5,644,623.94	322,745.00
(5) Labor union expenditures and employee education expenses	63,936.51	1,703,990.18	1,729,988.33	37,938.36
(6) Short-term paid absences				
(7) short-term profit-sharing plan				
Total	70,429,400.35	693,036,304.70	682,047,283.36	81,418,421.69

C. Defined contribution plan

Item	Beginning Balance	Increase in current period	Decrease in current period	Ending Balance
Basic endowment insurance premium	574,972.14	21,331,979.76	20,972,734.19	934,217.71
Unemployment insurance premium	16,884.01	605,417.45	599,754.87	22,546.59
Payment of annuity		1,188,614.43	1,188,614.43	
Total	591,856.15	23,126,011.64	22,761,103.49	956,764.30

32) Taxes and surcharges payable

Item	Ending Balance	Beginning Balance
Value-added tax	6,825,857.95	4,454,097.17
Enterprise income tax	8,221,152.27	3,646,204.96
Individual income tax	4,696,274.54	5,613,216.71
Urban maintenance and construction tax	524,568.34	186,230.26
Educational surtax	417,462.59	168,142.01
Use tax of land	473,407.84	
Stamp tax	10,922.70	6,696.80
Others	39,215.94	
Total	21,208,862.17	14,074,587.91

33) Other payables

Item	Ending Balance	Beginning Balance
Interest Payable	805,898.77	1,110,553.06
Dividends payable	1,032,818.86	1,032,818.86
Other payables	252,988,505.87	193,617,747.74
Total	254,827,223.50	195,761,119.66

Interest Payable

Item	Ending Balance	Beginning Balance
Term interest on long-term borrowings due in installments	478,320.87	471,243.32
Short-term loan interest payable	327,577.90	639,309.74
Total	805,898.77	1,110,553.06

Dividends payable

Item	Ending Balance	Beginning Balance
Light Industrial Holding Group Co., Ltd	959,269.79	959,269.79





Privately-owned corporate shares	73,549.07	73,549.07
Total	1,032,818.86	1,032,818.86

Other payables

Item	Ending Balance	Beginning Balance
Other payables	252,988,505.87	193,617,747.74
Total	252,988,505.87	193,617,747.74

**34) Liabilities held for sale**

Not applicable.

**35) Non-current liabilities maturing within 1 year**

Item	Ending Balance	Beginning Balance
Long-term payable due within one year	1,473,297.07	
Deferred income due within one year	2,700,000.00	1,260,000.00
Total	4,173,297.07	1,260,000.00

**36) Other current liabilities**

Item	Ending Balance	Beginning Balance
Short-term bond payable		
Interest and rentals	47,083.80	48,330.03
Total	47,083.80	48,330.03

**37) Long-term loans**

Item	Ending Balance	Beginning Balance
Mortgage loans	61,821,029.40	61,466,519.40
Credit loans	278,656,620.87	1,489,984.87
Total	340,477,650.27	62,956,504.27

Note: For the description of the related mortgages in the closing balance of the mortgage loan of RMB 61,821,029.40 (€7,878,000.00), please refer to “14. Commitments and Contingencies, (2) Contingencies, Note 1”.

**38) Bonds payable**

Not applicable.

**39) Long-term payables**

Item	Ending Balance	Beginning Balance
Long-term payables	3,403,296.49	3,121,893.11
Total	3,403,296.49	3,121,893.11

Item	Beginning Balance	Ending Balance
Financing lease payments	1,853,818.94	960,531.14
Less: unconfirmed financing charges	213,538.77	79,007.64
other	1,763,016.32	2,240,369.61
Total	3,403,296.49	3,121,893.11

**40) Long-term employee compensation payable**

A. Long-term employee compensation payable

Item	Ending Balance	Beginning Balance
1. Post-employment benefits – net liability of defined benefit plan	234,036,612.41	243,516,774.09
2. Dismissal welfare		
3. Other long-term benefits		3,904,003.23
Total	234,036,612.41	247,420,777.32

B. Changes of defined benefit plan liabilities

Present value of liabilities of defined benefit plan:

Item	2018	2017
1. Beginning Balance	263,607,696.59	271,454,022.22
2. Cost of defined benefit plan included in current profit and loss	5,380,676.60	4,971,817.2
1) Current service cost	1,093,316.00	1,038,659.20
2) Previous service cost		
3) Settlement gains (loss is indicated by “-“)		
4) Net interest	4,287,360.60	3,933,158.00
3. Cost of defined benefit plan included in other comprehensive income	203,044.40	-8,798,054.40
1) Actuarial gains (loss is indicated by “-“)	203,044.40	-8,798,054.40
4. Other change	-16,360,521.68	-4,020,088.43
1) The consideration paid at the time of settlement		
2) Paid benefits	-19,992,064.00	-21,872,940.80
3) Exchange rate fluctuation	3,631,542.32	17,852,852.37
5. Ending Balance	252,830,895.91	263,607,696.59

Defined benefit plan of DA AG 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 2018, the weighted average period of defined benefit plan liability is 10.36 year. (10.28 year by the end of 2017). Assumed payment of defined benefit plan in 2019 is the same as in 2018.

① 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 2018, actuarial assumptions are below, compared with 2017

Item	2018	2017
Actuarial rate	3.21%	1.70%
Rate of payroll increase	2.00%	2.00%
Rate of pension increase	1.50%	1.50%

② Sensitivity analysis

On 31<sup>st</sup> December 2018, 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%)	13,127,601.40	-11,971,810.20
Increase in payroll (changed by 0.5%)	413,898.20	-390,470.00
Increase in pension (changed by 0.5%)	11,308,011.20	-10,448,977.20
Life expectancy (changed by 1 year)	21,577,372.20	—

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

41) Estimated liabilities

Item	Beginning Balance	Ending Balance	Reason
Pending litigation	546,461.91	672,720.00	Expected compensation expenses
Total	546,461.91	672,720.00	/

**42) Deferred income**

Item	Beginning Balance	+	-	Ending Balance	Reason
Government grants	2,340,000.00		2,340,000.00		
Total	2,340,000.00		2,340,000.00		/

Projects that involve government grants:

Item	Beginning Balance	Subsidies Increased in Current period	Subsidies Included in Current Non-operating Income	Other Change	Ending Balance	Asset-related / Income-related	Item
Guiding funds of developing service industry	2,200,000.00				-2,200,000.00		Asset-related
Taizhou science and Technology Bureau R & D expenditure subsidy	140,000.00		140,000.00				Income-related
Total	2,340,000.00		140,000.00		-2,200,000.00		

Other changes (reduction) of the logistics project development fund are the completion of the development project of the Shanghai Shensy Enterprise Development Co., Ltd. of this year, which is transferred to intangible assets, and the related deferred income offsets the book value of intangible assets.

**43) Other non-current liabilities**

Item	Ending Balance	Beginning Balance
Other long-term loan	520,000.00	520,000.00
Total	520,000.00	520,000.00

**44) Share capital**

	Beginning Balance	Change in Current Period (+/-)			Ending Balance
		Issuance of New Shares	Others	Sub-total	
Total	548,589,600.00				548,589,600.00

**45) Other equity instruments**

Not applicable.

**46) Capital reserves**

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Stock premium	851,345,853.61			851,345,853.61
Other capital reserves	120,654,741.95		55,785,147.32	64,869,594.63
Total	972,000,595.56		55,785,147.32	916,215,448.24

The reduction of capital reserve is the acquisition of minority shareholders' equity by the Company's premium, and the premium partially offsets the capital reserve. For details, please refer to "Note IX. Interests in other entities, (2) Changes in the share of owners' equity in subsidiaries and control of transactions of subsidiaries, 2. Transactions on minority shareholders and ownership of owners' equity Impact".

**47) Treasury stock**

Not applicable.

**48) Other Comprehensive Income**

Item	Beginning Balance	Change in Current Period					Ending Balance
		Accrual before Income tax for the Current Period	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	-43,487,893.99	-203,044.40		-7,809.40	-195,235.00		-43,683,128.99
Including: change in re-measurement of the net liabilities and net assets under defined benefit plan	-43,487,893.99	-203,044.40		-7,809.40	-195,235.00		-43,683,128.99
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	-28,675,558.91	-3,342,406.51			-3,342,406.51		-32,017,965.42
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	15,711,472.03	-3,314,916.23			-3,314,916.23		12,396,555.80
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	-44,387,030.94	-27,490.28			-27,490.28		-44,414,521.22
Total other comprehensive income	-72,163,452.90	-3,545,450.91		-7,809.40	-3,537,641.51		-75,701,094.41

#### 49) Special reserve

Not applicable.

