

# **2013 Annual Report**

600843

900924

**SGSB GROUP CO., LTD.**

## Important Note

1. The Board of Directors, the Board of Supervisors, and all the directors, supervisors and 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 SGSB.
3. BDO China Shulun Pan Certified Public Accountants Co., Ltd. (special common partnership) **provided a standard unqualified opinion audit report for the Company.**
4. Mr. Zhang Min, Chairman of SGSB, Mr. Ma Minliang, General Manager of Accounting Work and Ms. Gao Lili, Chief of Accounting Affairs, make the pledge for the authenticity and integrity of the attached financial statements.
5. There was no occupation of fund of the Company occurred for non-operating use by the holding shareholder and the related party.
6. There was no external guarantee against the rules and regulations of the Company.

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

# Contents

Chapter 1 Definition and Significant Risk Warning .....	4
Chapter 2 Company Profile .....	6
Chapter 3 Accounting Data and Financial Index Highlights .....	8
Chapter 4 Report by the Board of Directors .....	10
Chapter 5 Important Event.....	24
Chapter 6 Changes in Share Capital and Shareholder Status.....	29
Chapter 7 Director, Supervisor, Officer and Employee Status .....	32
Chapter 8 Corporate Governance .....	38
Chapter 9 Internal Control .....	43
Chapter 10 For Financial Statements.....	44
Chapter 11 For Reference .....	44

# Chapter 1 Definition and Significant Risk Warning

## 1. Definition

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

Definition of common terms		
SGSB, Company, the Company	Refer to	SGSB GROUP CO., LTD.
Pudong SASAC	Refers to	Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission”, the main shareholder and actual controller
Shangggong Europe	Refers to	Shangggong (Europe) Holding GmbH
Germany DA, DA	Refer to	Duerkopp Adler AG, a German listed company, Shangggong Europe holding 65.49% of its stock rights
Shangggong Butterfly, Shangggong Butterfly company	Refers to	Shanghai Shangggong Butterfly Sewing Machine Co., Ltd.
DA Trading	Refers to	Duerkopp Adler Trading (Shanghai) Co., Ltd
FAG	Refers to	FAG Kugelfischer AG, former main shareholder of DA
PFAFF	Refers to	PFAFF Industriesysteme und Maschinen AG
KSL	Refer to	KSL Keilmann Sondermaschinenbau GmbH, KSE GmbH, KSA Verwaltungs GmbH
KSL and its affiliated companies	Refer to	KSLKeilmannSondermaschinenbau GmbH, KSE GmbH, KSA Verwaltungs GmbH, KSA GmbH & Co. KG
Suoying Property	Refers to	Shanghai Suoying Property Co., Ltd.
Fengjian Property	Refers to	Shanghai Fengjian Property Limited
Shuangchong	Refers to	Shanghai Shuangchong Sewing Machines Co., Ltd.
Thick feeder	Refers to	Thick stuff sewing machine, namely the sewing machine used for producing thick stuff sewing products, like shoemaking, bags and suitcases, leather and canvas.
CNC	Refers to	Short for computer numerical control. The control system can logically deal with the procedure with control coding or other symbolic instruction and decode it in the computer, so that the equipment can carry out the set action and complete the required procedure or task.
BDO	Refers to	BDO China Shulun Pan Certified Public Accountants Co., Ltd. (special common partnership)
CSRC	Refers to	China Securities Regulatory Commission
SSE	Refers to	Shanghai Stock Exchange
Shanghai SASAC	Refers to	State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government

## 2013 Annual Report of SGSB GROUP CO., LTD.

SMDRC	Refers to	Shanghai Municipal Development & Reform Commission
SMCC	Refers to	Shanghai Municipal Commission of Commerce
Report period	Refers to	From January 1, 2013 to December 31, 2013
Articles of Association	Refers to	The Articles of Association of SGSB Group Co., Ltd.
Company Law	Refers to	Company Law of the Peoples Republic of China
Securities Law	Refers to	Securities Law of the People's Republic of China
RMB 10,000Yuan	Refers to	the lawful currency of China
EUR	Refers to	the lawful currency of the European Union

## Chapter 2 Company Profile

### 1. Company information

Chinese name	上工申贝（集团）股份有限公司
Chinese name abbreviation	上工申贝
English name	SGSB GROUP CO.,LTD.
English name abbreviation	SGSB
Legal representative	Zhang Min

### 2. Contact information

	Secretary to Board of Directors	Representative for security affairs
Name	Zhang Jianguo	Shen Lijie
Address	12 <sup>th</sup> floor, Orient Mansion, No. 1500, Century Avenue, Pudong New Area, Shanghai	12 <sup>th</sup> floor, Orient Mansion, No. 1500, Century Avenue, Pudong New Area, Shanghai
Tel	021-68407515	021-68407700*1233
Fax	021-63302939	021-63302939
Email	zhangjianguo@sgsbgroup.com	shenlj@sgsbgroup.com

### 3. Basic situation introduction

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

### 4. Information disclosure and place for consulting

Designated newspaper for information disclosure	Shanghai Securities News, Hong Kong Commercial Daily
Internet login designated by CSRC to carry the Company's annual report	<a href="http://www.sse.com.cn">www.sse.com.cn</a>
Place for consulting the Company's annual report	General Office of the Company

### 5. Corporate stocks

Corporate stocks				
Types of stocks	Stock exchange	Stock abbreviation	Stock code	Stock abbreviation before change
A share	Shanghai Stock Exchange	SGSB	600843	SG Share and GF Share
B share	Shanghai Stock Exchange	SGB	900924	GFB

### 6. Registration modification information:

#### (1) Basic information

The registration of the Company during the report period did not change.

#### (2) Related query index of first-time registration information

The first-time registration information can 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 the sewing equipment manufacturing industry since being listed, not changed during the report period. 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 is later re-named as Pudong SASAC.

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

7. Other information

Accounting firm appointed by the Company (domestic)	Name	BDO China Shulun Pan Certified Public Accountants Co., Ltd. (special common partnership)
	Office address	4F, 61 East Nanjing Road, Shanghai, PRC
	Signing name of accountants	Li Ping Chang Dalei

# Chapter 3 Accounting Data and Financial Index Highlights

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

(1) Main accounting data

Unit: Yuan, Currency: RMB

Main accounting data	2013	2012		Year-on-year increase and decrease (%)	2011	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Total operating income	1,813,934,688.16	1,506,126,050.61	1,506,126,050.61	20.44	1,578,687,682.56	1,578,687,682.56
Net profit attributed to shareholders	79,552,024.19	41,686,253.70	41,686,253.70	90.84	112,665,111.88	112,665,111.88
Net profit attributed to shareholders after non-recurrent account profit/loss	38,502,021.64	28,831,010.92	28,831,010.92	33.54	8,054,436.35	8,054,436.35
Net cash flow from operating activities	69,806,628.03	138,676,454.10	138,676,454.10	-49.66	71,198,549.85	71,198,549.85
	End of 2013	End of 2012		Year-on-year increase and decrease (%)	End of 2011	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Net asset attributed to shareholders	795,894,186.10	704,345,823.10	729,473,292.70	13.00	696,062,290.15	698,160,052.65
Total assets	2,047,916,471.17	1,626,633,348.69	1,608,451,075.09	25.90	1,531,529,857.65	1,530,019,795.15

