

# **2012 ANNUAL REPORT**

**SGSB GROUP CO., LTD.**

**600843 900924**

## Important Note

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

2. All the members of the Board of Directors attended the meetings of BOD.

3. Shulun Pan Certified Public Accountants Co., Ltd.(special common partnership) provided an independent, clean audit report for the Company.

4. As particular emphasis, Mr. Zhang Min, Chairman of BOD & CEO, Mr. Ma Minliang, General Manager and Ms. Gao Lili, Chief of Accounting Affairs, make the pledge for the authenticity and integrity of the attached financial statements.

5. As audited by Shulun Pan Certified Public Accountants Co., Ltd., the consolidated net profit for the year 2012 amounted to RMB 69,602,653.86, and the net profit attributable to the holders of parent company totaled RMB 41,686,253.70.

According to the Article of Association of the Company, before reserving statutory funds, the current-year profits shall firstly cover the loss. As the current-year profits are unable to cover the loss of previous years, the Company doesn't reserve statutory funds. The current-year profits of the parent company are RMB -16,574,513.18, together with the current-year beginning distributable profits of RMB -347,654,806.42, the year-end distributable profits was of RMB -364,229,319.60. Considering the profit available for appropriation of the parent company is negative, the Company doesn't propose profit appropriation or reserve fund capitalization for year 2012.

6. The future plans, development strategies and other statements in this report do not constitute the real commitment of the company to investors. Investors shall pay attention to the investment risk.

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

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

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# Chapter I. Definition and Significant Risk Warning

## 1. Definition

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

“**SGSB, Company**” shall mean SGSB GROUP CO., LTD;

“**Pudong SASAC**” shall mean Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission”, the main shareholder and actual controller;

“**Shangggong Europe**” shall mean Shangggong (Europe) Holding GmbH;

“**DA**” shall mean Duerkopp Adler AG, a German listed company, held by Shangggong Europe;

“**DA Trading**” shall mean Duerkopp Adler Trading (Shanghai) Co.,Ltd;

“**FAG**” shall mean FAG Kugelfischer AG, former main shareholder of DA;

“**DA Manufacturing**” shall mean Duerkopp Adler Manufacturing (Shanghai) Co.,Ltd;

“**Shangggong Butterfly**” shall mean Shanghai Shangggong Butterfly Sewing Machine Co.,Ltd;

“**Report period**” shall mean from January 2012 to December 31, 2012;

“**Shulun Pan**” shall mean Shulun Pan Certified Public Accountants Co., Ltd. (special common partnership);

“**RMB**” shall mean RMB being the lawful currency of China.

“**EUR**” shall mean EURO being the lawful currency of the European Union.

## 2. Significant risk warning

The company has described the risks faced by the company in detail in the annual report, to which investors should pay attention. Detailed description of risks is in Report of the Board of Directors and the relevant sections in this annual report.

## Chapter II. Basic Information about the Company

1. Legal name of the Company: SGSB GROUP CO., LTD.  
(Abbreviated as SGSB)  
Legal representative of the Company: Zhang Min
2. Secretary to Board of Directors: Zhang Jianguo  
Contact address: 12<sup>th</sup> floor, Orient Mansion, No. 1500 Century Avenue, Pu Dong New Area, Shanghai, PRC  
Tel: 86-21-6840 7515  
Fax: 86-21-6330 2939  
E-mail: [zhangjianguo@sgsbgroup.com](mailto:zhangjianguo@sgsbgroup.com)  
Designated representative for stock affairs: Shen Lijie  
Contact address: 12<sup>th</sup> floor, Orient Mansion, No. 1500 Century Avenue, Pu Dong New Area, Shanghai, PRC  
Tel: 86-21-6840 7700\*1233  
Fax: 86-21-6330 2939  
E-mail: [shenlj@sgsbgroup.com](mailto:shenlj@sgsbgroup.com)
3. Address of registration: **A-D Room 12<sup>th</sup> floor, Orient Mansion, No. 1500 Century Avenue**, Pu Dong New Area, Shanghai, PRC  
Office address: 12<sup>th</sup> floor, Orient Mansion, No. 1500 Century Avenue, Pu Dong New Area, Shanghai, 200122, PRC  
Official Website: <http://www.sgsbgroup.com>  
E-mail address: [sgsb@sgsbgroup.com](mailto:sgsb@sgsbgroup.com)
4. Designated newspaper for information disclosure: <Shanghai Securities News> and <Hong Kong Commercial Daily>  
Internet login designated by China Securities Regulatory Commission to carry the Company's Annual Report: <http://www.sse.com.cn>  
Place for consulting the Company's Annual Report: General Office of the Company
5. Authorized stock exchange for A shares: Shanghai Stock Exchange  
A shares stock-code 600843, abbreviated as SGSB, abbreviated as SG Share, GF Share before modification  
Authorized stock exchange for B shares: Shanghai Stock Exchange  
B shares stock-code 900924, abbreviated as SGB, abbreviated as GFB
6. Registration modification information:
  - (1) Basic information  
The registration of the Company during the report period did not change.

(2) First-time registration information

First-time registration information shall be found in 2010 annual report of the Company.

(3) Change of principal business since being listed

The principal business of the Company has been sewing equipment manufacturing industry since being listed. The business involves sewing equipment, office machinery, photo sensitive equipment, and commerce, trading etc.

(4) Change of main shareholder since being listed

Since being listed in 1994, the Company's main shareholder was Shanghai Light Industry Holding (Group) Company. On Oct.18, 2004, Shanghai Light Industry Holding (Group) Company transferred all shares of the Company to Shanghai Pudong New Area State-owned Assets Administration Office, which later re-named as Pudong SASAC.

Currently, the main shareholder and actual controller of the Company is Pudong SASAC.

7. Other information

Auditor appointed by the Company (domestic)	Shulun Pan Certified Public Accountants Co., Ltd. (special common partnership)
Office address of auditor	4F, 61 East Nanjing Road, Shanghai, PRC
Signing name of accountants	Zhang Qi      Shao Liangming

## Chapter III. Accounting and Financial Highlights

### 1. The Company's main accounting data and financial index in the last three years:

#### (1) Main accounting data

RMB'

Item	2012	2011	Increase/Decrease (%)	2010
Total operating income	1,506,126,050.61	1,578,687,682.56	-4.60	1,677,905,627.85
Net profit attributed to shareholders	41,686,253.70	112,665,111.88	-63.00	45,161,949.71
Net profit attributed to shareholders after non-recurrent account profit/loss	28,831,010.92	8,054,436.35	257.95	-30,216,116.44
Net cash flow from operating activities	138,676,454.10	71,198,549.85	94.77	-68,042,374.27
	End of 2012	End of 2011	Increase/Decrease (%)	End of 2010
Owners' equity attributed to shareholders	729,473,292.70	698,160,052.65	4.49	600,928,917.32
Total assets	1,608,451,075.09	1,530,019,795.15	5.13	1,630,623,370.58

#### (2) Main financial index

Item	2012	2011	Increase/Decrease (%)	2010
Earning per share, basic	0.0929	0.2510	-62.99	0.1006
Earning per share, diluted	0.0929	0.2510	-62.99	0.1006
EPS after non-recurrent account profit/loss, basic	0.0642	0.0179	258.66	-0.0673
Return on net assets, weighted (%)	5.7978	17.1416	decrease 11.34%	7.8535
Return on net assets after non-recurrent account profit/loss (%)	4.0099	1.2255	Increase 2.78%	-5.2545

### 2. Items for adopting fair value measurement

RMB'

Item	Balance at period beginning	Balance at period end	Current change	Influence sum to current profit
trading financial assets	793,642.16	574,196.01	-17,446.15	-17,446.15
financial assets for sale	86,183,204.93	68,296,974.00	-17,818,630.93	395,717.08
Total	86,976,847.09	68,871,170.01	-17,836,077.08	378,270.93

## Chapter IV. Report by the Board of Directors

### 1. Discussion and analysis by the Board regarding operation of the Company during report period

In 2012, The Company, as sewing machinery manufacturer, is mainly engaged in production and sales of industrial sewing machines and components, special-purposed sewing equipments and household sewing machines, technical development and consulting services. Facing the global financial crisis and fierce competition in the industry, the Company makes great efforts to walk out the slump period by adjusting the structure and turning the way of development. The Company Accelerated cooperation with partner in the industry, and made full use of existing infrastructure and resource allocation. The Company took "innovation" as a means to optimize the product structure, expand the scale of operation, and strive to achieve the economic growth and rapid development. With the effort made by all employees, the Company made some achievements in the adjustment and business operation. The overall economy of the Company run smoothly and progressively.