#### 50) Surplus reserves

Item	Beginning Balance	Increase in current period	Decrease in current period	Ending Balance
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

#### 51) Undistributed profits

Item	Reporting period	Same period of the previous year
Adjustments to undistributed profits as at December 31, 2017	692,241,691.51	494,754,465.24
Adjustments to total undistributed profits as at January 1, 2018 (“+” for increase, “-“ for decrease)		
Adjusted undistributed profits as at January 1, 2018	692,241,691.51	494,754,465.24
Plus: net profit attributable to owners of the parent company for current period	140,828,047.20	197,487,226.27
Less: withdrawal of statutory surplus reserves		
Withdrawal of discretionary surplus reserves		
Withdrawal of general risk reserves		
Ordinary share dividends payable		
Ordinary share dividend transferred to share capital (paid-in capital)		
Other	13,861,685.00	
undistributed profits as at December 31, 2018	819,208,053.71	692,241,691.51

Note: Other reductions are the acquisition of minority shareholders' equity premiums by DA AG, a subsidiary of the Company, which offsets retained earnings.

#### 52) Operating income and operating costs

Item	2018		2017	
	Income	Cost	Income	Cost



Main business	3,074,679,494.14	2,235,472,804.92	2,973,395,095.35	2,191,026,910.61
Other businesses	125,848,246.95	86,679,925.97	91,576,405.44	54,510,418.65
Total	3,200,527,741.09	2,322,152,730.89	3,064,971,500.79	2,245,537,329.26

### 53) Taxes and surcharges

Item	2018	2017
Urban maintenance and construction tax	2,026,701.31	3,841,225.33
Educational surtax	1,653,067.87	2,851,563.83
Property tax	3,875,635.78	4,557,720.89
land use tax	3,408,292.34	1,206,499.65
Vehicle and vessel tax	174,043.92	29,173.45
Stamp tax	976,763.08	794,782.50
Other	918,706.91	164,598.33
Total	13,033,211.21	13,445,563.98

### 54) Selling expenses

Item	2018	2017
Employee compensation	144,738,512.88	127,100,318.51
Fix and after-sale service charges	27,142,860.46	16,883,164.44
Office expenses	1,352,509.32	1,636,944.60
Travelling expenses	22,650,014.98	19,339,407.84
Transportation cost	28,614,220.14	23,818,035.11
Advertising expense	3,966,999.44	5,448,163.62
Commission	34,776,854.93	32,259,945.51
Leasing and storage charges	9,760,134.13	9,715,517.43
Insurance premium	1,875,695.42	1,305,233.66
Conference fees	127,812.64	1,420,907.90
Depreciation costs	2,996,905.44	2,137,262.39
Exhibition fees	2,961,522.90	6,697,223.82
Sample printed matter and product loss	12,726,208.62	11,978,393.15
Entertainment expenses	1,706,092.80	594,503.68
E-commerce service fee	1,180,310.00	226,972.23
Other	26,120,252.01	24,248,893.32
Total	322,696,906.11	284,810,887.21

### 55) General and administrative expenses

Item	2018	2017
Employee compensation	150,462,688.99	142,665,436.43
Office expenses	9,359,090.03	9,234,901.56
Water and electricity	1,636,587.92	1,134,181.97
Entertainment expenses	8,293,683.75	5,630,236.43
Property insurance premium	2,065,233.87	1,892,141.80
Conference fees	606,887.82	1,248,356.45
Travelling expenses	10,611,440.65	9,345,153.24
Depreciation costs	14,177,905.04	10,418,234.14
Repair charges	637,038.59	1,682,156.57
Transportation cost	1,445,861.81	1,624,137.32
Rental fees	10,724,657.60	4,955,542.72
Costs of board meetings and supervisors' meetings	547,472.11	523,146.21
Agency fees and advisory expenses	17,843,739.89	13,263,611.48
Litigation cost	234,967.57	738,687.57
Other	1,855,424.34	2,665,484.81
Total	230,502,679.98	207,021,408.70

### 56) R &D expenses

Item	2018	2017
Employee compensation	67,347,677.92	48,564,093.48



Material consumption	24,860,961.88	29,796,060.27
Depreciation and amortization expenses	2,583,510.19	3,198,130.60
Others	2,855,507.58	2,791,971.05
Total	97,647,657.57	84,350,255.40

**57) Financial expenses**

Item	2018	2017
Interest expenses	14,154,020.93	13,537,239.17
Less: Interest income	-4,431,325.55	-12,388,093.76
Gains and losses on exchange	4,834,141.46	-6,945,484.64
Others	2,302,902.64	532,811.33
Total	16,859,739.48	-5,263,527.90

**58) Losses from asset impairment**

Item	2018	2017
Losses from bad debts	752,808.27	14,232,260.76
Losses from inventory impairment	9,068,644.01	9,538,291.98
Fixed asset impairment loss	409,415.30	2,427,110.04
Goodwill impairment loss	10,370,000.00	
Total	20,600,867.58	26,197,662.78

**59) Other gains**

Item	2018	2017
Financial support fund	7,858,472.82	10,730,000.00
VAT refund	293,707.16	809,353.65
Special subsidies for employee education funds	194,940.70	31,010.22
Special funds for economic development	234,000.00	140,000.00
Trademarks and intellectual property, science and technology project related subsidies	1,080,800.00	
Special subsidies for financing leases	278,600.00	
Special subsidies for sewing equipment research and development projects	140,000.00	
Others	109,984.55	2,810.88
Total	10,190,505.23	11,713,174.75

**60) Investment income**

Item	2018	2017
Long-term equity investments measured under equity method	-12,972,718.90	17,990,723.92
Investment income from disposal of long-term equity investment		
investment income of a financial asset at its fair value and whose changes are included in the current profits and losses during the period of holding		
Investment income obtained from the disposal of financial assets at fair value and their changes are included in the current profits and losses	45,148.42	16,690.26
Investment income of the held-to-maturity investment during the holding period		
Investment income derived from available-for-sale financial assets		
Investment income from disposal of available-for-sale financial assets	12,526,301.81	16,249,837.40
After the loss of control, the residual equity is measured at fair value		-7.64
Others		
Item	13,159,536.73	11,350,015.35
Total	12,758,268.06	45,607,259.29

**61) Gains from changes in fair value**

Not applicable.

**62) Gains on disposal of assets**

Item	2018	2017
Fixed assets	-104,177.97	23,963,103.89
Intangible assets	547,886.02	
Total	443,708.05	23,963,103.89

**63) Non-operating income**

Non-operating income

Item	2018	2017	Amount included in current non-recurring gains and losses
Government grants	838.00	148,710.23	838.00
Unpayable payables	3,150,715.12		3,150,715.12
Export trade rebate	2,103,953.87	2,131,628.81	1,222,714.92
Litigation gains	1,874,114.87		1,874,114.87
Others	749,082.64	6,912,409.04	749,082.64
Total	7,878,704.50	9,192,748.08	6,997,465.55

Government grants included in current profit and loss

Item	Reporting period	Same period of the previous year	Asset-related /Income-related
Shanghai old public housing management fee subsidies		85,710.23	
Other	838.00	63,000.00	Income-related
Total	838.00	148,710.23	

**64) Non-operating expenses**

Item	2018	2017	Amount included in current non-recurring gains and losses
Fixed asset disposal loss	1,728,803.67	412,623.36	1,728,803.67
Donations made	683,000.00	200,000.00	683,000.00
Amercement and overdue fine outlay	624,345.07	2,547,131.17	624,345.07
Others	1,029,505.75	606,594.16	1,029,505.75
Total	4,065,654.49	3,766,348.69	4,065,654.49

**65) Income tax expenses**

Item	2018	2017
Current income tax expenses	41,000,022.97	75,912,541.36
Deferred income tax expenses	4,789,812.70	7,016,328.30
Total	45,789,835.67	82,928,869.66

**66) Other comprehensive income**

See notes for details.

**67) Items of the statement of cash flows**

A. Cash received from other operating activities

Item	2018	2017
Current accounts and advances withdrawn	36,267,444.87	16,478,636.33
Special subsidies and grants	7,942,196.52	11,074,399.76
Interest income	4,472,642.90	12,937,203.19
Non-operating income:	2,449,391.77	6,570,902.72
Other	1,591,851.31	3,384,804.85
Total	52,723,527.37	50,445,946.85

B. Cash paid for other operating activities

Item	2018	2017
Current accounts paid	57,318,220.58	55,241,626.14
Selling expenses	159,093,616.25	121,033,239.46
General and administrative expenses	91,441,901.13	97,509,435.48
Non-operating expenses	752,722.87	2,744,339.67





Others	3,640,691.54	3,809,248.10
Total	312,247,152.37	280,337,888.85

C. Cash received from other investing activities

Item	2018	2017
Received financial lease security deposit	393,810.60	
Total	393,810.60	

D. Cash paid from other investing activities

Not applicable.