(2) Main financial data

Main financial index	2013	2012		Year-on-year increase and decrease (%)	2011	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Earnings per share, basic (yuan/share)	0.1772	0.0929	0.0929	90.74	0.2510	0.2510
Earnings per share, diluted(yuan/share)	0.1772	0.0929	0.0929	90.74	0.2510	0.2510
EPS after non-recurrent account profit/loss, basic(yuan/share)	0.0858	0.0642	0.0642	33.64	0.0179	0.0179
Return on net assets, weighted (%)	10.6907	5.8147	5.7978	Increased 4.88 percent	17.1950	17.1416



				points		
Weighted average return on net assets after non-recurrent account profit/loss (%)	5.1742	4.0216	4.0099	Increased 1.15 percent points	1.2293	1.2255

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

Unit: Yuan, Currency: RMB

Items of non-recurring profit and loss	Amount in 2013	Amount in 2012	Amount in 2011
Non-current asset disposal profit and loss	38,149,700.05	12,256,764.82	98,487,576.72
Government subsidy recorded in the current profit and loss, but closely related with the normal business of the company, meeting the regulation of national policies, except government subsidy continuously enjoyed according to a certain standard rating or ration.	3,203,590.00	1,086,000.00	1,274,088.00
Except the effective hedging business related with the normal business of the company, fair value variation profit and loss generated from trading financial assets and trading financial liabilities as well as the investment income obtained from disposing trading financial assets, trading financial liability and available-for-sale financial assets	-58,593.34	825,269.83	445,216.85
Other non-business income and expenditure except the above items	1,015,375.75	80,120.28	1,836,812.22
Minority stockholder's interest influence sum	-515,414.86	-593,981.33	1,156,237.98
Income tax influence sum	-744,655.05	-798,930.82	1,410,743.76
Total	41,050,002.55	12,855,242.78	104,610,675.53

## 3. Items for adopting fair value measurement

Unit: Yuan, Currency: RMB

Item	Initial balance	Ending balance	Current change	Influence sum to current profit
1. Trading financial assets	574,196.01	277,479.87	-11,748.14	-11,748.14
2. Financial assets for sale	68,296,974.00	85,012,121.56	15,942,047.85	35,465.18
Total	68,871,170.01	85,289,601.43	15,930,299.71	23,717.04

## Chapter 4 Report by the Board of Directors

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

In 2013, domestic macro-economic situation was still complex and changeable and the economic growth slowed down. The market demands of the sewing machine industry was gradually released and the production and marketing showed a mild recovery, but the industrial development environment was still severe, with rising factor cost, intensifying environmental constraint and fiercer market competition. Facing the severe external environment, the Company made concerted efforts to walk out the slump period and realized steady and healthy development and opened a new situation with “technological guide and transformation development”. The overall economy of the Company ran smoothly and progressively.

During the report year, the Company realized the operating revenue of RMB 1,813,930,000, an increase of 20.44% year-on-year, mainly due to the sewing machine revenue increasing 28.09%, among which the operating profit amounted to RMB 144,390,000, an increase of 58.06%; the net profit attributable to shareholders of the listed company totaled RMB 79,550,000, an increase of 90.84% year-on-year, mainly due to the Company disposing the stock right of subsidiaries and the sound operation of Shanggong Europe; the net profit attributable to shareholders of parent company after deducting non-recurring gains and losses came to RMB 38,500,000, an increase of 33.54% year-on-year.

Looking back on 2013, the Company mainly implemented the following work:

1. Seize opportunities and carry out the second overseas mergers and acquisitions to lay a foundation for achieve great-leap-forward development of the Company

Following the cross-border acquisition of German DA in 2005, the Company again successfully acquired two famous German industrial sewing equipment enterprises – PFAFF and KSL in 2013, which again opened a new historical page on the path of the international operation of the main sewing equipment business, created favorable conditions for the Company to realize its medium and long-term strategic targets and has a landmark significance to China’s sewing machinery industry. Due to various unexpected difficulties and obstacles such as the difference in Chinese and German laws and regulations, regulatory policies and cultural concepts, the historic grievance between DA and PFAFF and the accession of domestic rivals, the whole acquisition process was full of setbacks and variables. Under the correct leadership of the board of directors, the company management finally successfully completed the acquisition work through several months of arduous negotiations by virtue of the successful operation experience in acquiring DA. After completing the acquisition, centering on Shanggong Europe, the Company is carrying forward the integration work of its overseas subsidiaries orderly as planned.

2. Fully play the capital market function and actively proceed with the refinancing work

To coordinate with the Company’s demands for industry acquisition and project investments and realize sustainable development of the Company, the Company made full use of the capital market financing function and grasped the favorable opportunity of the security market at the beginning of year through long-time planning and careful preparation, started the non-public stock issue work in due time and took it as the key work throughout 2013. Due to the investing trend of non-public funds raising involving two overseas acquisition projects, the difference of domestic and overseas policies and regulation pattern, the coordination work of the non-public issue, like earlier-stage due diligence, audit and assessment, was very difficult. For this reason, the related personnel of the Company worked overtime to resolve various contradictions and barriers. Under the coordination and efforts of all sides, all document declarations were finally completed as scheduled and multiple suggestion feedback and supplementary information for CSRC were also completed in time. By the disclosure day of the report, the Company’s non-public stock issue has been successfully approved by CSRC.

3. Accelerate product upgrading and traditional industrial transformation and improve the core competitiveness of the Company

Technical innovation is the top priority for the development of the Company. By the opportunity of acquiring PFAFF and KSL and guided by technical innovation, the Company accelerated the adjustment of its transformation development and effectively improved the business performance of the Company. During the report period, Shanggong Europe totally acquired 36 innovation projects, of which, German DA researched and developed 12 new products including various automatic special sewing machines; PFAFF developed 21 new products including various welding machines and sewing machines; KSL developed 3 new automatic sewing work stations. Shanggong Butterfly developed multiple new household sewing machine products and won the 2013 China International Sewing Equipment Exhibition New Product Award, Dalian National Light Industrial Product Exhibition Gold Award, Time-Honored Brand Expo New High-Quality Product respectively and obtained national patents.

In addition, the Company accelerated transformation adjustment or cleanup targeting industries not in line

with the strategic target and plan of the Company. In 2013, bankruptcy liquidation was also tried targeting difficult enterprises with long-term loss and great total liabilities and traditional industries also started transformation development.

#### 4 Constantly innovate marketing mode and expand market sale potential

Following successfully acquiring PFAFF and KSL in the first half of year, the Company's sewing equipment main business was showed first in the 2013 China International Sewing Equipment Exhibition. Its six brands well-known at home and abroad, including DA, PFAFF, Beisler, KSL, Shanggong and Butterfly, all showed with all-new images, fully displayed the good image of SGSB in developing intelligent high-end products and creating China's traditional manufacturing industry upgraded version guided by science and technology and aroused positive response in the industry.

In 2013, German DA continued to expand the development of industrial machinery in the automobile industry and home decoration field and achieved significant growth in the US market as its sales momentum slightly slowed down as against that of last year. In the clothing industry field, DA's sales also picked up. The overall good growth momentum made DA achieve higher profit in expanding market shares.

German PFAFF vigorously stressed the market sales of product series of automatic sewing unit, shoemaking machines and welding joint machines since merged with SGSB in April and basically reversed the continuously declining trend of sales. At the same time, it stimulated the initiative of PFAFF old distributors through carrying out promotion and communication activities and created conditions for restoring the market reputation of PFAFF brands.

Shanggong Butterfly strengthens brand construction and stresses brand cultivation. The Company carefully prepares the "Shanghai Time-Honored Brand" declaration work of the Butterfly brand and implemented the protection and promotion work of Chinese time-honored brand enterprises. At the same time, it further expand and perfect its distributor team and consolidates its market sales work through market survey, visiting distributors and timely adjusting marketing strategies.