During report year, the Company realized operating income of RMB 1,506,130,000, a decrease of 4.6% year-on-year, mainly due to export revenue fell 30.96%, among which sewing equipment sales revenue increased 7.13%; operating profit of RMB 91,350,000, an increase of 179.47%, mainly due to operating gross profit increased RMB 64,910,000, consolidated gross profit margin increased 5.46% ; and net profit of RMB 41,690,000 , attributable to shareholder of the parent company, a decrease of 63%, mainly due to decrease of non-operating income by RMB 94,620,000; net profit attributable to shareholder of parent company after deducting non-recurring gains and losses is RMB 28,830,000, an increase of 257.95% year-on-year, mainly due to profitability enhancement in principle industry. The exportation (international subsidiaries excluded) decreased by 16.9% to USD 72,460,000.

During report year, the Company implemented the following work:

#### ① Explore product sales, make efforts to expand market scale

The Company adheres to customer needs and market demand as the starting point, and strengthens the global sales network construction, innovate sales model. On the basis of the maintenance of old customers, the Company develops new direct sales channels, and changes the traditional distribution. For example, DA Trading (Shanghai) uses its technological advantages, continues occupation of the high-end market, stabilizing the garment sewing machine market in suits, uniforms and other clothing, make great efforts to expand market in leather, bags, car seats, and vigorously expand in the heavy material machine, special machine market. Also by domestic and foreign exhibitors, strengthen direct sales and network marketing, and a variety of ways to expand the brand 's influence, and actively develop new sales channels. On one hand, the Company strengthened the network building of dealers to improve market coverage of Shanggong brand; On the other hand, the Company built a sales platform for household sewing machines, setting up dealers all over country, the sales of multi-function household sewing machines are growing rapidly.

Dürkopp Adler AG ( hereinafter referred to as " DA "), the overseas subsidiary of the Company, in response to the impact of the debt crisis in Europe in the manufacturing sector,



focus the world's top sewing technology and its advantage in application technology, strengthened the marketing efforts, the scale of business achieved effective growth.

② focus on R&D of new products, and effectively promote business innovation and transformation

The company continues to lead the world's top technology of sewing equipment, and occupy the high-end market in its absolute technical superiority, innovation and R & D of the heavy material machine MType and HType, continues to reduce costs, effectively control manufacturing costs, improve product gross margin. In 2012, the company successfully developed in the field of heavy material machine and a long arm programmed pattern machine, automatic sewing workstations and other new varieties; new breakthrough and continuous improvement in the field of garment machine, developed a new patch pocket machine, automatic tacking machine and other new varieties and improved automatic bag opening machine, ensures the technology leadership position.

③ Streamline the management of institutions to promote the transformation of the mode of operation

In recent years, with the company's assets and the integration of resources and clean up the adjustment of the loss-making enterprises, the company has undergone significant changes in terms of organizational structure, asset structure, management level and production methods. In order to further promote the development, the Company transferred all shares in DA Manufacturing to DA Trading, integrate the production department of DA Manufacturing and Shanggong Butterfly etc.

④ Improve management and strengthen internal control

In Accordance with the requirements of the corporate governance, the Company continues to strengthen internal control, consciously regulates business behavior.

## 1. Analysis on principle business

### (1) profit statement and changes

RMB'

Item	Current period	Previous period	change (%)
Operating income	1,506,126,050.61	1,578,687,682.56	-4.60
Operating expense	1,067,777,087.51	1,205,353,227.82	-11.41
Sales expense	159,229,142.78	151,412,115.43	5.16
Administration expense	169,484,391.57	173,677,416.53	-2.41
Financial expense	9,595,280.37	27,129,459.43	-64.63
Net cash flow from operating activities	138,676,454.10	71,198,549.85	94.77
Net cash flow from investing activities	-10,762,403.74	-26,966,252.93	60.09
Net cash flow from financing activities	-27,976,256.78	-82,679,996.00	66.16
R&D expense	50,285,425.57	51,400,094.90	-2.17

### (2) Income

① Analysis of factors resulting in changes of business income

During report period, international macroeconomic recovery is slow, the continued downturn impact of sewing equipment industry, the overall market downturn. The company achieved operating income of RMB1,506,130,000, a decline of 4.6% , mainly due to domestic export revenues fell 30.96% . DA Company, a subsidiary of the company insists on innovation and R

& D , and continuously improve the scientific and technological content of products, in particular, in previous years the thick material platform design Mtype comprehensive market to further expand the field of automobile manufacturing business, expand production and sales , the company sewing equipment sales revenue year-on-year increase 7.13%.

② Analysis of factors affecting the company's products income

During report period, the company overcomes the overall downturn adverse effect of sewing equipment industry market, sales targets and profitability of its principal industry increased. On one hand, the DA brand of high-end products maintains a higher gross profit margin and advantages in the traditional garment, and leather sectors, on the other hand, the Company vigorously expand in areas such as car seats and airbags, production and sales and earnings are going up to the best level in recent years. Production and sales of the company's industrial sewing machine respectively are 19,036 sets and 15,951 sets; In 2012, DA's sales income of sewing industry is EUR 96,700,000, an increase of 8%, among which sales of leather heavy-material machine increased 33%, net profit is EUR 8,348,000, an increase of 50.25%. On the other hand, the sale of domestic Shanggong Brand industry sewing machine is on good momentum. Domestic production and sales of the company's industrial sewing machine respectively are 11,859 sets and 12,546 sets, sale of Butterfly Brand household sewing machines are 462,735 units, among which sale of Butterfly household sewing machines are 47,000 units, an increase of 160%. Sales income of household sewing machine totaled RMB 174,600,000.

③ Influence of new product and new service

The company always adhere to customer requirements and market demand as the first elements to maintain R & D investment of 4-5 % of the sales of sewing equipment products, unremittingly, solid technology leadership position. The DA brand MType and HType Series heavy-material new products in 2012, has been fully put on the market, the DA company's sales revenue in the heavy-material machine is more than 45 million euros , accounting for 47% of its annual sales revenue. Butterfly brand new multi - function sewing machine has been in rapid growth in 2012, the sales revenue is RMB 174,600,000, despite the small base, the market has huge development potential.

④ Main customers

Sale to top 5 customers of the Company amounts to RMB 236,170,000, accounting for 15.68% of total operating income of the Company.

(3) Cost

① Cost analysis

RMB'

By sector						
By sector	Cost item	Sum Current period	In proportion to total cost (%)	Sum previous period	In proportion to total cost (%)	Increase /decrease(%)
Sewing equipment	material	465,619,901.37	44.36	478,359,237.76	40.43	-2.66
	Labor	154,035,951.61	14.67	148,996,661.63	12.59	3.38
	Depreciation	17,202,962.97	1.64	19,511,805.54	1.65	-11.83

	Manufacture cost	44,769,070.74	4.26	30,196,511.51	2.55	48.26
	Sub-total	681,627,886.69	64.93	677,064,216.44	57.22	0.67
International trade		268,728,514.36	25.60	390,724,002.02	33.02	-31.22
Office equipment	material	54,592,887.43	5.20	45,793,862.57	3.87	19.21
	Labor	9,474,998.26	0.90	8,116,822.87	0.69	16.73
	Depreciation	830,768.77	0.08	743,192.78	0.06	11.78
	Manufacture cost	3,806,630.75	0.37	3,013,146.75	0.26	26.33
	Sub-total	68,705,285.21	6.55	57,667,024.97	4.88	19.14
Film materials	material	20,616,329.32	1.96	43,905,623.34	3.71	-53.04
	Labor	3,280,344.04	0.31	4,490,211.87	0.38	-26.94
	Depreciation	1,029,908.82	0.10	1,062,598.95	0.09	-3.08
	Manufacture cost	4,674,422.76	0.45	5,100,480.39	0.43	-8.35
	Sub-total	29,601,004.94	2.82	54,558,914.56	4.61	-45.74
Others		1,055,297.18	0.10	3,182,348.78	0.27	-66.84
	total	1,049,717,988.38	100	1,183,196,506.77	100	-11.28

② Main suppliers

Total Purchase of the Company from top 5 suppliers is RMB 147,170,000, accounting for 13.59% of total purchase volume of the Company.

(4) Expense

Item	Sum in current period	Sum in previous period	Increase/decrease (%)	RMB'
Sales expense	159,229,142.78	151,412,115.43	5.16	
Administration expense	169,484,391.57	173,677,416.53	-2.41	
Financial expense	9,595,280.37	27,129,459.43	-64.63	
Income tax expense	35,173,182.36	7,843,818.94	348.42	

The Financial expense of this year declined 64.63% compared with last year, mainly because the Company strengthens fund management, reduced interest expense on bank borrowings and increased exchange gains.

Income tax expense increased 348.42% compared with last year, mainly due to significant increase of profit made by European subsidiaries, resulting in increase of income tax expense.