E. Cash received from other financing activities

Item	2018	2017
Bank deposit, security deposit and other pledge, mortgage		2,947,447.51
Cash received from financing lease		950,250.00
Total		3,897,697.51

F. Cash paid from other financing activities

Item	2018	2017
Bank deposit, security deposit and other pledge, mortgage		
Cash paid for finance lease	1,165,827.50	
Total	1,165,827.50	

**68) Supplementary information to the statement of cash flows**

A. Supplementary information to the statement of cash flows

Supplementary Information	Reporting period	Same period of the previous year
1. Net profit adjusted to cash flows from operating activities		
Net profit	158,449,643.95	212,652,989.02
Plus: Provision for assets impairment	20,600,867.58	26,197,662.78
Depreciation of fixed assets and others	54,699,873.04	61,400,632.56
Amortization of intangible assets	25,747,235.24	23,812,401.29
Amortization of long-term deferred expenses	616,641.59	250,014.86
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-443,708.05	-23,963,103.89
Losses on write-off of fixed assets ("-" for gains)	1,728,803.67	412,623.36
Losses from changes in fair value ("-" for gains)		
Financial expenses ("-" for income)	10,120,291.46	-8,200,943.06
Investments losses ("-" for gains)	-12,758,268.06	-45,607,259.29
Decreases in the deferred income tax assets ("-" for increases)	-6,704,509.63	-4,481,358.32
Increases in the deferred income tax liabilities ("-" for decreases)	3,573,154.30	11,498,815.79
Decreases in inventories ("-" for increases)	-103,695,100.04	-53,078,397.74
Decreases in operating payables ("-" for increases)	-89,099,505.47	-76,119,802.22
Increases in operating payables ("-" for decreases)	18,592,566.59	-7,438,405.97
Others	-1,874,114.87	
Net cash flows from operating activities	79,553,871.30	117,335,869.17
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:		
Ending balance of cash	558,241,622.39	713,813,720.45
Less: beginning balance of cash	713,813,720.45	750,357,929.63
Plus: ending balance of cash equivalents		
Less: beginning balance of cash equivalents		



Supplementary Information	Reporting period	Same period of the previous year
Net increase in cash and cash equivalents	-155,572,098.06	-36,544,209.18

Note: The other item is that the company obtained 48% equity of Shanghai Pacific Industrial Co., Ltd. through litigation in February 2018. The company included it in the available-for-sale financial assets and recognized the non-operating income according to the equity investment cost amount.

**B. Net cash paid to acquire subsidiaries during the current period**

	Amount
Cash or cash equivalents paid by the business combination in the current period	109,310,300.00
Among them: Richpeace	109,310,300.00
Less: the cash and cash equivalents held by the company on the date of purchase	15,128,534.13
Among them: Richpeace	15,128,534.13
Plus: Cash or cash equivalents paid in the current period for business combinations in the previous period	
Obtain the net cash paid by the subsidiary	94,181,765.87

Note: On the purchase date, Richpeace opened a bank acceptance bill, and the bank acceptance bill deposit amounted to 15,000,000.00 yuan, which was included in the total amount of monetary funds but not included in the cash and cash equivalents on the purchase date.

**C. Net cash received from disposal of subsidiaries during the current period**

Not applicable.

**D. Composition of cash and cash equivalents**

Item	Ending Balance	Beginning Balance
1. Cash	558,241,622.39	713,813,720.45
Including: cash on hand	743,089.39	707,925.98
Unrestricted bank deposit	556,269,113.49	712,794,196.15
Other unrestricted monetary funds	1,229,419.51	311,598.32
Deposit in central bank available for payment		
Deposits with banks and other financial institutions		
Loans from banks and other financial institutions		
2. Cash equivalents		
Including: bond investments maturing within three months		
3. Balance of cash and cash equivalents as at 31 December 2018	558,241,622.39	713,813,720.45
Including: cash and cash equivalents restricted for use by the parent company or subsidiaries within the group		

**69) Notes of items in Statement of Changes in Equity**

Not applicable.

**70) Assets with restricted ownership or use rights**

Item	Book value at the end of period	Restricted reasons
Monetary funds	36,792,523.72	Various types of deposits and other restricted funds
Notes receivable	2,380,000.00	Bill pledge business
Inventory	2,398,160.00	Purchasing business with ownership retention
Fixed assets	14,875,120.33	Bank loan and ownership purchase business is mortgaged
Intangible assets	5,389,231.47	Bank loan is mortgaged
Investment property	27,257,000.00	Financing guarantee
Total	89,092,035.52	/

**71) Monetary items in foreign currency**

**A. Monetary items in foreign currency**

Item	Ending balance of foreign currency	Exchange rate	Ending balance of conversion into RMB
Monetary funds			19,314,581.64



Including: USD	1,774,848.24	6.8632	12,181,111.39
EUR	895,835.74	7.8473	7,029,891.91
JPY	1.00	0.0619	0.06
Indonesian currency	2,193,373,789.00	0.000047	103,578.28

## B. Description of overseas operating entities

The domicile of primary operation of the Company's subsidiary, DA AG, is in Germany, with Euro as functional currency for it is the applicable currency for the operation region.

The domicile of primary operation of the Company's subsidiary, DAP Vietnam Co., Ltd., is in Vietnam, with VND as functional currency for it is the applicable currency for the operation region.

### 72) Hedging

Not applicable.

### 73) Government grants

Type	Amount	Item	Amount recognized in current profits and losses
Development of service industry guidance funds	2,200,000.00	Reversing the value of intangible assets	220,000.00
Financial support funds	7,858,472.82	Other income	7,858,472.82
VAT refund	293,707.16	Other income	293,707.16
Special funds for economic development	234,000.00	Other income	234,000.00
Employee education subsidy	194,940.70	Other income	194,940.70
Trademarks and intellectual property, science and technology project related subsidies	1,080,800.00	Other income	1,080,800.00
Special subsidies for financing leases	278,600.00	Other income	278,600.00
Sewing equipment special subsidy	140,000.00	Other income	140,000.00
Other	110,822.55	Other income / Non-operating income	110,822.55

## 8. Change in the scope of consolidation

### 1) Business combinations not under common control

#### A. Business combinations not under common control in 2018

Name of the Acquiree	When the equity is acquired	Equity acquisition cost	Shareholding ratio (%)	Equity acquisition method	Purchase date	Basis for determining the purchase date	Revenue from the purchaser to the end of the period	Net profit of the purchaser from the date of purchase to the end of the period
SG Richpeace	2018/8/31	136,637,800.00	65.00	Business combinations not under common control	2018/8/31	Equity transfer completed	95,414,392.86	19,133,660.04

#### B. Merger costs and goodwill

Purchase cost	SG Richpeace
--Cash	136,637,800.00
-- Fair value of non-cash assets	
Total purchase cost	136,637,800.00
Less: the fair value share of the identifiable net assets acquired	59,093,605.46
Goodwill	77,544,194.54

#### C. The identifiable assets and liabilities of the purchased party on the purchase date

	SG Richpeace	
	Fair value at the date of purchase	Book value at the date of purchase
Assets:	300,978,046.76	228,798,958.38
Money funds	30,128,534.13	30,128,534.13
Receivables	35,094,545.97	35,094,545.97
Inventory	96,850,024.33	96,850,024.33
Fixed assets	54,285,087.90	47,665,430.23



Intangible assets	69,322,139.69	3,762,708.98
Prepayments	12,867,504.34	12,867,504.34
Construction in progress	166,848.13	166,848.13
Long-term deferred expenses	483,686.63	483,686.63
Deferred income tax assets	1,710,937.76	1,710,937.76
Other current assets	68,737.88	68,737.88
Liabilities:	210,064,807.59	199,237,944.33
Loan	68,000,000.00	68,000,000.00
Payables	91,583,641.64	91,583,641.64
Deferred income tax liabilities	10,826,863.26	
Receipt in advance	35,765,085.52	35,765,085.52
Employee compensation payable	712,514.48	712,514.48
Long-term payables	3,176,702.69	3,176,702.69
Net assets	90,913,239.17	29,561,014.05
Less: minority shareholders' equity		
Net assets acquired	90,913,239.17	29,561,014.05

Method for determining the fair value of identifiable assets and liabilities:

Yinxin Assets Appraisal Co., Ltd. issued the Yinxin Caibao (2018) Shanghai No. 249 Asset Appraisal Report to determine the fair value of each identifiable asset on the purchase date.

**2) Business combinations under common control**

Not applicable.

**3) Reverse purchase**

Not applicable.

**4) Disposal of subsidiaries**

Not applicable.

**5) Changes in consolidation scope with other reasons**

Not applicable.