#### 5. Strengthen internal control regulation work and promote the improvement of management level

According to the "Implementation Guidelines for Enterprise Internal Control" issued by five ministries including the Ministry of Finance, and the requirements of competent departments like CSRC and Shanghai Stock Exchange, the Company actively promoted the construction of the internal control system, further strengthen and standardize the internal control of the group through sorting, revising, supplementing and perfecting the original systems and improved the overall operation and management level and risk prevention ability of the group. During the report period, it completed the internal control standardization work of the home office, four branch companies and six subsidiaries and achieved the overall coverage of the internal control standardization work in domestic second-level companies. At the same time, the construction work of overseas enterprise internal control systems was also launched substantially and the system compilation has been formed initially.

During the report period, the Company extended the financial early-warning work to subsidiaries, confirmed the financial early-warning indicator system according to the general requirement and principle of state-owned financial early-warning, and organized and implemented the financial early warning work combining the practical situation of the Company.

During the report period, the Company organized subsidiaries including Shanggong Butterfly and DA Trading to complete the external audit work of ISO9001 quality system certification and made constant rectification and perfection targeting the problems found in the external audit.

In 2013, the Company accelerated the optimization of industrial structure, strived to enhance the management level and made arduous efforts for realizing sustainable and stable development. Seen from various economic indicators, the stated objectives in 2013 have been fulfilled basically, and structure adjustment and transformation development work have made positive progress. However, while affirming the work performance in 2013, we should also see some prominent problems existing in economic work. It is mainly manifested in three aspects: first, the market share of the European products of the Company still needs improving in the Asia-Pacific and domestic market and the market expansion and product structure still need enhancing; second, the market competition of domestic enterprise products is not strong, and the method to break through the development bottleneck is still not found; third, with the constant expansion of overseas enterprises, the management structure, operation and monitoring ability of the Company need further improving and perfecting.

### 1. Analysis on principal business

#### (1) Profit statement and cash flow statement related item variation analysis

Unit: Yuan, Currency: RMB

Item	Current period	Previous period	Variable proportion (%)
Operating income	1,813,934,688.16	1,506,126,050.61	20.44
Operating expense	1,296,513,813.16	1,067,777,087.51	21.42

Sales expense	195,811,904.08	159,229,142.78	22.97
Administration expense	196,541,758.56	169,484,391.57	15.96
Financial expense	26,305,480.06	9,595,280.37	174.15
Net cash flow from operating activities	69,806,628.03	138,676,454.10	-49.66
Net cash flow from investing activities	-224,390,206.30	-10,762,403.74	-1,984.95
Net cash flow from financing activities	137,394,297.33	-27,976,256.78	591.11
Research and development expenditure	54,928,206.42	50,285,425.57	9.23

## (2) Income

## (1) Analysis on factors resulting in changes of business income

During the report period, the Company achieved the operation revenue of RMB 1,813,930,000, an increase of 20.44% year-on-year, mainly due to German DA constantly expanding the development of industrial machinery in the automobile manufacturing industry and home decoration industry field. At the same time, the Company successfully implemented transnational acquisition and acquired the stock rights of two German sewing equipment manufacturing companies PFAFF and KSL and integrated them into the consolidated statements of the Company, which made the sales revenue of sewing equipment of the Company increase 28.09% year-on-year.

## (2) Analysis on factors affecting the company's product income based on physical sales

During the report period, the sales volume of the Company also showed a rising trend in the clothing industry field. DA obtained higher gross profit under the background of expanding market shares and its sales increased significantly in the US market. The production and sales of the overseas industrial sewing machines of the company (including DA and PFAFF newly included in the consolidated statements) are 17,757 sets and 24,148 sets respectively. The production and sales of domestic branded industrial machines like Shanggong also showed a good trend: the domestic production and sales of sewing machines reached 9,398 sets and 26,682 sets respectively and the sales of household sewing machines came to 561,238 sets, of which the sales of modern household multi-function sewing machines reached 73,637 sets.

## (3) Influence analysis on new products and new services

The Company attaches high importance to the research, development and innovation of new products and it has owned a variety of brands. DA launched the new-generation H-TYPE series thick feeders and made a new breakthrough in the Beisler automatic sewing unit of shirt sewing and jeans. Especially the "New Sleeve Joining Automatic Sewing System" developed by DA and PFAFF's "Intelligent Control System" using the internet technology to conduct production field control respectively awarded the annual Texprocess Technical Innovation Prize by German Machinery Equipment Manufacturing Industry Federation in 2013. PFAFF also successfully developed the new large-area sewing unit first launched in Asia, which makes multi-angle sewing obtain perfect stitches in the whole sewing area. German PFAFF has achieved leading level in automatic sewing unit, medium thick stuff sewing machines, bonded welding machines, etc, and has many advantages and patents. German KSL takes the lead in the world in CNC and robot control automatic sewing technologies. Its products have broken through the traditional application scope in the sewing machinery industry and provided automatic sewing application technology solutions for users in fields like automobile, environmental protection, aerospace and new energy. Especially in light carbon fiber sewing technology and 3D automation, it has made original creation in the world.

## (4) Main sale customers

Unit: 10,000 Yuan, Currency: RMB

Total sales of top 5 sales customers	23,753
Proportion in total sales (%)	13.49

## (3) Cost

## (1) Cost analysis

Unit: Yuan

By sector						
By industry	Cost item	Sum in current period	Current period proportion (%)	Sum in previous period	Previous period proportion (%)	Increase/decrease (%)
Sewing equipment	Material	555,660,781.80	43.94	465,619,901.37	44.36	19.34

	Labor	237,062,911.14	18.74	154,035,951.61	14.67	53.90
	Depreciation	31,667,652.26	2.50	17,202,962.97	1.64	84.08
	Manufacture cost	80,749,263.24	6.38	44,769,070.74	4.26	80.37
	Sub-total	905,140,608.44	71.57	681,627,886.69	64.93	32.79
International trade		262,054,227.82	20.72	268,728,514.36	25.60	-2.48
Office equipment	Material	51,057,757.28	4.04	54,592,887.43	5.20	-6.48
	Labor	5,862,683.01	0.46	9,474,998.26	0.90	-38.12
	Depreciation	634,730.90	0.05	830,768.77	0.08	-23.60
	Manufacture cost	6,333,934.33	0.50	3,806,630.75	0.37	66.39
	Sub-total	63,889,105.52	5.05	68,705,285.21	6.55	-7.01
Film materials	Material	22,904,920.03	1.81	20,616,329.32	1.96	11.10
	Labor	2,707,544.27	0.21	3,280,344.04	0.31	-17.46
	Depreciation	1,062,487.61	0.08	1,029,908.82	0.10	3.16
	Manufacture cost	3,392,702.31	0.27	4,674,422.76	0.45	-27.42
	Sub-total	30,067,654.22	2.38	29,601,004.94	2.82	1.58
Other		3,573,306.48	0.28	1,055,297.18	0.10	238.61
Total		1,264,724,902.48	100	1,049,717,988.38	100.00	

## (2) Main suppliers

Unit: 10,000 Yuan, Currency: RMB

Total purchase amount of top 5 suppliers	15,488
Proportion in total purchase (%)	11.93

## (4) Expense

Unit: Yuan, Currency: RMB

Item	Sum in current period	Sum in previous period	Increase/decrease (%)
Sales expense	195,811,904.08	159,229,142.78	22.97
Administration expense	196,541,758.56	169,484,391.57	15.96
Financial expense	26,305,480.06	9,595,280.37	174.15
Income tax expense	45,348,330.25	35,173,182.36	28.93

Note: The financial cost this year increased 174.15% year-on-year, mainly caused by the year-on-year increased exchange loss.