(5) R&D expenses

RMB'

① R&D expense chart

R&D expenses in current period	50,285,425.57
Total R&D expenses	50,285,425.57
Total R&D expenses in proportion to net assets (%)	5.82
Total R&D expenses in proportion to operating income (%)	3.34

② Note:

During report period, in order to improve the performance of our products and meet market demand, the R & D expenditure is mainly used for the development of automatic sewing workstations, electronic control, special heavy-material sewing machine, tacking products. Some of R & D results have been in application, and production and sales; part of R & D results as the company's technical reserves, to create the conditions for the subsequent development.

(6) Cash flows structure

RMB'				
Item	Current Year	Previous Year	Increase /decrease	Reason
Net cash flow from operating activities	138,676,454.10	71,198,549.85	94.77	Note1
Net cash flow from investing activities	-10,762,403.74	-26,966,252.93	60.09	Note2
Net cash flow from financing activities	-27,976,256.78	-82,679,996.00	66.16	Note3
Influence of fluctuation of exchange rate upon cash and cash equivalents	2,987,178.49	-12,091,002.77	124.71	Note4

Note 1: the decrease of cash paid to or for goods and the employees.

Note 2: the decrease of cash for investment and the decrease of cash gained from disposal of subsidiaries.

Note 3: the decrease of repayment to bank loan and interest repayment.

Note4: the influence by the exchange rate fluctuation of foreign currency on hand by Shanggong (Europe) Holding Co., Ltd.

(7) Significant change on profit

RMB'				
Item	Current Year	Previous Year	Increase/ decrease %	Reason
Financial expense	9,595,280.37	27,129,459.43	-64.63	Note1
Loss on assets depreciation	14,612,530.64	-11,196,301.99	230.51	Note2
Net income on changes in fair value	-17,446.15	-927,841.38	98.12	Note3
Investment income	10,605,054.76	5,858,127.17	81.03	Note4
Non-operating income	13,732,409.45	108,350,560.91	-87.33	Note5
Non-operating expense	309,524.35	1,537,630.12	-79.87	Note6
Income tax	35,173,182.36	7,843,818.94	348.42	Note7
Minority interest	27,916,400.16	18,991,409.28	46.99	Note8

Note1: the decrease of interest expense and increase of exchange gains.

Note2: increase in inventory value in current year, reversal to the provision for decrease of value in inventory.

Note 3: the increase of income on changes in fair value of trading financial assets.

Note 4: the decrease of investment income on disposal of long-term equity investment.

Note 5: the decrease of earning from disposal of fixed assets.

Note 6: the decrease of loss from disposal of fixed assets.

Note 7: the increase of profit by European subsidiaries and increase of income tax in current year.

Note 8: the increase of profit by non-wholly owned subsidiaries.

(2) Principal operating activities and performance

① Principal operating activities, by sectors and products

RMB'

Sector	Operating income	Operating expense	Operating gross margin %	Income increase %	Expense increase %	Margin increase %
Sewing machines and material conveyers	1,077,430,814.42	681,627,886.69	36.74	7.13	0.67	Increase 4.06%
International trade	273,672,994.31	268,728,514.36	1.81	-30.96	-31.22	Increase 0.38%
Film materials	36,128,793.39	29,601,004.94	18.07	-40.04	-45.74	Increase 8.61%
Office appliances	76,165,638.66	68,705,285.21	9.79	17.14	19.14	Decrease 1.52%
Others	3,753,245.49	1,055,297.18	71.88	-30.76	-66.84	increase 30.59%
Total	1,467,151,486.27	1,049,717,988.38	28.45	-4.28	-11.28	Increase 5.64%

② Principal operating activities, by regions

RMB'

Region	Principal operating income	Increase/decrease with last year (%)
Domestic	789,556,810.26	-14.53
Overseas	804,365,525.85	10.06

(3) Analysis on assets and liability

① assets and liability structure

RMB'

Item	End of current year		End of previous year		Increase/decrease percentage points
	Sum	% in total	Sum	% in total	
Monetary fund	468,232,331.76	29.11	365,002,051.56	23.86	28.28
Bill receivables	8,211,621.14	0.51	3,441,439.20	0.22	138.61
Account receivables	149,571,853.26	9.30	162,572,715.65	10.63	-8.00
Other receivables	39,701,699.79	2.47	24,242,288.01	1.58	63.77
inventory	307,439,358.97	19.11	296,437,748.14	19.37	3.71
Long-term equity investment	67,564,942.15	4.20	66,433,004.71	4.34	1.70
Investment properties	115,390,463.60	7.17	122,001,945.13	7.97	-5.42
Fixed assets	249,032,681.09	15.48	256,002,018.67	16.73	-2.72
Construction in progress	5,216,860.31	0.32	2,976,955.34	0.19	75.24
Deferred income tax assets	21,050,008.97	1.31	33,313,721.14	2.18	-36.81
short-term loan	120,319,444.25	7.48	139,323,575.41	9.11	-13.64
Advance receivables	26,636,113.70	1.66	18,419,282.13	1.20	44.61
Tax payable	22,551,179.49	1.40	12,195,356.72	0.80	84.92

Other current liability	933,818.82	0.06	459,826.03	0.03	103.08
Long-term payables	1,489,984.87	0.09	1,489,984.87	0.10	
Un-distributed profit	-82,548,593.18	-5.13	-124,234,846.88	-8.12	33.55

② Principles adopted for the calculation of assets

The Company adopts fair value principle for the calculation of trading financial assets and available-for-sale financial assets, and other assets are calculated on historical cost. Detailed accounting methods are disclosed in accounting policy of current annual report.

(4) Core Competitiveness

The company is the most long-standing history of domestic sewing equipment industry, the listing of the earliest enterprises and success in 2005, the acquisition of the world-famous sewing machine manufacturing company - Germany Dürkopp Adler Corporation ( "DA " ) , so that the company 's sewing machine equipment manufacturing technology is among the most advanced in the world . After the integration of development in recent years, the company continues to cultivate to enhance the core competitiveness, mainly in the followings,

① Technology advantage

The company's products are widely used in the field of clothing, bags, car seats, shoes, furniture manufacturing, the world's leading technology of automatic sewing unit, the leather sewing equipment and clothing.

② Brand advantage

The company has the world famous brand Duerkopp Adler (DA brand), " Butterfly " brand with 90 years of history and “shanggong” brand with a history of more than 50 years. These brands has high visibility and reputation in the industry.

③ R&D advantage

The company attaches great importance to strengthen R & D capabilities, which become an important driving force for the development of the company. Europe has a strong R & D team and advanced testing means continuing development capabilities with a strong product and application technology.

④ sales network all over the world

⑤ Transnational management capability

Since the Company implemented the going out strategy in 2005, it has cultivated a professional team for transnational management, and has accumulated overseas management experience.

(5) **Investments by the Company**

The Company's long-term equity investment at the beginning is RMB 66,433,004.71, at end of period is RMB 67,564,942.15, an increase of RMB 1,131,937.44 , an increase of 1.7% . Details in financial statement Note 5(11).

① Investment in stock exchange

Type	Code	Name	Initial investment	Quantity of shares	Year-end book value	Prop. in investment in stock exchange	Current profit/loss
<b>RMB'</b>							

stock	601558	HRFD	1,080,000.00	48,000.00	252,480.00	43.97	-114,480.00
stock	300160	XQGF	17,500.00	1,000.00	7,840.00	1.37	-4,235.00
stock	300165	TRYQ	65,000.00	2,080.00	24,648.00	4.29	-8,040.00
Funds	160402	HuaAn A	100,000.00	559,435.23	289,228.01	50.37	23,738.85
Profit/loss current-year sale of investment				/	/		-1,042.52
Total			1,262,500.00	/	574,196.01	100	-104,058.67

The above stocks are held by the Company from subscribing for new shares in the ballot.

② Stock equity of other listed companies held by the Company

RMB'

Code	Entity	Initial investment	Prop. in the invested company	Year-end book value	Profit /loss	Change in shareholder equity	Account title	Origin of equity
600637	SVA Info.	67,600.00	<5%		395,717.08	-368,684.45	Financial assets available for sale	Legal shares
600689	Sanmao Textile	1,779,800.00	<5%	4,960,989.90		263,532.00	Financial assets available for sale	Legal shares
600757	Changjiang media	72,085,722.82	<5%	63,335,984.10		-17,713,478.48	Financial assets available for sale	Legal shares
Total		73,933,122.82	/	68,296,974.00	395,717.08	-17,818,630.93	/	

The above SVA Info., Sanmao Textile are corporate shares invested and held till now by the Company when they went public. Changjiang media is receipt of stock as repayment during its bankruptcy and restructure.