**9. Equity in other entities**

**1) Equity in subsidiaries**

**A. Composition of enterprise groups**

Name of Subsidiary	Major Places of Business	Registered Place	Business Nature	Shareholding Ratio (%)		Acquisition method
				Direct	Indirect	
Shanghai Shanggong Butterfly Sewing Machine Co., Ltd.	Shanghai, China	Shanghai, China	Production and sales of sewing machines	100.00		Investment
DAP (Shanghai) Co., Ltd.	Shanghai, China	Shanghai, China	Sales of sewing machines	100.00		Investment
Shanghai SMPIC Imp. & Exp. Co., Ltd.	Shanghai, China	Shanghai, China	Sales, import and export of office equipment	100.00		Investment
Shanghai SGSB Electronics Co., Ltd.	Shanghai, China	Shanghai, China	Production and sales of electronic equipment	100.00		Investment
Shanghai SGSB Asset Management Co., Ltd.	Shanghai, China	Shanghai, China	Asset and property management	100.00		Investment
Shanghai Fengjian Property Co., Ltd.	Shanghai, China	Shanghai, China	Property Management	100.00		Business combinations under common control
Duerkopp Adler AG	Bielefeld, Germany	Bielefeld, Germany	Production and sales of sewing machines	100.00		In 2018, the company's second-level subsidiary, DAP Industrial AG, merged with the third-tier subsidiary DA AG and changed its name to DA AG
Zhejiang	Taizhou,	Taizhou,	Production and	60.00		Investment



ShangGong GEMSY CO., LTD.	Zhejiang, China	Zhejiang, China	sales of sewing machines			
Shanghai Shensy Enterprise Development Co., Ltd.	Shanghai, China	Shanghai, China	Logistics, etc.	40.03		Business combinations not under common control
Shanghai ShangGong Financial Leasing Co., Ltd.	Shanghai, China	Shanghai, China	Financial Leasing	51.00	49.00	Investment
PFAFF Industrial Sewing Machine (Zhangjiagang) Co., Ltd.	Zhangjiagang, Jiangsu, China	Zhangjiagang, Jiangsu, China	Production and sales of sewing machines	30.25	69.75	The company directly holds 30.25% of the shares of PFAFF Sewing Machine (Zhangjiagang) Co., Ltd., and indirectly holds the remaining 69.75% equity through other subsidiaries. Since the company directly manages the business activities of PFAFF Industrial Sewing Machine (Zhangjiagang) Co., Ltd., this company is included in the direct scope of the company.
DAP Vietnam Co., Ltd.	Ho Chi Minh, Vietnam	Ho Chi Minh, Vietnam	Sales of sewing machines	100.00		Investment
ShangGong Sewing Equipment (Zhejiang) Co., Ltd.	Taizhou, Zhejiang, China	Taizhou, Zhejiang, China	Production and sales of sewing machines	100.00		Investment
Dürkopp Adler Industrial Manufacturing (Shanghai) Co., Ltd.	Shanghai, China	Shanghai, China	Production and sales of sewing machines	51.00	49.00	During the reporting period, the Company invested in and increased the capital of DAMSH, with a shareholding ratio of 51. The chairman, general manager and chief financial officer are all dispatched by the Company to directly manage the business. DAMSH is included in the direct consolidation scope of the Company from the date of completion of the capital increase.
TIANJIN RICHPEACE AI CO., LIMITED	Tianjing, China	Tianjing, China	Production and sales of sewing and intelligent equipment	65.00		Business combinations not under common control



B. 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	Balance of minority shareholders' equity at the end of the period
Zhejiang ShangGong GEMSY CO., LTD.	40.00%	1,278,618.68		85,650,027.87
Shanghai Shensy Enterprise Development Co., Ltd.	59.97%	8,510,494.83		156,283,940.73
TIANJIN RICHPEACE AI CO., LIMITED	35.00%	5,924,205.24		38,065,923.44

C. Main financial data of important non-wholly owned subsidiary

Name of subsidiary	Ending Balance						Beginning Balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Zhejiang ShangGong GEMSY CO., LTD.	262,049,874.07	98,559,165.52	360,609,039.59	146,483,969.92		146,483,969.92	180,972,291.99	102,795,535.43	283,767,827.42	72,699,304.44	140,000.00	72,839,304.44
Shanghai Shensy Enterprise Development Co., Ltd.	382,809,588.75	93,768,523.55	476,578,112.30	213,777,562.28	1,878,628.16	215,656,190.44	319,865,459.20	46,144,064.50	366,009,523.70	115,076,875.63	4,201,979.88	119,278,855.51
TIANJIN RICHPEACE AI CO., LIMITED	154,392,606.55	57,857,955.80	212,250,562.35	161,027,646.24	1,608,000.62	162,635,646.86						

Name of subsidiary	2018				2017			
	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Zhejiang ShangGong GEMSY CO., LTD.	355,562,212.96	3,196,546.69	3,196,546.69	25,134,868.84	279,057,289.37	-4,495,201.96	-4,495,201.96	-3,638,394.34
Shanghai Shensy Enterprise Development Co., Ltd.	762,944,769.75	14,191,253.67	14,191,253.67	-41,275,319.88	768,874,679.88	7,005,860.61	7,005,860.61	78,188,474.68
TIANJIN RICHPEACE AI CO., LIMITED	95,414,392.86	19,133,660.04	20,053,901.44	15,063,349.86				

D. Major restrictions on the use of group assets and liquidation of group debt

Not applicable.

E. Financial support or other support provided to structured entities included in the scope of consolidated financial statements

Not applicable.

2) Transaction that changes the shareholding ratio in subsidiaries but still controls the subsidiaries

A. Description

The company's wholly-owned subsidiary DAP Industrial AG acquired all minority shareholders' rights and interests of DA AG, a third-class subsidiary, in this year, and absorbed and merged DA AG and renamed DA AG after the merger was completed.

B. Impact of the transaction on minority shareholders' equity and Total owners' equity attributable to the parent company

	DA AG
Purchase cost/disposal consideration	
-- Cash	131,529,513.17
-- Fair value of non-cash assets	
Total purchase cost/disposal consideration	131,529,513.17
Less: Net assets of subsidiaries calculated according to the proportion of acquired/disposed equity	61,882,680.85
Difference	69,646,832.32
Among them: adjusting the capital reserve	55,785,147.32
Adjust surplus reserve	
Adjust undistributed profit	13,861,685.00

3) Equity in joint operation and joint venture

A. 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	Computerized flat knitting machine manufacturing		26.00	Equity method

B. Main financial information of joint operation and joint venture

Unit: 10,000 Yuan, Currency: RMB

	Ending Balance/ 2018	Beginning Balance/ 2017
	H. Stoll AG & Co. KG	H. Stoll AG & Co. KG
Current assets	144,632.52	168,299.51
Non-current assets	27,409.88	26,033.15
Total assets	172,042.4	194,332.66
Current liabilities	42,576.15	57,559.13
Non-current liabilities	34,124.11	33,250.28
Total liabilities	76,700.26	90,809.41
Operating income	137,588.47	195,797.19
Net profit	-4,989.50	8,659.06
Other comprehensive income		
Total comprehensive income	-4,989.50	8,659.06
Dividends received from associates during the year	2,704.20	

C. Description of major restrictions on the ability of a joint venture or an associate to transfer funds to the company

Not applicable.

D. Excessive losses incurred by joint ventures or associates

Not applicable.



E. Unconfirmed commitments related to investment in joint ventures

Not applicable.

F. Contingent liabilities related to investments in joint ventures or associates

Not applicable.

**4) Important common management**

Not applicable.

**5) Equity in structured entities not included in the scope of consolidated financial statements**

Not applicable.

**10. Risks related to financial instruments**

The Company faces various financial risks in the course of its operations: credit risk, market risk and liquidity risk. The Board of Directors of the Company is fully responsible for the determination of risk management objectives and policies, and assumes ultimate responsibility for risk management objectives and policies. The Board of Directors reviews the effectiveness of the implemented procedures and the rationality of risk management objectives and policies through monthly reports submitted by the heads of functional departments and subsidiaries. The Company's internal audit department will audit the risk management policies and procedures and report the findings to the audit committee.

The overall goal of the Company's risk management is to formulate a risk management policy that minimizes risks without excessively affecting the Company's competitiveness and resilience.

**10.1 Credit risk**

Credit risk refers to the risk that one party to a financial instrument fails to perform its obligations and causes financial losses to the other. The Company's credit risk is mainly related to accounts receivable.

**(1) Accounts Receivable**

The accounts receivable of the Company are mainly exposed to the credit risk of customers caused by credit sales. Before opening up new customers and signing new framework contracts, the Company will evaluate new customers' credit risks, including external credit ratings and, in some cases, bank credit certificates (when this information is available).