## (5) R&amp;D expenses

## (1) R&amp;D expense chart

Unit: Yuan

R&D expenses in current period	54,928,206.42
Total R&D expenses	54,928,206.42
Total R&D expenses in proportion to net assets(%)	5.91
Total R&D expenses in proportion to operating income(%)	3.03

## (2) Note

During the report period, the research and development expenditure is mainly used for the all-new and specialized control platform “DAC Classic” (including new drive technologies), researching and developing automatic sewing equipment to improve production rate and simplifying product complexity through module combination and flat plate type structure.

(6) Cash flows structure

Unit: Yuan, Currency: RMB

Item	Current Year	Current Year	Increase /decrease (%)	Reason
Net cash flow from operating activities	69,806,628.03	138,676,454.10	-49.66	Note 1
Net cash flow from investing activities	-224,390,206.30	-10,762,403.74	-1984.95	Note 2
Net cash flow from financing activities	137,394,297.33	-27,976,256.78	591.11	Note 3
Influence of fluctuation of exchange rate upon cash and cash equivalents	1,857,870.91	2,987,178.49	-37.81	Note 4

Note 1: Mainly caused by the year-on-year increase of cash and paid taxes paid for employees.

Note 2: Mainly caused by Europe subsidiary acquiring German PFAFF, Germany KSL and its affiliated companies.

Note 3: Mainly caused by European subsidiary increasing short-term and long-term loans of banks.

Note 4: Mainly caused by the change of Euro exchange rate

(7) Other

(1) Detailed description of major changes of profit composition or profit source

Unit: Yuan, Currency: RMB

Item	Current Year	Previous Year	Increase/ decrease (%)	Reason
Financial expense	26,305,480.06	9,595,280.37	174.15	Note 1
Loss on assets depreciation	3,372,279.95	14,612,530.64	-76.92	Note 2
Net income on changes in fair value	848,710.86	-17,446.15	4,964.75	Note 3
Investment income	53,437,390.32	10,605,054.76	403.89	Note 4
Non-operating income	10,480,742.23	13,732,409.45	-23.68	Note 5
Non-operating expense	1,421,100.50	309,524.35	359.12	Note 6
Other comprehensive income	13,321,026.08	-46,924,120.12	128.39	Note 7

Note 1: Mainly caused by the year-on-year increased exchange loss

Note 2: Mainly caused by the year-on-year increase of current-period reversed inventory falling price reserves, receivable bad debt reserves and current-period withdrawing long-term equity investment depreciation reserves.

Note 3: Mainly caused by the fair value variation earnings reversed in dealing with trading financial assets in current period

Note 4: Mainly caused by the year-on-year increase of investment income generated in handling long-term equity investment

Note 5: Mainly caused by the year-on-year decrease of investment property disposal earnings

Note 6: Mainly caused by the year-on-year increase of expenditures like public welfare donation

Note 7: Mainly caused by the year-on-year increase of available-for-sale financial assets fair value variation and European subsidiary changing pension reserve accounting policy and reduce other comprehensive income in the same period last year

(2) Analysis and description on the earlier-stage implementation progress of various financing and major asset restructuring events of the company

The company passed the non-issue stock plan in the second session of the seventh board of directors held on February 7, 2013 and planned to issue non-public stocks not exceeding 150 million shares and raise funds not exceeding RMB 831 million.

Required by the project progress, the proposal on investing German PFAFF project was passed in the third session of the seventh board of directors held on March 6, 2013 and the first extraordinary general meeting held on March

25, 2013. The company has completed the delivery procedure of Shanggong Europe acquiring 100% equity of German PFAFF and has completed the industry and commerce alteration registration procedure.

Required by the project progress, the proposal on investing German KSL and its affiliated companies was passed in the seventh session of the seventh board of directors held on July 8, 2013 and the second extraordinary general meeting held on July 24, 2013 respectively. At the end of July 2013, Shanggong Europe has completed the 100% equity delivery procedure of German KSL.

In view of increasing investment in Chem-land Industrial and building functional film and coating material project requiring Chem-land Industrial to first integrate with other affiliated parties and the long-time early integration, the company decided to give up the project as the funds-raising investing trend and adjusted the planned raised funds to less than RMB 671 million from less than RMB 831 million. After adjustment, the non-issue stock proposal (revised edition) has been passed in the eighth session of the seventh board of directors held on July 25, 2013 and the third extraordinary general meeting held in August 20, 2013.

The non-public offering of stocks of the company has been checked and approved by Shanghai SASAC, SMDRC and SMCC. By the disclosure day of the report, the non-public offering of stocks has been approved by CSRC, and the company is actively advancing related issue work and performs the information disclosure obligation in time.

### (3) Description of development strategies and operation plans

During the report period, centering on expanding and strengthening the main sewing equipment business and creating the company into the international industrial sewing equipment leading enterprise with the largest production and sale scale and leading technologies in the world, the company insists on strengthening the research and development and innovation of high-end products starting from German DA, further optimizes product structure, strives to develop intelligent and automatic products and strengthens the connection between Europe and Asia. Through capital operation, the company successfully acquired German PFAFF and KSL, which laid a solid foundation for the company to expand the main sewing equipment business and create the company into the most competitive international sewing equipment leading enterprise. At the same time, it actively promotes the transformation of its domestic industries with weak profitability and strengthens the overall competitiveness and profit level of the enterprise.

Seen from the completion of various economic indicators, the company has basically fulfilled various established operation targets in 2013 and achieved positive progress in structural adjustment and transformation development.

### (2) Analysis on industry, products or regional operation

#### (1) Principal operating activities, by sectors and products

Unit: Yuan, Currency: RMB

Main business by sectors						
Sector	Operating income	Operating cost	gross margin (%)	Operating income increase/decrease (%)	Operating cost increase/decrease (%)	Gross margin increase/decrease (%)
Sewing equipment	1,380,040,373.56	905,140,608.44	34.41	28.09	32.79	Decrease 2.33%
International trade	268,822,805.11	262,054,227.82	2.52	-1.77	-2.48	Increase 0.71%
Film materials	32,770,197.99	30,067,654.21	8.25	-9.30	1.58	Decrease 9.82%
Office appliances	73,540,523.35	63,889,105.53	13.12	-3.45	-7.01	Increase 3.33%
Other	6,064,358.60	3,573,306.48	41.08	61.58	238.61	Decrease 30.8%
Total	1,761,238,258.61	1,264,724,902.48	28.19	20.04	20.48	Decrease 0.26%

#### (2) Principal operating activities, by regions

Unit: Yuan, Currency: RMB

Region	Operating income	Year-on-year Increase/decrease (%)
Domestic	792,712,346.42	0.40