③ Stock equity of non-listed financial institutions held by the Company

RMB'

Company	Initial investment	Quantity of shares	Prop. in the invested company	Year-end book value	Profit /loss	Change in shareholder equity	Account title	Origin of equity
Bank of Shanghai	951,400.00	805,044	<5%	951,400.00	104,655.72		Long-term equity investment	Buy-in
Baoding Investment	7,500.00	5,751	<5%	7,500.00	862.65		Long-term equity investment	Buy-in
Shenyin Wanguo	200,000.00	102,214	<5%	200,000.00			Long-term equity investment	Buy-in
Subtotal	1,158,900.00	913,009		1,158,900.00	105,518.37		-	-

The above stock equity are held till now by the Company when they were funded.

④ The sale and purchase of shares of listed companies

During the report period, the total investment income arising from selling the new shares by the Company is RMB-1,042.52.

(2) Entrusted finance and entrusted loan

- ① During this year there is no entrusted finance by the Company.
- ② During this year there is no entrusted loan by the Company.

(3) Utility of collected funds

During report year, there was no fund-raising occurred extension of utility of the previous collected fund by the Company in this report year.

(4) Business performance of main subsidiaries and associate undertakings

RMB'							
Company	Products/ services	Register capital	Total assets	Net assets	Operating income	Operating profit	Net profit
Shanggong (Europe) Holding Co., Ltd.	Investment, assets management, production, processing and sales of industrial sewing machines	EUR 12,500,000	949,561,904.20	445,314,440.74	817,526,098.60	103,625,780.03	74,250,884.16
Shanghai Shanggong Butterfly Sewing Machine Co., Ltd.	Production and sale of sewing machines	79,000,000	145,186,764.50	73,805,769.49	309,989,713.81	3,111,202.43	2,093,786.27
Duerkopp Adler (Trading) Co.,Ltd	sale of sewing machines	USD 4,000,000	118,979,597.71	41,205,386.96	165,921,182.43	9,004,202.12	6,997,880.72

Investment income of individual shareholding company influence the net profit of the Company above 10%

RMB'

Company name	Operation income	Operation profit	Net profit
Fuji Xerox Shanghai Co.,Ltd	3,343,910,000	127,400,000	107,990,000

(5) Utility of non-collected funds

During report year, there was no utility of non-collected funds.

## 2. Prospects for the Company's future development

### (1) Industry competition pattern and development trend

In 2013, the global economy will remain in a slow recovery in the post-crisis period, the domestic economy is speeding up the transformation of economic structure, change the simple pursuit of economic growth pattern. The sewing industry expected recovery from the bottom, sewing equipment industry in China is still in an important position in the world, with the rise of emerging markets and stable economic development, it is expected that the overall trend will be better than the previous period. The companies will be in a favorable position because of the rising cost of factors of production in recent years, the development of the industry from



low-cost competition, to rely on the direction of the development of high-end technology and product innovation, master the high-end technology, the product of intelligent automation industry product development direction.

(2) Development strategy

The Company will strengthen the high-end product development and innovation, and further optimize the product structure, vigorously develop intelligent and automated strengthen Eurasian linkage; and through capital operation and inter-industry mergers and acquisitions, and stronger bigger sewing main industry, the company into a competitive international Sewing Machinery leading enterprises. Combined with the existing business and the proper development of the non-core business , with strong profitability of new industries , promote the domestic existing business profitability is not strong industrial transition as soon as possible , and enhance profitability , dispersed single industry cyclical risk.

(3) Business planning for the coming year

The theme of the year 2013 of the Company is to optimize the structure and promote business innovation and transformation for future development.

The Company will continue to promote the comprehensive cooperation with industry capital, and promote a fundamental change in the operation. The Company will seize market opportunities, and earnestly carry out business development, realize balanced cash flow, and continue to seek foreign cooperation opportunities, optimize product and business structures, and expand business scale; The Company will rely on innovation-driven, industrial upgrading, business transformation, and further improve the economic efficiency of enterprises and enhance the potential for further development.

The business target for 2013 is to achieve an operating income of RMB 1,570,000,000, an increase of 4.21%. Operating profit and net profit maintain a relatively stable level of profitability.

① Actively promote capital operation , accelerate the industry consolidation and upgrade , and lay the foundation to achieve leapfrog development

To achieve the goal of sustainability, the company has been looking for merger integration. Since the successful acquisition of the German DA , the Company achieved steady development in overseas operations, it will make full use of DA high-end technology and brand influence, and actively seek opportunities for mergers and acquisitions of European peer companies. The Company is looking for opportunity of having M & A synergies, extend the industrial chain of the Company, and further optimize the structure of the target company's products and projects.

② Strengthen building of qualified personnel, and promote the transformation of enterprise innovation

As transnational business of the company continues to expand, there is great demand for talent, especially export-oriented personnel. Human resources is the core to improve the capability of independent innovation, culture and talent attraction is the crux of the innovation and transformation. With the continuous development of the company, the lack of personnel has become increasingly apparent. In 2013, based on the requirements of the enterprise " 12th Five-Year" development strategy, the Company will develop a three-year rolling planning of human resources building. The planned way rational allocation of human resources, through a variety of means to mobilize the enthusiasm of employees, employees' potential to create

value for the enterprise.

③ Accelerate the optimization of product structure, improve enterprise competitiveness

The company will make full use of existing resources, give full play to the respective advantages of China and Germany R & D teams. Realize "Made in China" to speed up the introduction of German world-class products and technologies digestion and absorption thereby reducing the manufacturing cost of the product, improve market competitiveness. To adhere to scientific and technological innovation, leading the global sewing equipment industry forefront of high-end technology, and keep advantages in the field of uniforms, bags, car seat manufacturing, further development of the CNC, robotics and automation control sewing equipment , and actively expand the potential market in the sewing field of application technology. Reserves and actively making new products, and foster and promote market.

④ Continue to innovative market model to expand the market

In 2013, the Company will continue to make great efforts to strengthen the company's product marketing work to improve the market network, expand the product market. At the same time, the company will strengthen the internal management and good after-sales service and staff training. The Company will continue to promote " Butterfly " and "Flying " , " Shanggong " brands.

⑤ Further strengthen internal management , improve management level

In accordance with the requirements of the five ministries and the securities regulatory department, the Company should continuously strengthen the internal administration and perfect the construction of internal control. As concrete measures to assure the smooth integration and transformation of principal operations, it will control the inventories, reduce the receivables, improve the capital efficiency, enforce the investment management upon subsidiaries and overseas undertakings, minimize the business risks. The Company will continue to take effective control of accounts receivable and inventory, and strengthen the management of current assets, further strengthen production safety and maintain stability to create conditions for business development.

(4) Funds demanded for the realization of development strategy, planning of capital utilization, and capital sources

In 2013, the Company has announced plans for non-public offering of stock. On the basis of fully utilizing self-owned fund, the Company will continue to strengthen funds management, reactivate the stocked assets, speed up cash collection, decrease production cost and expense and meet fund demand through various ways including bank loan.

(5) Risks to face

① risk of industry and market

Sewing equipment industry is a market with full competition in the industry, a strong dependence on the downstream textile and garment, leather bags and other industries, has a more pronounced cyclical, subject to the impact of the macroeconomic environment. So the future may face the decline in product prices, industry competition, market risk, the company gross margin levels, and thus a certain impact on the company 's future operation.

② risk in transnational operation

The Company' s overseas assets and operations maintains a larger scale, transnational business will face higher demands of the Company's organizational structure, business model,

talent and Staff facing the integration of related overseas company 's corporate culture, management philosophy, organizational system the greater challenge.

③ risk of foreign currency

The functional currency of the Company's consolidated financial statements is yuan, the Shanggong Europe and holding company's day-to-day operations of DA is mainly related to the euro and other foreign currencies. In recent years, the RMB is in the appreciation of the cycle, and this trend is expected is likely to continue. The future operations of the continued appreciation of yuan will bring some exchange risk.

④ risk of uncertainty of projects

The company has announced plans of the non - public offering of stock , there is greater uncertainty whether the investment project can be approved; even after approval, there is risk of scale expansion, the risk of unable to reach the expected project benefits. German Pfaff is in consecutive losses for several years, the fundamental change in the short term is difficult. There is risk of decline in short-term profit and decline in liquidity.

**3. Explanation on “non-standard audit report” by Accountant Firm**

Not applicable

**4. Proposal on profit appropriation or reserve fund capitalization**

(1) Cash dividend policy formulation, implementation or adjustment

According to related regulations and rules, in order to further strengthen the sense of return to shareholders , the Company modified the contents of the Articles of Association, further clarify the profit distribution policy, especially in the decision-making process of the cash dividend policy, mechanisms and specific content. on December 27, 2012, the Company held the First Provisional General Meeting of Shareholders considered and approved the above.

**(2) The Company made profit and distributable profit is positive during report year but didn’t propose allocation plan for cash dividend, the Company shall disclose the reason in detail and the purpose and use of distributable profit.**

Not applicable.