For the sewing machine business and export trading business, the Company sets a credit limit for each customer, which is the maximum amount that does not require additional approval. For sales that exceed the credit limit, the Company only sells it on the premise of additional approval. Otherwise, it must demand that it pay the corresponding amount in advance. For customers who have not completed payment in a timely manner on the previous credit sale, the Company will no longer accept new product orders before recovering accounts receivable.

For the logistics business, the Company only deals with customers that have been approved and have a good reputation and have a certain scale. After the credit period expires, the Company will perform various forms of collection for customers who have not paid on time. Due to the high dispersion of customers in the logistics business, there is no significant concentration of credit risk.

As of the end of the report period, the top five customers' accounts receivable of the Company accounted for 15.62% of the ending balance, and the Company did not have significant credit risk.

**(2) Other Receivables**

The Company's other receivables mainly include export tax refund receivables, various types of deposits and deposits. The Company manages and monitors this type of payments together with related economic activities to ensure that the Company does not have significant bad debt risks.

**10.2 Market risk**

The market risk of financial instruments refers to the risk that the fair value or future cash flow of

financial instruments fluctuates due to changes in market prices, including exchange rate risk, interest rate risk and other price risks.

(1) Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. The interest rate risk that the Company may face is mainly derived from bank loans that carry interest at floating rates.

As of 31 December 2018, the Company's short-term bank loans with Euribor as benchmark interest rate totaled 3.105 million euros, and long-term loans with Euribor as benchmark interest rate totaled 43.198 million euros. Supposing that other variables remain unchanged, a 50% benchmark change in interest rates would have no significant impact on the Company's current profit or loss and shareholders' equity.

(2) Exchange Rate Risk

Exchange rate risk refers to the risk of loss due to exchange rate changes. The foreign exchange risk of the Company mainly includes the risk associated with the monetary assets and liabilities formed by the Company and its subsidiaries and overseas customers through the settlement of non-standard currencies, as well as the risk of translation differences in foreign currency statements. The former risk affects the current period profit and loss, and the latter risk affects owner's equity (other comprehensive income).

See Note 7.77 for details of monetary items in foreign currency as of 31 December 2018.

Exchange rate risk sensitivity analysis:

With the other variables unchanged, the pre-tax impact of reasonable changes in exchange rates on the current profit or loss and owner's equity is as follows:

Item	Exchange rate changes	2018		2017	
		Impact on current profits and losses	Impact on owner's equity	Impact on current profits and losses	Impact on owner's equity
Foreign currency statement conversion	10% appreciation of RMB	9,134,416.91	90,779,097.87	18,052,832.71	91,994,946.53
Foreign currency statement conversion	10% depreciation of RMB	-9,134,416.91	-90,779,097.87	-18,052,832.71	-91,994,946.53
Foreign Currency Items	10% appreciation of RMB	8,591,797.27	8,591,797.27	6,211,726.82	6,211,726.82
Foreign Currency Items	10% depreciation of RMB	-8,591,797.27	-8,591,797.27	-6,211,726.82	-6,211,726.82

(3) Other Price Risks

The Company holds equity investments in other listed companies. The management of the Company believes that the market price risks faced by these investment activities are acceptable. The listed company's equity investment held by the Company is listed as follows:

Item	Ending Balance	Beginning Balance
Available-for-sale financial assets and trading financial assets	86,406,778.33	89,721,694.56
Total	86,406,778.33	89,721,694.56

If all other variables remain unchanged, if the value of the equity instrument increases or decreases by 20%, the Company will increase or decrease the other comprehensive income by 17,281,355.67 yuan (31<sup>st</sup> December 2017: Others Comprehensive income of 17,944,757.88 yuan). The management of the Company believes that 20% reasonably reflects the reasonable range of possible changes in the value of equity instruments in the next year.

10.3 Liquidity risk

Liquidity risk refers to the risk of shortage of funds when performing obligations settled by way of delivery of cash or other financial assets. The Company's policy is to ensure that it has sufficient cash to repay the debts due. Liquidity risk is centrally controlled by the Company's financial department. By monitoring cash balances, marketable securities that can be realised at any time, and rolling forecasts of cash

flows for the next 12 months, the financial department ensures that the Company has sufficient funds to repay debts under all reasonably foreseen circumstances.

The Company's external sources of funds mainly include bank loans. As of 31 December 2018, the Company's unused bank loan quota was 8 million euros (is equivalent to 62.78 million yuan at the end of the period) and 420.86 million yuan. The Company's own funds are relatively abundant and liquidity risk is relatively small.

## 11. Disclose of fair value

### 1) The fair value at end of current period of assets and liabilities measured at fair value

Item	Fair value at the end of reporting period			
	Measured at the fair value of the first level	Measured at the fair value of the second level	Measured at the fair value of the third level	Total
<b>1. Measurement at fair value based on going concern</b>				
(1) Financial assets measured at fair value through current profit and loss				
A. Financial assets held for trading				
a. Investment in debt instruments				
b. Investments in equity instruments				
c. Derivative financial assets				
B. Financial assets designated to be measured at fair value through current profit and loss				
a. Investment in debt instruments				
b. investments in equity instruments				
(2) Available-for-sale financial assets	86,406,778.33			86,406,778.33
a. Investment in debt instruments				
b. Investments in equity instruments	86,406,778.33			86,406,778.33
c. Others				
(3) Investment property				
A. Use right of leased land				
B. Leased buildings				
C. Land use right held for transfer upon appreciation				
(4) Biological assets				
A. Consumable biological assets				
B. Productive biological assets				
<b>Total amount of assets measured at fair value based on going concern</b>	86,406,778.33			86,406,778.33
(5) Financial liabilities held for trading				
Including: issued bonds held for trading				
Derivative financial liabilities				
Others				
(6) Designated financial liabilities measured at fair value through current profit and loss				
<b>Total amount of liabilities measured at fair value based on going concern</b>				
<b>2. Measurement at fair value based on going concern</b>				
(1) Assets held for sale				

Item	Fair value at the end of reporting period			
	Measured at the fair value of the first level	Measured at the fair value of the second level	Measured at the fair value of the third level	Total
<b>Total amount of assets measured at fair value not based on going concern</b>				
<b>Total amount of liabilities measured at fair value not based on going concern</b>				

The input values used for fair value measurement are divided into three levels:

The first level of input is an unadjusted quote for the same asset or liability that can be obtained on the measurement date in an active market.

The second level input value is an input value that is directly or indirectly observable for related assets or liabilities other than the first level input value.

The third level input value is the unobservable input value of the relevant asset or liability.

The level to which the fair value measurement result belongs is determined by the lowest level to which the input value of the fair value measurement is significant.

**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 at end of reporting period of available-for-sale financial assets was determined on the basis of the closing price of Shenzhen Stock Exchange and Shanghai Stock Exchange on the last trading day in 2018.

**12. Related party and related party transaction**

**1) The parent company of the Company**

The Company is a listed company with no controlling shareholder and no actual controller.

**2) The subsidiaries of the Company**

See the Note 9 Equity in Other Entities for the details.

**3) The joint operation and joint ventures of the Company**

See the Note 9 Equity in Other Entities for the details.

**4) Other related parties**

Name of Other Related Parties	Relationship with the Company
Shanghai Hirose Precision Industrial Co., Ltd.	Other related party
Shanghai Fuji Xerox Co., Ltd.	Other related party
Shanghai Kaile Investment Management Co., Ltd.	Other related party
Zhejiang GEMSY Electromechanical Co., Ltd.	Other related party
Shenzhen Yingning Venture Capital Co., Ltd.	Other related party
Tianjin Tongshang Software Co., Ltd.	Other related party
Stoll Electronics Co., Ltd.	Other related party

**5) Related transactions**

**A. Related transactions for purchase and sale of goods, receiving and rendering of services**

Table of purchase of goods / receipt of services

Related Party	Content of Related Transaction	2018	2017
Stoll Electronics Co., Ltd.	Purchase of goods / Receiving of service	18,531,706.20	19,673,427.20

Table of sales of goods /rendering of services

Related Party	Content of Related Transaction	2018	2017
Shanghai Fuji Xerox Co., Ltd.	Sales of goods	17,427,907.76	21,610,693.53
Zhejiang Gemy Mechanical and Electrical Co., Ltd.	Sales of goods		317,000.00
Stoll Electronics Co., Ltd.	Sales of goods	722,873.75	664,436.40

B. Associated trusteeship/contracting and entrusted management/outsourcing

Not applicable.

C. Related lease

The Company acted as lessor:

Name of leasee	Type of leased asset	Rental recognized in report period	Rental recognized in last period
Shanghai Hirose Precision Industrial Co., Ltd.	Machinery equipment	250,000.00	250,000.00

D. Related guarantees

Not applicable.

E. Related party funds lending

Not applicable.

F. Related party assets transfer and debt reorganization

Not applicable.