Overseas	1,060,699,481.30	31.87
----------	------------------	-------

## (3) Analysis on assets and liability

## 1. Assets and liability structure

Unit: Yuan

Item	End of current year	Balance% in total	End of previous year	Balance% in total	Increase/decrease percentage points	Changing reasons
Monetary fund	459,200,229.44	22.42	468,232,331.76	28.79	-1.93	
Financial assets held for trading	277,479.87	0.01	574,196.01	0.04	-51.68	Note 1
Bills receivable	3,320,697.28	0.16	8,211,621.14	0.50	-59.56	Note 2
Accounts receivable	247,894,529.49	12.10	149,571,853.26	9.20	65.74	Note 3
Dividends receivable	2,881,577.53	0.14	638,783.61	0.04	351.10	Note 4
Other receivables	60,130,306.48	2.94	39,701,699.79	2.44	51.46	
Inventory	405,244,436.59	19.79	307,439,358.97	18.90	31.81	Note 5
Other current assets	64,405,666.67	3.14	1,717,181.91	0.11	3,650.66	Note 6
Long-term equity investment	53,534,559.75	2.61	67,564,942.15	4.15	-20.77	
Investment property	121,076,399.25	5.91	115,390,463.60	7.09	4.93	
Fixed assets	261,035,902.23	12.75	249,032,681.09	15.31	4.82	Note 7
Construction in progress	2,801,141.91	0.14	5,216,860.31	0.32	-46.31	Note 8
Intangible assets	83,308,929.44	4.07	30,326,717.44	1.86	174.70	Note 9
Development expenditures	39,082,899.68	1.91	27,797,905.03	1.71	40.60	Note 10
Good will	98,908,849.50	4.83	24,234,159.36	1.49	308.14	Note 11
Short-term loans	222,299,211.73	10.85	120,319,444.25	7.40	84.76	Note 12
Bills payable	6,225,975.90	0.30	2,734,313.70	0.17	127.70	Note 13
Payroll payable	49,569,216.41	2.42	25,933,892.09	1.59	91.14	Note 14
Tax payable	31,916,230.42	1.56	22,551,179.49	1.39	41.53	Note 15
Other current liabilities	1,623,775.74	0.08	933,818.82	0.06	73.89	Note 16
Long-term loans	80,675,181.52	3.94	1,489,984.87	0.09	5,314.50	Note 17
Long-term payables	44,961,333.81	2.20	4,257,092.80	0.26	956.15	Note 18
Deferred tax liabilities	49,451,110.79	2.41	17,689,822.94	1.09	179.55	Note 19
Undistributed profit	-2,996,568.99	-0.15	-82,548,593.18	-5.07	96.37	Note 20

Note 1: Financial assets held for trading: Refer to the shares balloted from the original purchase and held for sale

Note 2: Bills receivable: Refer to the cashed commercial acceptance bills

Note 3: Accounts receivable: Due to the money collected by DA Europe is lower than the previous period and German Pfaff, German Kelman and its affiliates are in-scoped in combination.



Note 4: Dividends receivable: Refer to the dividends distributed by Shanghai Shensi Enterprise Development Co., Ltd.

Note 5: Mainly due to the increase in additional issuance of capital.

Note 6: Due to German Pfaff, German Kelman and its affiliates are in-scoped in combination.

Note 7: Due to the short-term bank products purchased in current period in order to improve the capital return by DA Europe.

Note 8: Due to the reduction of CIP of sewing equipment of subsidiaries in Europe.

Note 9: Due to the acquisition of German Pfaff, German Kelman and its affiliates by Shanggong Europe.

Note 10: Due to German Pfaff, German Kelman and its affiliates are in-scoped in combination.

Note 11: Refer to the good will generated in the acquisition of German Pfaff, German Kelman and its affiliates by Shanggong Europe.

Note 12: Due to the addition of short-term bank loans of Shanggong Europe in the current period.

Note 13: Due to the addition of commercial acceptance bills.

Note 14: Due to the paid leave and bonus accrued by the Europe subsidiaries.

Note 15: Mainly due to the increase of the current profit of the subsidiaries which lead to the increase of the balance of income tax payable.

Note 16: Mainly due to the current increase of interest and rental attributable to the subsequent periods.

Note 17: Due to the addition of long-term loans of DA Europe in the current period

Note 18: Mainly refer to the increased payable due to the acquisition of German Pfaff, German Kelman and its affiliates by Shanggong Europe

Note 19: Mainly due to the acquisition of German Pfaff, German Kelman and its affiliates by Shanggong Europe

Note 20: Due to the current profit.

## 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 DA and completed the acquisition of German Pfaff and KSL, two world-renowned German sewing equipment manufacturers, in the reporting period, 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, core competitiveness of the company is mainly in the followings,

### 1. Technology advantage

The company has a global high-end intelligent, three-dimensional stereoscopic sewing technology, robot control automatic sewing industry-leading technology, product applications has exceeded the scope of the traditional sewing machinery industry markets such as in the automotive, environmental protection, aerospace and new energy areas, especially the lightweight carbon fiber sewing technology and 3D automatic sewing techniques.

### 2. Brand advantage

The company has the world famous brand DA、PFAFF、KSL、beisler, " Butterfly " brand with 90 years of history and "shanggong" brand with a history of more than 50 years. The company has a full range of high-end products chain and its brands have high visibility and reputation in the industry, with a number of the high-end luxury brand customers with great values and stability.

### 3. R&D advantage

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

### 4. Global resource integration capacity

The company's products not only have a wide range of domestic business, but also established a relatively perfect marketing and service network worldwide. The company will implement global integration of resources and global procurement, achieving synthesis.

### 5. International management capacity

Since the company implemented the going out strategy in 2005 and the international operation of the main business of sewing has been conducted for many years, the company has built up a professional team for international management, and has accumulated overseas management experience.

During the reporting period, with the promotion of cross-border mergers, the company's core competitiveness increasingly strengthened.

## (5) Investments by the Company

## 1. Analysis on the equity investment

The Company's long-term equity investment at the beginning is RMB 67,564,942.15, at end of period is RMB 53,534,559.75, an decrease of RMB 14,030,382.40. Details refer to the Note 5(11) of the financial statement.

## (1) Investment in stock exchange

No.	Type	Code	Name	Initial investment (Yuan)	Quantity of shares	Year-end book value (Yuan)	Prop. in investment in stock exchange	Current profit/loss (Yuan)
1	Funds	040002	HuaAn A Share	100,000.00	559,435.23	277,479.87	100.00	-11,748.14
Profit/loss current-year sale of investment				/	/	/	/	-907,304.20
Total				100,000.00	/	277,479.87	100	-919,052.34

## (2) Stock equity of other listed companies held by the Company

Unit: Yuan

Code	Entity	Initial investment	Prop. in the invested company	Year-end book value	Profit /loss	Change in shareholder equity	Account title	Origin of equity
600689	Sanmao Textile	1,779,800.00	<5%	5,817,468.90		856,479.00	Financial assets available for sale	Legal shares
600757	Changjiang media	72,085,722.82	<5%	77,959,902.38		14,623,918.28	Financial assets available for sale	Repaid equity arised from bankruptcy reorganization by the transferee bank
900932	Luijia Share B	773,099.71	<5%	1,234,750.28	35,465.18	461,650.57	Financial assets available for sale	Compulsory Judicial execution
Total		74,638,622.53	-	85,012,121.56	35,465.18	15,942,047.85	-	-

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

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	152,958.36		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	16,194.20		Long-term equity investment	Buy-in
Total	1,158,900.00	913,009	/	1,158,900.00	170,015.21		/	/

The above stock equities are held by the Company since 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-907,304.20.

## 2. Entrusted finance and entrusted loan

## (1) Entrusted finance

During this year there is no entrusted finance by the Company.