**(3) Cash dividend in the last three years**

Year	Cash dividend	Net profits	RMB
			Cash dividend/net profit %
2012		41,686,253.70	
2011		112,665,111.88	
2010		45,161,949.71	

**5. Fulfill social responsibility**

(1) Social Responsibility

During report period, the Company actively fulfills its social responsibilities. Participate actively in Charitable donation in the Pudong New Area, Pudong New Area off-the-job workers insured Employee Medical Mutual Insurance ( hospitalization, serious illness), the

establishment of the difficulties workers three Bangkun system to carry out the sun care truth Helping Love Project , launching the " Donation Day " activities , organize workers to the volunteers adhere month participate in the Pudong New Area volunteers.

## Chapter V. Significant Events

### 1. Important arbitration and litigation proceedings

There is no important arbitration and litigation proceedings during this year.

### 2. Funds occupied and debts progress during report period.

Not applicable.

### 3. During report year, there is no bankrupt related issues occurred in the Company

### 4. Significant Assets transactions and merger during report year

Not applicable.

### 5. Company equity incentive and their impact

Not applicable.

### 6. Significant affiliated transactions during report year

#### (1) Affiliated transactions related with normal operation

Affiliated party	relationship	Type of affiliated transaction	Content of transaction	Principle of pricing	Price of transaction	Amount of affiliated transaction	% in same transaction
Fuji Xerox Shanghai Co.,Ltd	Other affiliated party	Electronic harness	Market oriented			44,366,432.44	2.95%
Total				/	/	44,366,432.44	

The above affiliated transaction is related with need of normal production operation and is market oriented, it will not hurt the interest of the Company and shareholders, and will not exert negative effect on financial situation of the Company, and will not affect the independence of the Company.

### 7. Important contracts and fulfillment

#### (1) Information about entrusting, contract and lease affairs

During report year, the Company did not entrust, contract and lease its assets to other companies, nor did other companies entrust, contract and lease the assets of Company.

#### (2) Information about guarantee cases

RMB'

Company	Incurred date (dd/mm/yy)	Guaranteed amount	Relationship	Valid period	Completed or not	Affiliated-party guarantee or not
Shanghai Pudong Development (Group) Co., Ltd.	09/06/2009	115,600,000	Joint-Liability Guarantee	09/06/2009-08/06/2013	No	No

Remaining sum at end of report year (A) (guaranties for subsidiary undertakings excluded)	115,600,000
Guaranties for subsidiary undertakings	
Remaining sum at end of report year (B)	33,310,000
Total guarantee amount (guaranties for subsidiary undertakings included)	
Total guarantee amount incurred (A+B)	148,910,000
Proportion in the net assets %	17.23

According to related articles in the equity acquisition agreement signed with FAG Kugelfischer AG (FAG), the Company should take certain joint-liability responsibility for the following affairs:

In 2005, the Company offered a letter of guarantee valued USD 5,300,000 to FAG Kugelfischer AG for the housing lease contract of DA's subsidiary in the United States, valid from June 30, 2005 to October 31, 2015. On the same day June 30, 2005, SG Europe offered a cash mortgage of € 635,000 to FAG (with the same period of validity) for re-guaranteeing the latter's responsibility in the sale and lease-back deal between DA's subsidiary and UTF Norcross L.L.C.

(3) Other significant contracts

During report period, there is no significant contracts.

**8. Fulfillment of the commitments**

Not applicable.

**9. Engagement and dismissal of accounting firms**

During report year, the Company contracted Shulun Pan Certified Public Accountants Co., Ltd. (special common partnership) as auditor of annual reports. It is the sixth year that Shulun Pan in charge of the Company's audit services.

In current year, the Company paid RMB 750,000 to Shulun Pan Certified Public Accountants Co., Ltd. as auditor fee, RMB 100,000 for specific affairs auditor service, and RMB 20,000 as subsidy of accommodation and transportation.

**10. Punishment upon the Company, its BOD, Directors, Supervisors, senior managers, shareholders with more than 5% shares, or the real controller, and the correction measures**

During the report year, the Board of Directors, the Directors, or the Company itself, had neither received any check, administration punishment or criticism notice from China Securities Regulatory Committee, nor been publicly condemned by Shanghai Stock Exchange.

**11. Explanation for other significant events**

The Fifteenth Meeting of the Sixth Board of Directors and 2011 Second Provisional General Meeting of shareholders approved the motion of purchase part of the land use rights of the Jiading Industrial Zone " (see No. 2011-013 announcement ). The company originally

planned to buy no more than 80 acres of land in the Shanghai Jiading Waigang industrial zone, investment in the construction of SGSB production manufacturing and logistics base, manufacturing enterprises in urban areas transferred from the city center to the new production plant make an inventory of the urban stock of real estate, improve the land resources utilization and output rate, thereby increasing the company income.

Considering the original plan of land-purchase, the original commitment to the company's land is unlikely to fulfill, the company intends to make adjustments to the original project plan. The company is actively looking for new places for urban enterprises transfer, is currently doing preliminary research work. If there is clear progress, we will make announcement.

## Chapter VI. Variation of Share Capital and Information about Shareholders

### 1. Variation of share capital:

#### (1) Changes in share capital:

##### ① Changes in share capital

	Prior to the movement		Increase/decrease (+, -)					After the movement	
	Qty	Prop.(%)	New issues	Bonus	Convertible fund	Others	subtotal	Qty	Prop.(%)
I Shares with sale limitation									
1. State-owned shares									
2. State-owned legal person shares									
3. Other domestic investors-owned shares									
Including : Non-State-owned Shares by domestic legal person									
Shares by domestic natural person									
4. shares by foreign investors									
Including Shares by overseas legal person									
Shares by overseas natural person									
II Shares without sale limitation	448,886,777	100						448,886,777	100
1. A share	204,943,027	45.66						204,943,027	45.66
2. B share	243,943,750	54.34						243,943,750	54.34
3. Shares by foreign investment listed on overseas market									
4. others									
III Total shares	448,886,777	100						448,886,777	100

##### ② Change in shares with sale limitation

During report period, there is no change in shares with sale limitation.

### 2. Stock issuance and IPO progress

#### (1) Stock issuance during the last three years

During the last three years, the Company didn't launch new stock issuance, stock allotment,



changeable corporation bonds, corporation bonds or other derivative securities.

(2) Variation of the Company's stock capital and equity structure

During report year, there were no bonus shares, new shares capitalized from capital reserve, allotted shares or newly-issued shares causing the variation of the Company's stock capital and equity.

(3) Information about employee shares

Till the end of report year, the Company hasn't issued any employee shares.

**3. Information about shareholders and actual controller:**

(1) Information about shareholders and distribution of stock right:

Number of shareholders by end of report period	44,320 shareholders, among whom 15,659 are classified as A stock shareholders and 28,661 as B stock shareholders.	Number of shareholders 5 trading days prior public of this report	44,388 shareholders, among whom 15,831 are classified as A stock shareholders and 28,557 as B stock shareholders.			
Top 10 shareholders						
Shareholder	Shareholder status	Prop. (%)	Quantity of shares	Current increase	Shares subject to conditional sales	Quantity in pawn or frozen
Shanghai Pudong New Area State-owned Assets Supervision and Admin. Commission	State-owned shareholder	23.48	105,395,358	0	0	0
China Great Wall Assets Management Co., Ltd.	State-owned shareholder	1.23	5,530,514	0	0	0
HSBC BROKING SECURITIES (ASIA) LIMITED CLIENTS ACCOUNT	Foreign investor	0.58	2,599,948	2,599,948		Unknown
Shen Yin Wan Guo Nominees (HK) Ltd	Foreign investor	0.54	2,418,228	345,000	0	Unknown
Shanghai International Trust and Investment Company	State-owned shareholder	0.52	2,344,410	-337,110	0	Unknown
UBS CUSTODY SERVICES SINGAPORE PTE.LTD	Foreign investor	0.33	1,485,000	0	0	Unknown
Shanghai San Mao (Group) Co.,Ltd	Domestic Non State-owned shareholder	0.31	1,400,000	0	0	Unknown
GuoTai JunAn Securities (Hongkong) Limited	Foreign investor	0.29	1,285,658	-395,008	0	Unknown
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign investor	0.27	1,210,896	509,200	0	Unknown
SHK NOM. LTD-CLTS OF SHK INV. SER	Foreign investor	0.26	1,160,000	0	0	Unknown
Top 10 unconditionally tradable stock shareholders						
Shareholder	Quantity of shares			Classification		

Shanghai Pudong New Area State-owned Assets Supervision and Admin. Commission	105,395,358	A shares
China Great Wall Assets Management Co., Ltd.	5,530,514	A shares
HSBC BROKING SECURITIES (ASIA) LIMITED CLIENTS ACCOUNT	2,599,948	B shares
Shen Yin Wan Guo Nominees (HK) Ltd	2,418,228	B shares
Shanghai International Trust and Investment Company	2,344,410	A shares
UBS CUSTODY SERVICES SINGAPORE PTE.LTD	1,485,000	B shares
Shanghai San Mao (Group) Co.,Ltd	1,400,000	A shares
GuoTai JunAn Securities (Hongkong) Limited	1,285,658	B shares
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	1,210,896	B shares
SHK NOM. LTD-CLTS OF SHK INV. SER	1,160,000	B shares

#### 4. Profile of the holding shareholder and actual controller of the Company:

##### (1) Profile of holding shareholder

###### ① Legal person

Organization: Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission

Representative: Huang Guoping

Date of foundation: September 1, 1996

Organization code: 00245606-0

Principal business: especially engaged in the administration of state-owned assets in Pudong New Area, entrusted by Shanghai Pudong New Area People's Government.