G. Compensation for key managers

Unit: RMB 10,000 YUAN

Item	2018	2017
Compensation for key managers	434.55	638.57

Note: In 2018, the Company's key management personnel include 10 directors, supervisors, presidents, vice presidents and board secretary (17 in 2017).

## 6) Receivables and payables from related parties

### A. Receivables

Item	Related party	Ending Balance		Beginning Balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	Shanghai Fuji Xerox Co., Ltd.	1,688,554.30	84,427.72	2,365,537.24	118,276.86
Accounts receivable	Stoll Electronics Co., Ltd.	57,950.27			
Prepayment	Zhejiang Gemsy Mechanical and Electrical Co., Ltd.	6,147,650.83		6,147,650.83	
Other receivables	Zhejiang Gemsy Mechanical and Electrical Co., Ltd.	697,279.69	367,679.69	617,279.69	

### B. Payables

Item	Related party	Ending Balance	Beginning Balance
Account payables	Stoll Electronics Co., Ltd.	1,696,195.46	1,630,680.70
Other payables	Shenzhen Yingning Venture Capital Co., Ltd.	35,116,900.00	
Other payables	Tianjin Tongshang Software Co., Ltd.	24,810,600.00	
Other payables	H. Stoll AG & Co. KG	23,675,820.92	

## 7) Related party commitments

Not applicable.

## 13. Share payment

Not applicable.

## 14. Commitments and contingencies

### 1) Important commitments

Not applicable.

### 2) Contingencies

A. Important contingent events at the balance sheet date

(1) Contingent liabilities formed by debt guarantees provided by the Company for its subsidiary DA AG as of 31 December 2018

Guarantee	Guarantee	Commencement Date	Expiration Date of	Whether the Guarantee has	No
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	Amount	of Guarantee	Guarantee	been Fulfilled or not	te
Industrial and Commercial bank Shanghai Hongkou Branch	EUR 7.878 million	21 <sup>st</sup> December 2015	21 <sup>st</sup> December 2020	No	No te

Note 5: on 21st December 2015, the Company's wholly owned subsidiary, DAP Industrial AG, applied to the Frankfurt Branch of ICBC for a loan of no more than 7.878 million euro so as to pay the acquisition fee to Stoll KG. ICBC 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.

In 2018, DAP Industrial AG merged and merged with DA AG and changed its name to DA AG. The name of the financing guarantee was changed to DA AG. The financing guarantee provided by Industrial and Commercial Bank of China Shanghai Hongkou Sbranch AND the counter guarantee provided by the company continues to be valid.

As of 31 December 2018, there is no outflow of economic benefits arising from the above contingencies.

(2) As of December 31, 2018, contingent liability from providing guarantee by SGG for SG Richpeace

On November 22, 2018, SG Richpeace, a subsidiary of the Company, signed a "Comprehensive Credit Contract" with China Minsheng Bank Shanghai Branch. The company fulfills the repayment obligations under the credit contract and provides a guarantee of up to RMB 60 million for SG Richpeace. The other minority shareholders of SG Richpeace provided counter-guarantee for 35% of the Company's guarantee with 35% stake of SG Richpeace.

As of 31 December 2018, there is no outflow of economic benefits arising from the above contingencies.

(3) The Agreement to Increase Capital to Shanghai Shensy Enterprise Development Co., Ltd.

According to the capital increase agreement of Shanghai Shensy Enterprise Development Co., Ltd., by 30 June 2018, if SHENSY has not realized IPO and listed independently in A shares market, the persons acting in concert, Shanghai Pudong New Industrial Investment Co., Ltd., will be entitled to require the 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 assist it in the approval process of State-owned Assets Supervision and Administration Commission, commercial registration, etc. Per the agreement, the Company and Zhang Ping will respectively assume 50% of the above mentioned amount, and the Company bears unconditional joint responsibility to repurchase the shares that Shanghai Pudong New Industrial Investment Co., Ltd. holds.

If Shanghai Pudong New Industrial Investment Co., Ltd. has not listed in A shares market by 30 June 2018, it has 6 months (e.g. before 31 December 2018) to request our company and Zhang Ping to repurchase the shares which it holds in Shanghai Shensy Enterprise Development Co., Ltd.. If not, our company and Zhang Ping will not assume the above mentioned repurchase responsibility.

As of 30 June 2018, SHENSY has failed to complete its IPO and be listed on the A-shares independently. The company has negotiated with Shanghai Pudong New Industrial Investment Co., Ltd. on repurchase matters. The repurchase matters still need to complete the approval and listing of the state assets, so the

parties have not signed a follow-up repurchase agreement on the repurchase. There is considerable uncertainty in the share repurchase. Before the completion of the repurchase, Shanghai Pudong New Industrial Investment Co., Ltd. will still maintain a concerted relationship with the company.

(4) Arbitration on investment of 26% equity in H. Stoll AG & Co. KG

Accounting to the Contract signed on 29th August 2015 by SGE, the calculation of share price is based on the net assets of STOLL's audited consolidated statement in 2014, and the parties agreed that share price will be adjusted according to the net assets of STOLL's audited consolidated statement in 2015 and related clauses in the Contract. Now the parties have disputes on the calculation of net assets of STOLL's audited consolidated statement in 2015 and the understanding of the relevant terms of the Contract, resulting in a difference of approximately 4.26 million euro in the calculation of the price adjustment. SGE has received the Application for Arbitration submitted by Michael Stoll, Corinna Stoll and other 10 limited partners of STOLL KG on 20 July 2017. SGE will, in accordance with the terms of the contract, settle the dispute by arbitration in accordance with German legal procedures.

As of the date of this report, the arbitration is in process and with great uncertainty.

(5) Shanghai Shensy Enterprise Development Co., Ltd., a second-level subsidiary of the Company, borrowed 40,000,000.00 yuan from Bank of Communications Shanghai Baoshan Branch, borrowed RMB 54,900,000.00 from China Construction Bank Shanghai Baosteel Baoshan Branch, and borrowed RMB 10,000,000.00 from Shanghai Bank Fumin Branch. The third-level subsidiary Shanghai Shensy Kaile Internet of Things Co., Ltd. provides joint liability guarantee.

As of 31 December 2018, there is no outflow of economic benefits arising from the above guarantee.

(6) Labor Arbitration and Pending Litigation with the Staff of Li Fuquan

The family members of Li Fuquan, an employee of the company's subsidiary Shanghai Shensy Enterprise Development Co., Ltd. Harbin Branch, submitted to the labor arbitration for work injury compensation. The case has been terminated by the Labor and Personnel Dispute Arbitration Committee of the Harbin Foreign Trade Zone, which was held on March 22, 2019. According to the HWLRZZ (2019) No. 2 Arbitral Report, SHENSY Harbin Branch is required to pay Li Fuquan's family members various types of work-related injury compensation totaled 702,720.00 yuan.

Shanghai Shensy Enterprise Development Co., Ltd. Harbin Branch will apply to the Harbin Intermediate People's Court for revocation of the above ruling, and has deducted the corresponding estimated liabilities according to the amount of the arbitral award after deducting the prepaid compensation.

(7) As of December 31, 2018, Shanghai Shensy Enterprise Development Co., Ltd., a second-tier subsidiary of the Japanese company, provided contingent liabilities for the debt guarantee provided by the third-level subsidiary Mudanjiang Kailehui Logistics Co., Ltd.

The company's third-level subsidiary Mudanjiang Kailehui Logistics Co., Ltd. and ProLogis Financial Leasing (Shanghai) Co., Ltd. signed a financing sale and leaseback contract. Shanghai Shensy Enterprise Development Co., Ltd., a second-level subsidiary of the Company, is jointly and severally liable for all payment obligations under the financing sale and leaseback contract.



As of December 31, 2018, Shanghai Shensy Enterprise Development Co., Ltd. has not yet experienced the outflow of economic benefits due to the above guarantees, and the amount of financing leases that have not yet been settled amounts to 383,176.52 yuan.

## 15. Post balance sheet event

### 1) Important non-adjusting events

#### ① Capital increase in SG Richpeace

According to the agreement of the equity purchase agreement signed by the Company and other shareholders of SG Richpeace in 2018, the completion of the equity delivery of SG Richpeace and the settlement of all acquisitions After the related parties' remittances, all shareholders jointly increased the capital of RMB 3,000 million in Richpeace, of which the company increased the capital by RMB 19.5 billion, and the other shareholders increased the capital by RMB 10,500,000. As of the date of issuance of the financial statements, all shareholders have completed the payment of all the capital increase, and Richpeace has completed all the registration procedures related to the capital increase.