## (2) Entrusted loan

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

Unit: Yuan, Currency: RMB

Company	Business scope	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	1,334,104,570.83	454,706,170.61	1,081,287,984.29	92,673,364.40	54,645,151.07
Shanghai Shanggong Butterfly Sewing Machine Co., Ltd.	Production and sale of sewing machines	RMB 79,000,000	142,930,643.77	78,850,280.77	352,181,204.69	6,222,974.95	5,044,511.28
Duerkopp Adler (Trading) Co., Ltd.	sale of sewing machines	USD 6,000,000	129,760,342.48	46,631,553.57	140,468,659.65	6,171,406.60	5,766,170.79

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

Unit: 10,000 Yuan, Currency: RMB

Company name	Operation income	Operation profit	Net profit
Fuji Xerox Shanghai Co., Ltd.	313,022	10,948	9,346

## 5. Utility of non-collected funds

Unit: 10,000 Yuan, Currency: RMB

Project name	Project amount	Project progress	Money invested in current year	Accumulated actual investment	Returns of project
Investment in German Pfaff by Shanggong Europe	20,000	Equity acquisition delivered and registration changed, subsequent integration plan implementing.	15,438	15,438	-1,349.77
Investment in German Kelman and its affiliates by Shanggong Europe	25,000	Equity acquisition delivered and registration changed, down payment of 12.95 million Euros has been paid.	10,748.5	10,748.5	857.65
Development and production of automatic sewing unit and electric control system project	15,100	Implementing electronic workshop environment transformation and constant greenhouse construction and fixed assets investment such as equipment.	329.08	348.59	0
Development of modern household multi-functional sewing machine	5,000	Investment by Shanggong Butterfly in new product development, domestic entities shop development, domestic e-commerce network platform construction and the butterfly	44	44	0

		brand promotion, etc Advertising and the construction of the exhibition hall and so on.			
Set the branch SGSB Electronic as a wholly-owned subsidiary	2,000	Completed	2,000	2,000	94.98
Total	67,100	/	28,559.58	28,579.09	/

(1) Project 1-4 started in the reporting period of the company are non-public offering projects, the company has started with self-raised funds as the raised funds were not in place, once the raised funds in place, the company will fulfill the legal procedure for replacement.

(2) By the end of 2013, the company has invested in German Pfaff and German Kelman and its affiliates through the subsidiary of Shangong Europe with actual investment of 18.372 million Euros and 12.95 million Euros, namely the total project of 76.23% and 42.99%, totally 31.322 million Euros. Exchange rate: by 31 December 2013, 1 Euro equals to RMB 8.4189.

(3) The project benefit from Shangong Europe investing in Germany PFAFF is the net profit generated from consolidated statements from April to December 2013 after completing the acquisition.

(4)The project benefit from Shangong Europe investing in Germany KSL and its affiliated companies is the net profit generated from consolidated statements from August to December 2013 after completing the acquisition.

## 2. Discussion and Analysis on Company Future Development by the Board of Directors

### (1) Industrial Competition Structure and Development Trend

In the year of 2014, the development environment for tailoring industry is expected to be stable, yet the competition will still be violent, which means the industrial concentration shall be improved, and more industrial acquisition and merger shall happen. Besides, as the labor cost is rising, the product demands may be developed toward the trend of automatic, high-efficient, energy-saving, environmental protection, smart and integration.

### (2) Company Development Strategy

Company will overcome all difficulties, enhance risk management, attach to the operation principle of “leading by science and technology, developing by innovation”, and speed up overall implementation of the public offering project. Also, company will improve cooperation and integration of tailoring businesses, explore potential efficiency of all resources, expand industrial scope and attain higher investment returns. Also, company will speed up inter-connections of R&D and production in Europe and Asia, develop high-class products that are automatic and smart, optimize product structures and improve technical levels. At the same time, company will accelerate adjustment and transferring of majority businesses, find out innovate operation and business modes, solve difficulties, break neck bottles, improve operation performance, foster favorable enterprise culture, speed up talents development, improve internal control system and improve soft competitive strength.

Aiming to the development goals, company will focus on the following operating management tasks:

#### (1) Strengthen cooperation and integration of overseas enterprises, and improve abilities of investment returns

By closing of acquisition of PFAFF and KSL, company will speed up cooperation and integration of SG Europe and subsidized overseas affiliates, so as to ensure operation and co-development of all the subsidies in Europe for customized planning, prepared arrangement, overall development and phased implementation. Also, company will establish united regional marketing centers to propose marketing strategy suitable for all brands and relatively independent sales channels, as well as common after-sales service platforms. Therefore, company will define key products of all and marketing strategies for each brand to avoid internal competition, explore individual advantages and expand market shares. Therefore, company will define co-operated purchasing, production and R&D strategies, fully utilize advantages of all for resources sharing, explore cooperation efficiency and improve economic benefits.

#### (2). Increase R&D and marketing investment, continuously improve product competitiveness

As we have done before, we will highly hold the flag of “leading by science and technology, developing by innovation”, enhance technology innovation abilities, increase product R&D investments, and seeking for further development. Firstly, we will continue increase science R&D investments, speed up new product and technology development, organize all affiliates in Europe for joint R&D, thus to develop key products of all brands to meet market demands. Secondly, we will speed up R&D and production connections in Europe and Asia, keep on developing products that meet market demands and have better performance and price ratio. Besides, we will enlarge and improve “Made in China” capabilities, and improve technical levels of China localized brands. Thirdly, we will focus on the Butterfly Brand, accelerate sustainable development of household multi-purpose

sewing machines. In conclusion, we shall enhance brand strategy, focus on new product R&D, protect and consolidate fame of Butterfly Brand in market.

(3). Accelerate enterprise adjustment and transferring, effectively improve operation performance

We will further promote company structure adjustment and business transferring development. By innovation of operation and business mode, we shall break the bottle neck, solve difficulties, further get rid of hard environment and improve business operation performance. All the affiliates shall find out operation modes suit their own characteristics and advantages, focus on producing key products and further developing the products on basis of analysis and comparison. For industrials not suitable to company strategy targets and planning, we shall further carry out solutions of transferring or withdrawal from the industries.

(4). Improve company internal control management system, further improve competitiveness.

We shall further development company management structure, find out a set of new mode suits company characters and development requirements, and beneficial to company management and development. Also, we shall gradually establish the quick-response system for information and resources sharing, thus to ensure a smooth channel for information transferring and management for a better risk control capabilities. We shall well develop internal control system in the Group, implement the corrective tasks of 2013 annual internal control re-estimation test and failures, as well as the management and improvement of Group internal control system. Especially since Group has three Germany enterprises, we shall strictly comply with the laws and regulations both in China and Germany for a compliance business operation, and well manage the overseas enterprises by the internal control regulations.

(5). Enhance human resources development, make scientific incentive mechanism and solve the problems of shortage of talented human resource

Since company cross-country operation scope is getting larger and larger, demands for export-oriented management talents are becoming urgent. Therefore, company shall focus on talents attraction and keeping by making suitable incentive mechanism, improvement of scientific and reasonable performance appraisal system. Also, we shall enhance establishment of company management teams, promote fostering and utilization of professional experts, try best to improve irrational human resources structure, and solve the serious shortage of stand-by management staffs and various professional experts. By integration of company internal human resources, combination of social recruitment and internal fostering, we shall well establish and optimize employee structure for demands of SGSB's international operation and development strategy.

(6). Actively promote enterprise culture construction

Enterprise culture is the force to realize sustainable development, thus promotion of cultural construction stands for motivating enterprise productivity by cultural forces, improve cohesive forces, executive forces and innovative forces, thus to improve enterprise core competitiveness. We must make efforts to establish enterprise culture, by all kinds of ways to improve enterprise core competitiveness, so that enterprise may find its role in the serious market completion and develop completely, rapidly and sustainably.

SGSB Group Co., Ltd. must accelerate enterprise innovation by science and technology and update by transferring more firmly, which is the only correct choice that we shall make right now, as time will not wait for anybody. As all economic targets are made clearly for 2014 and tasks are heavy and difficult and we will meet various barriers, difficulties and challenges in work, we will make active exploration and practice in achieving mixed economic system, optimizing corporate governance structure and operator incentive mechanism, etc, with the help of the new round of state-owned enterprise market-oriented reform. We should firm our confidence, break the bottle neck at one fling, and follow the trend to strive for achieving all the targets successfully.