##### (2) Profile of actual controller

###### ① Legal person

Organization: Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission

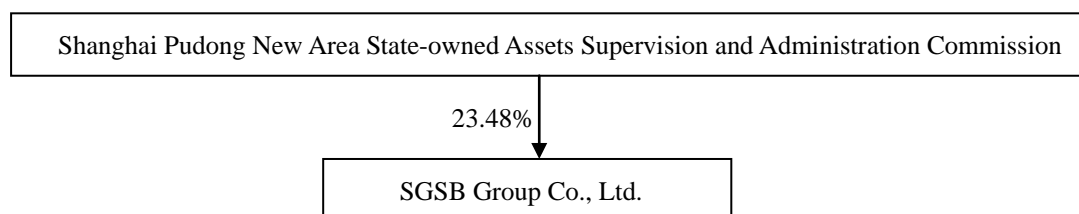
Representative: Huang Guoping

Date of foundation: September 1, 1996

Organization code: 00245606-0

Principal business: especially engaged in the administration of state-owned assets in Pudong New Area, entrusted by Shanghai Pudong New Area People's Government.

###### ② Relationship of the Company and its real controller:



**5. Other legal entity stock shareholders who take singly more than 10% equity of the Company:**

At the end of report year, none of other legal entity stock shareholders took singly more than 10% stock equity of the Company.

## Chapter VII. Information about Directors, Supervisors

### Senior Managerial Team and Staff

#### 1. Brief information about Directors, Supervisors and senior managers

Name	Position	Sex	Age	Term of office	Year- begin	Year- end	Stock option	Blocked shares	Increase/decrease	Variation cause	Salary during report year (RMB'000, before tax)	Payment from shareholders or other associated parties
Zhang Min	Chairman & CEO	M	50	27/12/2012 26/12/2015	70,000 B shares	70,000 B shares					380	
Ma Minliang	Director General Manager	M	56	27/12/2012 26/12/2015	5,520	5,520					340	
Fang Haixiang	Deputy GM	M	46	27/12/2012 26/12/2015	0	0					280	
Sun Gang	Director	M	49	27/12/2012 26/12/2015	0	0					10	
Lu Yujie	Director	M	42	27/12/2012 26/12/2015	0	0					10	
Bao Qi	Director	F	36	27/12/2012 26/12/2015							0	
Zhang Ming	Indep. Director	M	54	27/12/2012 26/12/2015	0	0					80	
Su Yong	Indep. Director	M	57	27/12/2012 26/12/2015	0	0					80	
He Ye	Indep. Director	F	49	27/12/2012 26/12/2015							0	
Jiang Xiaoshu	Former Director	F	54	21/01/2011- 26/12/2012	0	0					260	
Li Ting Hui	Director	M	62	30/06/2009- 26/12/2012	0	0					10	
Tian Minyu	Indep. Director	M	69	21/01/2011- 26/12/2012	0	0					80	
Xie Yushou	Supervisory Chairman	M	59	27/12/2012 26/12/2015	0	0					0	
Ding Binhui	Supervisor	M	48	27/12/2012 26/12/2015							0	

Zhuge Huiling	Supervisor Former Deputy GM	F	44	27/12/2012 26/12/2015	0	0					260	
Chen Guoling	Supervisor	F	50	27/12/2012 26/12/2015	2,645 B share	2,645 B share					150	
Xu Yuping	Supervisor	M	50	27/12/2012 26/12/2015							110	
Ni Yue	Fomer Supervisor	F	37	30/06/2009- 26/12/2012	0	0					0	
Wang Jie	Former Supervisor	M	54	27/04/2010- 26/12/2012							150	
Sun Damin	Former Supervisor	M	60	28/05/2010- 26/12/2012							130	
Li Jiaming	Deputy GM	M	52	27/12/2012 26/12/2015	0	0					280	
Zheng Ying	Deputy GM	F	47	27/12/2012 26/12/2015	1,500 6,300B share	1,500 6,300 B share					56.4	
Li Xiaofeng	Deputy GM	M	38	27/12/2012 26/12/2015								
Zhang Jianguo	Secretary of BOD	M	53	27/12/2012 26/12/2015							220	
Total	-	-	-	-	85,965	85,965	-	-	-	-	2830	-

Experience of the Directors, Supervisors and senior managers during the last 5 years:

(1) Mr. Zhang Min, senior professional engineer, took the posts of Chairman of BOD and CEO of SGSB Group since July 2004, Chairman of Shanggong Europe (Holding) GmbH and Chairman of Supervisory Board of Duerkopp Adler AG, Vice Director of China Sewing Machinery Association, Vice Director of China Office Equipment Association.

(2) Mr. Ma Minliang assumed successively the offices of Secretary of CCP Committee and General Manager of Shanghai Maling Acualius Co., Ltd., Secretary of CCP Committee and Deputy General Manager of Shanghai Light Industries Equipment Co., Ltd., Secretary of CCP Committee, Deputy General Manager and General Manager of SMPIC Corporation, Vice Chairman of BOD and CFO of SGSB from July 2004 to Sep. 2007. Actually as Director and General Manager of SGSB since Sep. 2007.

(3) Mr. Fang Haixiang, Deputy General Manager of the Company since 2008. Since March 2012, he acted as General manager of Shanggong butterfly. Currently as executive director of seventh Board.

(4) Mr. Sun Gang took the position as director of Risk Inspection Dept. of China Great Wall Assets Management Co., Ltd. From March 2011 till now, he works Deputy General Manager of China Great Wall Assets Management Co., Ltd and currently as Director of SGSB for the seventh board.

(5) Mr. Lu Yujie took the successively as Operating Director, Financial Director of Financial Consultancy Department of Shanghai International Group Assets Management Co., Ltd, Currently he is Investment Director of Shanghai International Group Assets Management Co., Ltd and Director of SGSB for the seventh Board.

(6) Ms. Bao Qi, since July 2008, work as Director of legal affairs of Shanghai Pudong Science and Technology Investment Co., Ltd. ; Since September 2012, she has been serving as

the Operation Director of the same company. Currently as Seventh Board of Directors of the Company.

(7) Mr. Zhang Ming was Professor of Shanghai University of Finance and Economics. Besides as Independent Director of SGSB for the seventh Board, He also takes the positions of Standing member and member of China Accountancy Association, China Financial Accountancy Association, Shanghai Accountancy Association, Shanghai Cost Research Institute.

(8) Mr. Su Yong is Professor of the Enterprise Management Department of Shanghai Fu Dan University. Actually he takes position of Director of the same department of Fu Dan University, Deputy Director of Orient Management Research of Fu Dan University, Tutor of PhD students with Orient Management Major. Besides as Independent Director of SGSB for the seventh Board, He also takes the positions of Deputy Director of Shanghai Production Power Association, Standing Member of China Enterprise Management Research Institute and China Enterprise Culture Institute and Japan East Asia Economy Association.

(9) Ms. He Ye, used to be deputy director of China Sewing Machinery Association. Since September 2011, Director of China Sewing Machinery Association. Currently as Director of seventh Board of SGSB.

(10) Ms. Jiang Xiaoshu successively took the position as Member of CCP Committee, Secretary of Disciplinary Board and Chairman of Labor Union of SMPIC Corporation and Supervisor of the Company for fifth and sixth session, vice secretary of CCP Committee, Secretary of Disciplinary Board, Chairwoman of Labor Union and Director of the Company Board for sixth session from January 2011. From December 2012, due to retirement, no longer serve as Director of Board of the Company.

(11) Mr. Li Tinghui, he successively took the office of director of Pudong New Area Overall Economy Research Institute, researcher in Pudong Reform & Development Institute, Director of SGSB for the sixth board. The term of office expires in December 2012 , no longer served as a director of the Company.