#### ② Capital increase in Shanghai ShangGong Financial Leasing Co., Ltd.

The Company and its subsidiary DA AG plans to jointly increase capital with Oriental Hengxin Capital Holding Group Co., Ltd. to Shanghai ShangGong Financial Leasing Co., Ltd.; the Company will increase its capital by USD 2.10 million, DA AG will increase its capital by USD 2.6 million, and Oriental Hengxin Capital Holdings Group Co., Ltd. will increase its capital by USD 15.53 million. Upon completion of the capital increase, Oriental Hengxin Capital Holdings Group Co., Ltd. will hold a 51.00% stake in Shanghai ShangGong Financial Leasing Co., Ltd. The Company will lose control of Shanghai ShangGong Financial Leasing Co., Ltd. and will no longer include Shanghai ShangGong Financial Leasing Co., Ltd. in the scope of consolidation of the Company. As of the date of issuance of the financial statements, the capital increase has not yet completed the required government filing or approval work and registration procedures, and the capital increase of each shareholder has not been paid in place.

#### ③ Equity incentive plan

The Company plans to implement equity incentives to the company's directors, senior management and other key personnel in business and management positions, in the form of stock options. At the time of exercise, the Company will issue RMB A shares of common stock to the incentive object. The equity incentive plan is valid for five years. The exercise period is 36 months after the grant of equity, and the lock option period is 12 months after the stock option grant. The stock option is valid to meet the performance requirements announced by the company. The equity incentive plan is to be awarded 13,204,200.00 stock options, with a total of 318 people granted for the first time, and the exercise price is RMB 7.90/share.

The equity incentive plan was approved by the 10th meeting of the 8th Board of Directors of the Company on February 28, 2019, and was approved by the company's first extraordinary shareholders meeting in 2019 on March 18, 2019. As of the date of issuance of the financial statements, the equity incentive plan has not yet reached the exercise period.

**2) Profit distribution**

According to the resolution of the Company's 11th Meeting of the 8th Board of Directors on 12 April 2019, no dividends of 2018 will be distributed, neither the transferring of capital reserves into share capital.

**3) Sales return**

Not applicable.

**4) Others**

Not applicable.

**16. Other significant events**

**1) Correction of previous accounting errors**

Not applicable.

**2) Debt reorganization**

Not applicable.

**3) Asset replacement**

Not applicable.

**4) Annuity plan**

Not applicable.

**5) Discontinued operations**

Not applicable.

**6) Division information**

**A. Basis for determining the report division**

According to the Company's development strategy, four report divisions are identified according to the nature of the business: sewing equipment & intelligent equipment, logistics services, export trade and other business segments. Each of the Company's reporting segments offers different products and services.

**B. Report division's financial information**

Item	Sewing equipment division	Logistics service division	Export trade division	Other business segments	Offset between divisions	Total
1. Operating income	2,730,956,602.44	762,944,769.75	101,416,874.14	107,956,220.41	502,746,725.65	3,200,527,741.09
Including: External transaction income	2,250,341,508.42	762,944,769.75	101,171,704.50	86,069,758.42		3,200,527,741.09
Inter-segment transaction income	480,615,094.02	-	245,169.64	21,886,461.99	502,746,725.65	-
2. Investment income from associates and joint ventures	-10,161,995.93	-	-	-	2,810,722.97	-12,972,718.90
asset impairment losses	17,016,440.98	180,207.75	-768,073.82	974,523.30	-3,197,769.37	20,600,867.58
4. Depreciation and amortization	67,079,259.92	2,874,029.43	220,020.85	10,890,439.67		81,063,749.87
5. Total profit	169,325,209.15	19,388,903.30	1,583,616.03	15,036,463.72	1,094,712.58	204,239,479.62
6. Income tax expenses	36,355,827.94	5,197,649.63	-	4,905,207.25	668,849.15	45,789,835.67
7. Net profit	132,969,381.21	14,191,253.67	1,583,616.03	10,131,256.47	425,863.43	158,449,643.95
8. Total assets	3,266,086,230.29	476,578,112.30	22,456,759.09	1,737,974,683.76	1,358,968,623.39	4,144,127,162.05
9. Total liabilities	1,848,822,323.49	215,656,190.44	15,074,207.66	169,713,658.31	617,094,885.46	1,632,171,494.44



10. Other important non-cash items						
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### 17. Notes to mains items of the financial statements of the parent company

#### 1) Notes receivable and Accounts receivable

Item	Ending Balance	Beginning Balance
Notes receivable	8,713,253.21	18,619,880.00
Accounts receivable	40,853,861.26	36,846,572.06
Total	49,567,114.47	55,466,452.06

#### Notes receivable

##### A. Disclosure of classification of notes receivable

Item	Ending Balance	Beginning Balance
Bank Acceptance Bill	8,713,253.21	18,619,880.00
Total	8,713,253.21	18,619,880.00

B. Notes receivable that the company has endorsed or discounted and has not yet expired on the balance sheet date

Item	Amount confirmed at the end of the reporting period	Amount not confirmed at the end of the reporting period
Bank Acceptance Bill	1,100,000.00	
Total	1,100,000.00	

#### Accounts receivable

##### A. Disclosure of classification of accounts receivable

Type	Ending Balance					Beginning Balance				
	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	15,224,682.99	14.25	10,457,069.39	68.68	4,767,613.60	15,115,630.80	13.88	5,561,028.32	36.79	9,554,602.48
Accounts receivable with provision for bad debt made on a portfolio with similar risk credit characteristics basis	64,602,975.75	60.47	46,768,063.44	72.39	17,834,912.31	80,650,765.60	74.09	61,342,035.96	76.06	19,308,729.64
Accounts receivables with insignificant single amount and provision for bad debt made on an individual basis	27,011,365.22	25.28	8,760,029.87	32.43	18,251,335.35	13,092,694.77	12.03	5,109,454.83	39.03	7,983,239.94
Total	106,839,023.96	100.00	65,985,162.70	61.76	40,853,861.26	108,859,091.17	100.00	72,012,519.11	66.15	36,846,572.06

Accounts receivable with significant single amount and provision for bad debts made on an individual basis at the end of report period

Accounts receivable (By entity)	Ending Balance			
	Accounts receivable	Provision for bad debts	Provision ratio (%)	Reason for provision
Customer C	5,570,630.90	5,529,005.67	99.25	Impaired according to the separate test
Customer D	4,974,724.60	248,736.23	5.00	Impaired according to the separate test
Customer E	4,679,327.49	4,679,327.49	100.00	Impaired according to the separate test
Total	15,224,682.99	10,457,069.39	68.68	/

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

portfolios:

Aging	Ending Balance		
	Accounts receivable	Provision for bad debts	Provision ratio
Within 1 year	18,688,560.79	934,428.03	5.00
1 to 2 years	96,464.02	19,292.80	20.00
2 to 3 years	7,216.67	3,608.34	50.00
Over 3 years	45,810,734.27	45,810,734.27	100.00
Total	64,602,975.75	46,768,063.44	72.39

**B. Bad debt provision recovered or reversed in report period**

The amount of provision for bad debts was 49,948.84 yuan in current period; the amount of bad debt provision recovered or reversed in the current period was 279,811.08 yuan.

**C. Accounts receivable actually written off in current period**

Item	Write-off amount
Accounts receivable actually written off	6,018,561.06

Note: Due to the liquidation and cancellation of Shanghai SMPIC Photosensitive Material Factory, the Company's President's Office Meeting agreed to write off the accounts receivable totaling RMB 3,436,227.61; the Company's President's Office Meeting agreed to write off the accounts receivable of the industrial sewing machine branch that have been determined to be uncollectible and have been fully withdrawn for bad debts totaling RMB 2,582,333.45.

**D. Top five accounts receivable by the ending balance of the borrowers**

Company name	Ending Balance		
	Accounts receivable	Proportion in total accounts receivable (%)	Provision for bad debts
Customer A	11,530,775.39	10.79	11,530,775.39
Customer B	7,480,189.67	7.00	7,480,189.67
Customer C	5,570,630.90	5.21	5,529,005.67
Customer D	4,974,724.60	4.66	248,736.23
Customer E	4,679,327.49	4.38	4,679,327.49
Total	34,235,648.05	32.04	29,468,034.45

**E. Receivables derecognized due to transfer of financial assets**

Not applicable.

**F. Transfer of accounts receivable and continued involvement in the formation of assets, liabilities**

Not applicable.

**2) Other receivables**

Item	Ending Balance	Beginning Balance
Interest receivable		
Dividends receivable	1,050,356.92	
Other receivables	153,706,592.29	107,954,125.03
Total	154,756,949.21	107,954,125.03

**Interest receivable**

Not applicable.