(3) Operation plans

The main operation indicators in 2014 including achievement of operation revenue of RMB 2,090,000,000 Yuan, counted of 15.32% increasing comparing to that at the same time last year, operation profits and net profits shall be kept of stable development, account receivable turnover rate and ratio of inventory to operation revenues shall be controlled at the same level to that at the same time last year.

(4) Demands for capitals to maintain current businesses and accomplish projects in progress and invested

In order to realize the operation targets in 2014, the company will accelerate the completion of addition-issue funds raising, promote the implementation of public offering projects, enhance cooperation and integration of overseas enterprises, improve investment returns attaining capabilities in Group, speed up non-public-offering projects invested by self-financing capitals, further enhance capitals utilization management and improve the rate of capital returns.

(5) Possible risks

a) Industrial and market risks

Tailoring machine industry is a competitive industry, largely depending on its downstream industries such as the weaving, costume, leather, case and bags industries. Therefore, it develops along obvious periodicity and is

highly affected by macro-economic environment. Along with increasing of the rate of tailoring machine production to company other industries, company development may be more and more affected by overall industrial fluctuation, which may lead to decreasing of product price, more and more fierce competition and decreasing of product gross profit rate, all will impact company business operation in the future.

b) Cross-country operation and integration risks

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

c) Foreign exchange risks

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

3. Note of the Board of Directors to the "Non-standard audit report" issued by the certified accountant firm

(1) Note of the Board of Directors and Board of Supervisors to the "Non-standard audit report" issued by the certified accountant firm

√ Inapplicable.

(2) Analysis and note to causes and effect of accounting policies, accounting estimations and accounting methods given by the Board of Directors

Company overseas affiliates of SG Europe and its affiliates (DA) implemented the international accounting standard. Since the 1<sup>st</sup> Jan., 2013, the revised No.19 article of International Accounting Standard, Welfares of Employees, has cancelled the "Interval Method", and required full amount confirmation for change setting of re-calculated net debts and net assets of benefit plans, and record the re-calculated set benefit plan gains and losses in the account of other consolidated benefits. By approval of the decision made at the 5<sup>th</sup> meeting of the 7th Board of Directors held on the 24<sup>th</sup> Apr., 2013, the accounting policies for retiring pension of company overseas affiliates shall be changed by the revised No.19 article of International Accounting Standard, Welfares of Employees since the 1<sup>st</sup> Jan., 2013. As per the 31<sup>st</sup> Dec., 2012, both SG Europe and DA holding subsidiary have drawn the pension reserves by the unrevised No.19 article of International Accounting Standard, Welfares of Employees, and adopted the "interval method" to calculate the actuarial gains and losses of the set benefit plans, while confirmed the deferred actuarial gains and losses within the "interval". However, SG Europe and DA subsidiary have drawn the pension reserves by the revised No.19 article of International Accounting Standard, Welfares of Employees, and record the actuarial gains and losses of set benefit plans as part of the re-calculated actuarial gains and losses of the set benefit plans and book in the account of other consolidated benefits. The business scope related to changes of above accounting policies is the withdrawal of pension reserves.

By rules of enterprise accounting standard, changes of above accounting policies shall be made by the retroactive adjustment method. Therefore, company has re-stated the 2012 comparison consolidated balance sheet, comparison consolidated profit statement, comparison and consolidated owner's equities statement, but the comparison consolidated cash flow statement is excluded. The accounting policies changes started from the 1<sup>st</sup> Jan., 2010 in ways of retroactive adjustment method. The beginning balances of the accounting policies changes on the 1<sup>st</sup> Jan., include the adjustment amounts of RMB 18,182,273.60 Yuan for deferred income tax assets, increased amounts of predicted debits of RMB 56,842,478.40 Yuan, decreased amounts of RMB 25,127,469.60 Yuan for capital surplus, and decreased amounts of RMB 13,532,735.20 Yuan for equity of the minority stockholder. All critical items involved in this accounting policies changes meet rules specified in the No.28 Enterprise Accounting Standard – Accounting Policies and Accounting Estimates Changes and Mistakes Correction.

(3) Analysis and note to the causes and effect of important mistakes correction in the prior period made by the Board of Directors

√ Inapplicable

4. Profit Distribution or Capital Surplus Transferring and Increasing Proposal

(1) Making, Implementation and Adjustment of Cash Dividend Distribution Policies

By documents including the No. [2012]37 of Notice on Further Implementation of Cash Dividend Distribution Affairs for Public Companies issued by the China Securities Regulatory Commission (CSRC), the No. [2012]145 of Notice on Further Implementation of Cash Dividend Distribution Affairs for Public Companies under Administration of Shanghai Area, company combined company situations and modified partial contents of the Articles of Corporation to further enhance awareness of making returns for stockholder. Also, company further define the profit distribution policies, especially the decision making procedure of cash dividend distribution

policies, mechanism and details, all of which have been audited and approved at the first temporary meeting of stockholders held on the 27<sup>th</sup> Dec., 2012.

During the report period, the company strictly complied with the dividend distribution policies stipulated in the Article of Incorporation. Through the audit of BDO China Shun Lun Pan Certified Public Accountants LLP, the company achieved the consolidated net profit of RMB 108,105,257.91 in 2013, of which, the net profit attributable to parent company owners is RMB 79,552,024.19. According to the provisions in the articles of incorporation, before withdrawing the legal accumulation fund, the company should first cover the deficit with the profit of the year. As the profit of the year failed to make up the annual losses of previous years, the company did not draw the legal accumulation fund. The current-period net profit of the parent company is RMB 27,693,840.87, added with the undistributed profit of -364,229,319.60 at the beginning of 2013, the practical profit available for distribution is RMB -336,535,478.73 at the end of this year. Considering the parent company profit available for distribution is negative, the profit distribution cannot be made in 2013, neither the transferring of capital accumulation fund into equities.

(2) If during the period of report, Mother Company made positive distributable profits but didn't submit cash dividend distribution proposal, company shall disclose reasons in details and declare utility and plan for undistributed profits.

√ Inapplicable

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

Unit: Yuan, Currency: RMB

Year of Dividend Distribution	Number Of Bonus Shares Per 10 Common Shares (Share)	Number Of Dividends (Taxes Included) Per 10 Common Shares (Yuan)	Number Of Shares Converted By Capital Reserve Per 10 Common Shares(Share)	Number of Cash Dividend (Taxes Included)	Net Profit Listed in the Dividend Annual Consolidated Statement Belongs to Stockholders of Public Company	Rate to the Net Profit in the Consolidated Statement Belongs to Stockholders of Public Company (%)
2013					79,552,024.19	
2012					41,686,253.70	
2011					112,665,111.88	

## 5. Situations of Company Performing Social Liabilities Actively

### (1) Situation of Performing Social Liabilities

Company insists on complying with laws and regulations as company basic operation principle, and focuses on mutual development of economic benefits and social benefits. In the year of 2013, company seriously complied with national laws, regulations and policies, operated business by legal requirements, paid taxes actively, controlled product qualities, given more employment chances, actively participated in charity donation and volunteer activities in Pudong District, supported development of local economy, and never behaved to destroy social economic development or environment protection.