(12) Mr. Tian Mingyu took as Director of China Sewing Machinery Association, Director of China Watch Association. From January 2011, as Independent Director of SGSB for the sixth Board. The term of office expires in December 2012 , no longer served as Independent director of the Company.

(13) Mr. Xie Yushou took successively the offices of Deputy Director of Pudong New Area Labor Management Center, CCP Committee Secretary, Director of Pudong New Area Labor and Human Affairs Bureau, Deputy Director and CCP Committee member of Pudong Labor and Social Security Bureau. Actually as Deputy Director of Pudong CPPCC Society and Law Committee and the Chairman of seventh Supervisory Board.

(14) Mr. Ding binhui, used to be General Accountant of Shanghai LJZ Property Company. Discipline Committee of the Company since December 2012 . Currently Seventh Supervisory Committee of the Company.

(15) Ms. Zhuge Huiling was once Deputy Chairwoman, Chairwoman of Labor Union, Deputy Secretary of CCP Committee and Supervisor of the Company, Deputy General Manager of the Company since Sep. 2007. Currently as Supervisor of Seventh Supervisory Board of the Company.

(16) Ms. Chen Guoling took successively as General Manager of Shanghai SMPIC Real Estate Development Co.,Ltd, Director, Secretary of CCP Committee of Shanghai Feng Jian Real Estate Co.,Ltd, Secretary of CCP Committee of SMPIC Corporation and now she takes position as Chairman of Trade Union of the Company and Supervisor of the Company for the Seventh session.

(17) Mr. Xu Yuping, used to be manager, vice president of operation department of the Company. Since January 2012 appointed as deputy director of the company's audit department (presiding) , Supervisor of the Seventh Supervisory Committee of the Company.

(18) Ms. Ni Yue, used to be the Supervisor of the Company for the sixth session. Since December 2012, she no longer acts as Supervisor due to expiry of term.

(19) Mr. Wang Jie took successively as Deputy Manager of Financial Dept. of SMPIC Corporation, Deputy Manager of Financial Dept. and Director of Audit Dept. of the Company, Supervisor of the Company for Sixth session. Since December 2012, she no longer acts as

Supervisor due to expiry of term.

(20) Mr. Sun Damin took successively as Chairman of Supervisory Board of SMPIC Corporation, Deputy General Manager of SMPIC Corporation. From Jan. 2011, he takes position as member of CCP Committee of SMPIC and executive supervisor and supervisor of the Company for the Sixth session. Since December 2012, she no longer acts as Supervisor due to expiry of term.

(21) Mr. Li Jiaming took successively the duties as Director of Technology R&D Center of SMPIC Co., Deputy GM of SMPIC Co. and Director of Shanghai SMPIC Photosensitive Material Factory. Actually as Deputy GM of SGSB since April 2008.

(22) Ms. Zheng Ying, Deputy General Manager of SGSB since Oct.2008, Executive Director of Shangong Europe (Holding) Co., Ltd. and Durkopp Adler AG.

(23) Mr. Li Xiaofeng, served as general manager assistant of Shanghai Shangong Import and Export Co., Ltd. , general manager of Shanghai Shangong Butterfly Sewing Machine Co., Ltd. general manager of the current Durkopp Adler Trading (Shanghai) Co., Ltd. From December 2012 , he also served as Deputy GM of the Company.

(24) Mr. Zhang Jianguo, was Secretary of Party and deputy general manager of Shanghai Fuji Xerox Co.,Ltd. Currently as Secretary to BOD of SGSB since August 2011.

Note : During the report period, Ms. Zheng Ying, Deputy GM of the Company, also as executive director of Shangong Europe and DA, receive remuneration overseas and do not receive payment from headquarter of the company.

Mr. Li Xiaofeng , appointed as deputy GM on December 27, 2012 , concurrently as GM of DA Trading. During report period, he did not receive any remuneration from headquarter of the Company.

## 2. Concurrent posts the senior officials take in the shareholder or other non-shareholder units:

In the shareholder:

Name	Shareholder	Position	Term of Office	
			Initial date	Conclusion date
Lu Yujie	Shangahi International Group Assets Management Co.,Ltd,	Investment Director	01/06/2012	
Sun Gang	China Great Wall Assets Management Co. Shanghai Branch	Deputy General Manager	19/03/2012	
Ding Binhui	Center of Supervisory Affairs of Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission	Supervisor	01/08/2009	
Ni Yue	Center of Supervisory Affairs of Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission	Supervisor	01/03/2008	

In other non-shareholder units:

Name	Entity	Concurrent Post	Beginning date of the post	Closing date of the post
Zhang Min	Shanghai Pudong Science Technology Investment Co.,Ltd	Director of Board	01/11/2012	

	China Sewing Machinery Association	Deputy Director	26/09/2011	
Bao Qi	Shanghai Pudong Science Technology Investment Co.,Ltd	Operation Director	18/09/2012	
Zhang Ming	Hai Tong Securities Co.,Ltd	Independent Director	06/05/2008	
	Shanghai Shen Da Co.,Ltd	Independent Director	24/05/2010	
	Xi Zang Hai Si Ke Group Co.,Ltd	Independent Director	08/08/2010	
	Shanghai Jin Qiao Export Processing Zone Development Co.,Ltd	Independent Director	02/06/2011	
Su Yong	Shanghai Baosight Co., Ltd	Indep. Supervisor	20/04/2007	
	Shanghai International Airport Co.,Ltd	Indep. Director	28/06/2007	
	Shanghai Friendship Group Co.,Ltd	Indep. Director	22/05/2007	
	Shanghai Jia Hua Lian He Co.,LTd	Indep. Director	19/12/2012	
He Ye	China Sewing Machinery Association	Director	26/09/2011	
Xie Yushou	Shanghai Pudong Human Resources and Social Security Bureau		01/09/2000	

### 3. Annual compensation of the managerial personnel

Decision-making procedures for compensation of Directors, Supervisors and senior Managers are according to the Compensation System, the resolution of Company's Board of Directors. The compensation for Independent Directors is decided by the General Meeting of Shareholders. The Company set up Management Rules on the Remuneration of Employees and Rules for Implementation by Compensation & Appraisal Committee. Every year the Company makes out operation and working target for the senior Directors and carry out strict appraisal. The compensation and welfare system for senior managers is a combination of the basic salary, the bonus and the premium directly linked with target-oriented performance appraisal in business operations. Total actual remuneration of all directors, supervisors and senior management by the end of report period is RMB 2,830,000 before tax.

### 4. Rotation of Directors, Supervisors and Managers during report year

Changes in Directors

Name	Position	Change	Reason
Jiang Xiaoshu	Board Director	Leave post	Expiry of term,



			retirement
Li Tinghui	Board Director	Leave post	Expiry of term
Tian Mingyu	Independent Director	Leave post	Expiry of term
Fang Haixiang	Board Director	appointed	Newly appointed
Bao Qi	Board Director	appointed	Newly appointed
He Ye	Independent Director	appointed	Newly appointed
Ni Yue	Supervisor	Leave post	Expiry of term
Wang Jie	Supervisor	Leave post	Expiry of term, change of post
Sun Damin	Supervisor	Leave post	Expiry of term, retirement
Ding Binghui	Supervisor	appointed	Newly appointed
Zhuge Huiling	Supervisor	appointed	Newly appointed
Xu yuping	Supervisor	appointed	Newly appointed
Zhuge Huiling	Deputy GM	Leave post	Change of post
Li Xiaofeng	Deputy GM	appointed	Newly appointed

## 5. Staff profile of the Parent Company and main subsidiaries

### (1) Staff profile

Number of employees actually working in their positions in parent company	426
Number of employees actually working in their positions in main subsidiaries	239 (1210 employees in overseas subsidiaries excluded)
Total number of employees actually working in their positions	665
The number of off-position and retired employees in parent company and main subsidiaries	0
Professional structure of the staff	
Profession division	Number of employees
Manufacture	277
Sales	80
Engineering	41
Financing	42
Administration	225
Total	665
Educational structure of the staff	
Postgraduate & bachelor	103
Junior college	132
Technical school	81
Senior high school and below	349
Total	665

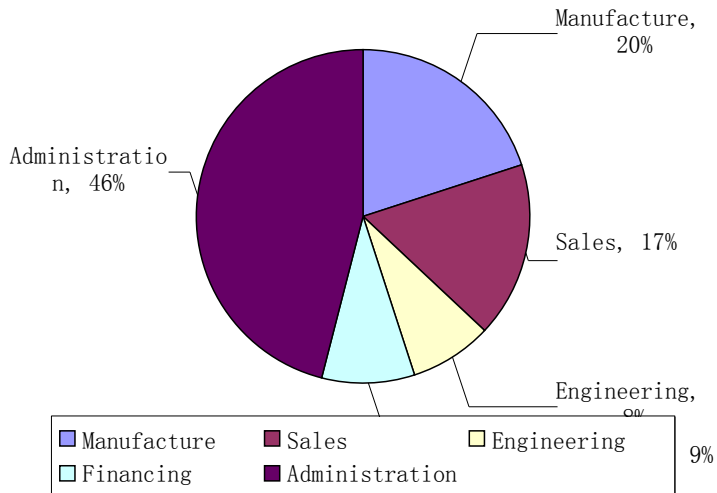
#### (2) Remuneration policy

During the report period, the company revised its staff performance appraisal and compensation management approach in headquarter, the salary of their employees is executed in strict accordance with the provisions of the policy.