**Dividends receivable**

Investee	Ending Balance	Beginning Balance
Shanghai ShangGong Butterfly Sewin Machine Co., Ltd.	1,050,356.92	
Total	1,050,356.92	

Other receivables

A. Disclosure of classification of other receivables

Type	Ending Balance					Beginning Balance				
	Book balance		Provision for bad debts		Book Value	Book balance		Provision for bad debts		Book Value
	Amount	%	Amount	%		Amount	%	Amount	%	
Other receivables with significant single amount and provision for bad debt made on an individual basis	60,016,216.10	25.37	60,016,216.10	100.00		61,325,622.45	32.26	61,325,622.45	100.00	
Other receivables with provision for bad debt made on a portfolio with similar risk credit characteristics basis	172,013,467.01	72.71	22,818,725.66	13.27	149,194,741.35	125,819,372.64	66.20	20,769,399.12	16.51	105,049,973.52
Other receivables with insignificant single amount and provision for bad debt made on an individual basis	4,529,575.94	1.92	17,725.00	0.39	4,511,850.94	2,925,886.51	1.54	21,735.00	0.74	2,904,151.51
<b>Total</b>	<b>236,559,259.05</b>	<b>100.00</b>	<b>82,852,666.76</b>	<b>35.02</b>	<b>153,706,592.29</b>	<b>190,070,881.60</b>	<b>100.00</b>	<b>82,116,756.57</b>	<b>43.20</b>	<b>107,954,125.03</b>

Other receivables with significant single amount and provision for bad debts made on an individual basis at the end of report period

Other receivables (By entity)	Ending Balance			
	Other receivables	Provision for bad debts	Proportion of provision (%)	Reason for provision
Customer C	46,028,699.80	46,028,699.80	100.00	Impaired according to the separate test
Customer E	13,987,516.30	13,987,516.30	100.00	Impaired according to the separate test
<b>Total</b>	<b>60,016,216.10</b>	<b>60,016,216.10</b>	<b>100.00</b>	<b>/</b>

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

Aging	Ending Balance		
	Other Receivables	Provision for Bad Debts	Proportion of Provision (%)
Within 1 year	153,677,376.65	7,683,868.82	5.00
1 to 2 years	902,835.50	180,567.10	20.00
2 to 3 years	185,896.00	92,948.00	50.00
Over 3 years	14,861,341.74	14,861,341.74	100.00
<b>Total</b>	<b>169,627,449.89</b>	<b>22,818,725.66</b>	<b>13.45</b>

Other receivables with provision for bad debts made using other methods among those portfolios

Name	Amount	Provision for bad debts	Proportion of provision (%)
Receivables from government agencies and institutions	1,547,836.20		
Cash pledge and security deposit	181,200.00		
Employee Standby Fund and Employee Collection and Payment	656,980.92		
<b>Total</b>	<b>2,386,017.12</b>		

B. Other receivables classified by nature of payment

Not applicable.

C. Withdrawal, recovery or reversal of provision for bad debt

The provision for bad debts in current period was 1,275,590.18 yuan, and the amount of provision for bad debt recovered or reversed this period was 0 yuan.

D. Other receivables actually written off in current period

Item	Write off amount
Other receivables actually written off	534,288.45

E. Top five other receivables by the ending balance of the borrowers

Company name	Nature of fund	Ending balance	Aging	Proportion in total other receivable (%)	Ending balance of provision for bad debts
Customer A	Current accounts	65,851,054.68	Within 1 year	27.84	3,292,552.73
Customer B	Current accounts	51,500,000.00	Within 1 year	21.77	2,575,000.00
Customer C	Current accounts	46,028,699.80	From within 1 year to over 3 years	19.46	46,028,699.80
Customer D	Current accounts	20,544,256.86	Within 1 year	8.68	1,027,212.84
Customer E	Current accounts	13,987,516.30	From within 1 year to over 3 years	5.91	13,987,516.30
Total	/	197,911,527.64	/	83.66	66,910,981.67

F. Receivables involving government grants

Not applicable.

G. Other receivables derecognized due to the transfer of financial assets

Not applicable.

H. Transfer of other receivables and continued involvement in the formation of assets, liabilities

Not applicable.

3) Long-term equity investments

Item	Ending Balance			Beginning Balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	801,448,021.03	5,500,000.00	795,948,021.03	644,810,221.03	5,500,000.00	639,310,221.03
Total	801,448,021.03	5,500,000.00	795,948,021.03	644,810,221.03	5,500,000.00	639,310,221.03

A. Investment in subsidiaries

Name	Beginning balance	Increase in current period	Decrease in current period	Ending balance	Provision for impairment provided in current period	Ending balance of provision for impairment
DAP (Shanghai) Co., Ltd.	59,046,675.86			59,046,675.86		
Shanghai Shangong Butterfly Sewing Machines Co., Ltd	79,000,000.00			79,000,000.00		
Duerkopp Adler AG	142,370,693.64			142,370,693.64		
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 SGSB Electronics Co., Ltd	20,000,000.00			20,000,000.00		
Shanghai Fengjian Property Co., Ltd.	500,000.00			500,000.00		500,000.00
Shanghai Shensy Enterprise Development Co., Ltd.	86,083,077.64			86,083,077.64		
Zhejiang ShangGong GEMSY CO., LTD.	129,600,000.00			129,600,000.00		
Shanghai ShangGong Financial Leasing Co., Ltd.	33,452,430.00			33,452,430.00		
PFAFF Industrial Sewing Machine (Zhangjiagang) Co., Ltd.	12,553,070.89			12,553,070.89		
DAP Vietnam Co., Ltd.	204,273.00			204,273.00		
ShangGong Sewing Equipment (Zhejiang) Co., Ltd.	10,000,000.00			10,000,000.00		
Dürkopp Adler Industrial Manufacturing (Shanghai)		20,000,000.00		20,000,000.00		



Co., Ltd.					
TIANJIN RICHPEACE AI CO., LIMITED		136,637,800.00		136,637,800.00	
Total	644,810,221.03	156,637,800.00		801,448,021.03	5,500,000.00

B. Investment in associates and joint ventures

Not applicable.

4) Operating income and operating costs

Item	2018		2017	
	Income	Cost	Income	Cost
Main Business	325,847,704.74	244,390,700.79	167,723,172.35	124,224,886.12
Other Business	42,112,962.53	14,808,501.40	39,895,020.71	15,258,267.48
Total	367,960,667.27	259,199,202.19	207,618,193.06	139,483,153.60

5) Investment income

Item	2018	2017
Long-term equity investment measured at cost method	1,050,356.92	4,000,000.00
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		
Investment income from disposal of financial assets measured at fair value through current profit and loss	45,148.42	16,690.26
Investment income from holding of available-for-sale financial assets		
Investment income from holding of available-for-sale financial assets	12,526,301.81	16,249,837.40
Investment income from disposal of available-for-sale financial assets		
Gains from re-measurement of residual equity at fair value after the loss of control right		
Others		
Long-term equity investment measured at cost method	13,550,203.90	10,441,937.48
Total	27,172,011.05	30,708,465.14

18. Supplementary information

1) Extraordinary profit or loss for current period

Item	Amount	Note
Profits or losses from disposal of non-current assets	-1,285,095.62	
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)	9,897,636.07	
Payment for use of state funds received from non-financial institutions recorded in current profits and losses		
Gains from the difference between the investment costs of acquisition of subsidiaries, associates and joint ventures and share in the net fair value of the identifiable assets of the investee when investing		
Gains or losses from non-monetary asset exchange		
Gains or losses from entrusting the investments or management of asset		
Impairment provision for force majeure such as natural calamities		
Gains or losses from debt restructuring		
Restructure expenses, such as the compensation for employee relocation and integration costs		
Gains or losses from transactions with obvious unfair transaction price		
Year-to-date net profits or losses of subsidiaries arising from business combinations under common control		
Profits or losses arising from contingencies not related to the company's normal business		
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	12,601,058.35	





liabilities, and investment income from disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets		
Reversal of the impairment provision for receivables subject to separate impairment test		
Profits or losses from entrusted loans	603,626.80	
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	4,659,776.73	
Other profits or losses which can be deemed as non-recurring profits or losses		
Income tax effects	-6,037,254.76	
Minority interest effects	-4,268,282.88	
Total	16,171,464.69	

## 2) Return on equity and earnings per share

Profit in Report Period	Weighted average return on equity (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to common shareholders of the company	6.3561	0.2567	0.2567
Net profit attributable to common shareholders of the company after deducting non-recurring gains and losses	5.6262	0.2272	0.2272

## 3) Differences in accounting data under domestic and overseas accounting standards

Not applicable.

## Chapter 12 Documents for Reference

1. Financial Statements signed by the legal representative, chief accountant and accounting manager and sealed by the Company.
2. Audit report signed by certified public attantants and sealed by the accounting firm.
3. Original documentation and announcements published by the Company in the newspaper appointed by CSRC within the report period.

Shang Gong Group Co., Ltd.

Chairman of Board of Directors: Zhang Min

April 12, 2019