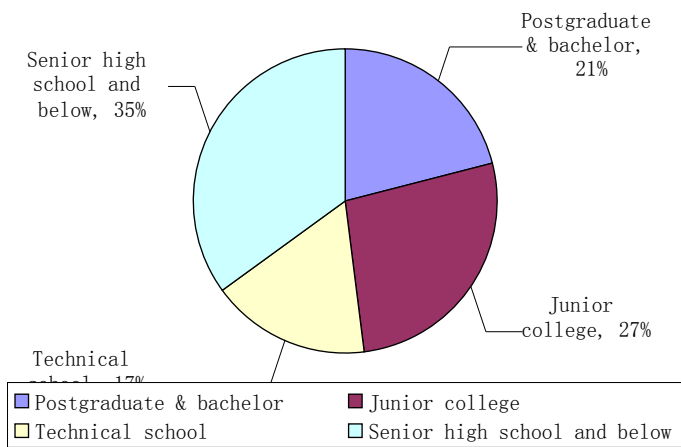
#### (3) Training plan

Combined with the overall development strategy of " 12th Five-Year", in order to build a employee team with innovation capability, improved capacity, the ability to execute the workforce, enhance the quality of high - skill , high-tech personnel training and professional technical force provide appropriate human resources training for the company building the sustainable development and sustainable competitiveness, the company developed the training to adapt to the various levels and in various forms of training programs.

#### (4) Profession chart



(5) Education chart



## Chapter VIII. Corporate Governance of the Company

### 1. Overview of the Company's corporate governance

During the report year, the Company made in-time adjustment for Directors and Supervisors which guaranteed the working efficiency of Board of Directors and Board of Supervisors. The Company paid great attention to the internal control system and made revision on it, trying to decrease operation risk and financial risk. The full Board of Directors, Supervisors and senior management faithfully performed their duty and safeguarded the interest of the Company and the shareholders. The following are detailed situation.

### 2. About the general meetings of shareholders

#### (1) Annual general meeting of shareholders

On June 29, 2012, the Company convened its 2011 Annual General Meeting of Shareholders, and carried the resolution announcements in <Shanghai Securities News> and <Hong Kong Commercial Daily> dated June 30, 2012.

#### (2) Provisional general meeting of shareholders

On December 27, 2012, the Company held its 2012 First Provisional General Meeting of Shareholders. The resolutions were announced in <Shanghai Securities News> and <Hong Kong Commercial Daily> dated December 28, 2012.

### 3. Duty fulfillment of Directors of the Company

#### (1) Attendance of Directors in Board Meeting and Shareholder Meeting

Name	Independent Director or not	Attendance in Board Meeting						Attendance in Shareholder Meeting
		Scheduled meetings	Personal attendances	Telcommunication attendances	Entrusted attendances	Absences	two personal absences	
Zhang Min	no	7	7	3	0	0	no	2
Ma Minliang	no	7	7	3	0	0	no	2
Fang Haixiang	no	1	1	0	0	0	no	2
Sun Gang	no	7	7	3	0	0	no	2
Lu Yujie	no	7	7	3	0	0	no	2
Bao Qi	no	1	1	0	0	0	no	1
Jiang Xiaoshu	no	6	6	3	0	0	no	2

Li Tinghui	no	6	6	3	0	0	no	2
Zhang Ming	yes	7	7	3	0	0	no	1
Su Yong	yes	7	7	3	0	0	no	2
He Ye	yes	1	1	0	0	0	no	1
Tian Minyu	yes	6	6	3	0	0	no	0

Number of Board Meeting within year	7
Including on-site meeting	4
Telecommunication meeting	3
On-site with telecommunication meeting	0

(2) Independent Directors' objection against significant events of the Company:

During report year, the Independent Directors did not made objection against proposals launched by the BOD and significant events of the Company.

#### **4. Important opinions and recommendations of the special committees under the Board during report period**

During report period, the special committees under the Board are able to perform their duties in accordance with the relevant regulations. The Audit Committee of the Board held four meetings, three meetings held during the auditing period in the 2012 Annual Report. They communicated audit institutions appointed by the Company, implemented effective supervision; They discussed the company's internal control system of norms construction work and other matters, and provided expert advice; the Strategy Committee under the Board seriously participated in a preliminary feasibility studies of investment projects the company, provided useful advice and risk warning from a professional point of view; the nomination Committee under the Board held two meetings, conducted a rigorous review of the general board of directors, executive biographies of the candidates qualifications; the Remuneration Committee under the Board held three meetings, supervised payroll procedures and assessment within the company directors, supervisors , executives, the annual performance of the company 's senior management.

#### **5. Explanation by Supervisory Board on the risks of Company**

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

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

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

#### **7. Appraisal and incentive system for senior executives**

During report period, the Company has elaborated incentive policies for senior executives. The Company's HR department regularly examines and appraises the performance of all high-level managers, and at year-end the compensation and appraisal committee makes comprehensive appraisal, determines compensation and submits to Board of Directors for examination and approval.

## **Chapter IX. Internal Control**

### **1. Construction and perfection of internal control mechanism**

#### **(1) General plan for construction of internal control mechanism**

According to the norms on corporate governance of listed companies by China Securities Regulatory Commission and <Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies>, the Company has built the risk management framework, and established systematically internal administration points. In order to ensure the security of Company operation and liability of financial information, prevent risks in operation, realize sustained development.

#### **(2) Work plan for Construction and perfection of internal control mechanism and its implementation**

The Company sets up functional departments according to business and management and perfects the governance system. The departments are clearly divided and restrict each other, which guarantees the efficiency of operation and completion of assets of the Company.

The Company set up <Financial Accounting System>. The System regulates the position responsibility of the related accounting personnel and ensures the authenticity and accuracy of accounting records and information, which guarantees the realization of internal control.

The Company also regulated various policy on sales and account receivables, purchase and account payables, investment and financing, Subsidiary Company Management, connected transactions and external guaranty, fixed assets and intangible assets, HR resource and production security etc. The Company further deepens the implementation of the internal control system according to “Guidelines for internal control” released on April 26, 2010.

#### **(3) Inspection and supervision on internal control**

The Company designated Audit Committee of Board and Audit Dept. as inspection and supervision unit of internal control, which is in charge of regular and irregular inspection upon business, business units, accounting affairs, and reports directly to BOD. The annual auditing work of the Company is Supervised by the Audit Committee under the BOD.

By the end of 2012, the Company carried out self-evaluation on internal control and finds no significant defect in the design and execution of internal control. The Company will further strengthen the execution of internal control.

The internal control self-evaluation report will be disclosed on March 21, 2013 in<Shanghai Securities News>.

### **2. Internal control audit report**

Appointed by the Company, Shulun Pan Certified Public Accountants Co., Ltd. conducted an effective audit on the internal control of financial report as of December 31, 2012, it considers that the Company maintains effective internal control on financial report in accordance with the internal control basic norms and related requirements.

The internal control audit report will be disclosed on March 21, 2013 in<Shanghai Securities News>.

### **3. Accountability for significant errors of information disclosure in annual report**

In order to improve the quality and transparency of information disclosure in annual report of

the Company, the Company further perfects the system for information disclosure and has approved on March 24, 2010 at Sixth session of the Sixth Board Meeting, the system for accountability for significant errors in information disclosure in annual report. It clearly regulates the measure and result of accountability for related responsible person in information disclosure of annual report.

During report year, there were no significant errors of information disclosure occurred in annual report of the Company.



## **Chapter X. Financial Statements**

The Annual Report of the Company has been audited by Zhang Qi and Shao Liangming, certified public accountants of Shulun Pan Certified Public Accountants Co., Ltd., who offers a clear audit opinion for the current Annual Report.

The Audit Report, financial statements and financial annotations are carried in the attachments.

## **Chapter XI. For Reference**

- 1. Financial Statements signed by the legal representative, chief accountant and accounting manager**
- 2. Original audit report signed by the certified public accountants and sealed by the accounting firm**
- 3. Original documentation and announcements about the Company, carried in the newspaper assigned by China Security Regulatory Committee within the report year**

**SGSB Group Co., Ltd.**  
**Chairman of Board of Directors: Zhang Min**  
**March 19, 2012**

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