# Chapter 5 Important Event

## 1. Significant lawsuit, arbitration and events doubted commonly by media

### (1) Lawsuits or arbitrations undisclosed by temporary announcement or with further follow-ups

Unit: Yuan, Currency: RMB

During report period									
Requestor Side	Responder Side	The Party bear joint liabilities	Type of lawsuit or arbitration	Basic situation of lawsuit (arbitration)	Amounts of the lawsuit (arbitration)	Whether lawsuit (arbitration) results in predicted liabilities or amounts	Lawsuit (arbitration) proceed situation	Lawsuit (arbitration) judgment and impact	Lawsuit (arbitration) judgment execution situation
Shanghai SG Import and Export CO., Ltd.	Shanghai Shuang Chong Bao Tailoring Machine Co., Ltd.		Bankruptcy liquidation	Company holding affiliates, the Shanghai Shuang Chong Bao Tailoring Machine Co., Ltd. fails to pay for the liabilities by the expiration date, namely, its total assets are less than the debts. By the Law of Bankruptcy in the People's Republic of China it's liquidation leader, Shanghai SG Import and Export CO., Ltd. applied for bankruptcy procedure in 2012.			Since the debtor, Shanghai Shuang Chong Bao Tailoring Machine Co., Ltd., has assets less than bankruptcy expenses, it received the paper of intermediate order of civil actions <2013> NO.9-7 issued by the People's Court of Shanghai Pudong District on the 3 <sup>rd</sup> Mar., 2014, in which the court announced the judgment on termination of bankruptcy procedure for Shanghai Shuang Chong Bao Tailoring Machine Co., Ltd.	Shanghai Shuang Chong Bao Tailoring Machine Co., Ltd. has a registered capital of RMB 12,000,000 Yuan, of which company has 70% of the stock shares and 90% voting power, and its initial capitalized costs are RMB 10,800,000 Yuan. The company production is completely stopped since 2007, and it has withdrawn depreciation losses in full amounts for the equity investment in the past years. During the report period, company is excluded in the company consolidated	



								statement.	
--	--	--	--	--	--	--	--	------------	--

2. Capital occupied and debt pay-off situations in the report period

√ Inapplicable

3. Bankrupt and reforming events

Company has no bankrupt or reforming events this year.

4. Assets transaction and business merger events

(1) Company acquisition, assets sales and business merger events have been disclosed in the temporary announcement, and have no follow-up changes.

Event introduction and type	Inquiry index
Assets acquisition: SG Europe acquired Germany PFAFF Company acquired 100% stock shares of PFAFF via the affiliates in Europe, and implemented one-package investment plan counted of 24,100,000 Euro dollar (converted into RMB 200,000,000 Yuan).	Details refer to the No. 2013-010 & 011 announcements on the Shanghai Securities and Hong Kong Commercial Daily and Shanghai Stock Exchange website ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ) published on the 6 <sup>th</sup> Mar., 2013, and the No. 2013-018 announcement published on the 25 <sup>th</sup> Mar., 2013.
Assets acquisition: SG Europe acquired Germany Kelman and affiliated companies Company invested in the Germany Kelman and affiliated companies via affiliates in Europe, of which the total investments is about 30,120,000 Euro dollar (converted into RMB 250,000,000 Yuan), for development of automatic tailoring work station business including the 3D tailoring technology.	Details refer to the No. 2013-01028 & 030 announcements on the Shanghai Securities and Hong Kong Commercial Daily and Shanghai Stock Exchange website ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ) published on the 9 <sup>th</sup> Jul., 2013, and the No. 2013-032 announcement published on the 25 <sup>th</sup> Jul, 2013.

(2) Situations undisclosed by temporary announcement or with follow-up events

1. Assets acquisition

Unit: 10,000 Yuan, Currency: RMB

Counter part or final control party	Assets acquired	Acquisition date	Assets acquisition price	Net profits contributed to public company since the acquisition date	Net profits contributed to public company from beginning till end of this year (suitable for enterprise merger under same control)	If it is affiliate transaction? (if yes, explain the pricing principle)	Assets acquisition pricing principle	If property rights of all involved assets are transferred of names	If all debts involved are transferred?	Ratio of net profits the assets made for public company to the total profits (%)	Affiliate relations
Shanghai Suoying Real Estate Co., Ltd.	Shanghai Fengjian Real Estate Management Co., Ltd.	7 <sup>th</sup> March., 2014	178.0001			No	Open bidding	No	No		Sole subsidiary

By approval made at the 10<sup>th</sup> meeting of the 7<sup>th</sup> Board of Directors, company was listed in the Shanghai United Assets and Equity Exchange for transferring the 69% of Suoying Company at the end of Dec., 2013, and took

back its affiliate with sole investment (Shanghai Fengjian Real Estate Management Co., Ltd.) by paying the amounts of RMB 1,780,000 Yuan by open bidding in March, 2014. By the principle of substance over form, company didn't dispose the Shanghai Fengjian Real Estate Management Co., Ltd. but by merger to the consolidation in 2013. The trading price for Shanghai Fengjian Real Estate Management Co., Ltd. is recorded as deduction to the disposing revenues of Suoying Co., Ltd.

## 2. Assets sold-out

Unit: Yuan, Currency: RMB

Counterpart	Assets sold out	Sales date	Sales price	Net profits contributed to public company from beginning of this year till the sales date	Gains and losses in sales transaction	If it is affiliate transaction? (if yes, explain the pricing principle)	Assets sales pricing principle	If property rights of all involved assets are transferred of names	If all credits and debts involved are transferred?	Ratio of net profits the assets sales transaction made for public company to the total profits (%)	Affiliate relations
Shanghai Pudong Assets Operation Co., Ltd.	69% of stock shares of Suoying Co., Ltd.	26thDec., 2013	47,232,469.98	931,859.75	33,309,024.07	No	Open bidding	Yes	Yes	23.01	None

By approval made at the 10<sup>th</sup> meeting of the 7<sup>th</sup> Board of Directors, company was listed in the Shanghai United Assets and Equity Exchange for transferring the 69% of Suoying Company, all procedures are finished till 26th Dec., 2013. At the end of report period, Shanghai Suoying Real Estate Co., Ltd. shall not be included in the consolidated statement.

## 5. Company stock right incentives and impacts.

√ Inapplicable

## 6. Significant affiliate transactions

### (1) Affiliate transactions related to daily operation

#### 1. Affairs disclosed on temporary announcement, with further implementation progress or changes

Company held the 5<sup>th</sup> meeting of the 7<sup>th</sup> Board of Directors on the 24<sup>th</sup> Apr., 2013, at which the Proposal for Company Daily Affiliate Transactions was audited and approved. It is predicted that the electronic companies will sell commodities counted of RMB 40,500,000 Yuan to the affiliate party (Xerox Incorporation) in 2013.

in 2013, the actual sales sold from the electronic company to the affiliate part (Xerox Incorporation) were counted of RMB 40,550,000 Yuan, and labors provide to the affiliate part (Xerox Incorporation) are counted of RMB 200,000 Yuan.

## 7. Significant Contract and the Execution Situations

### (1) Trusteeship, contraction and rent

√ Inapplicable

### (2) Guarantee

Unit: 10,000 Yuan, Currency: RMB

Company external guarantee list (excluded those for subsidiaries)													
Guarantor	Relations of the guarantor to public company	Security party	Amount guaranteed	Guarantee date (agreement sign-off date)	Guarantee starting date	Guarantee expiration date	Type of guarantee	If guarantee is done	If guarantee is overdue	Guarantee overdue amounts	If counter-guarantee available?	If it is affiliate guarantee?	Guarantee relation
SGSB Group Co., Ltd.	Company headquarter	Shanghai Pudong (Group) Development Co., Ltd.	11,560	9 <sup>th</sup> Jun, 2009	9 <sup>th</sup> Jun, 2012	9 <sup>th</sup> Jun, 2015	Joint liability guarantee	No	No	0	Yes	No	
SG (Europe) Holding Co., Ltd.	Subsidiary of sole investment	Germany Commercial Bank	4,672	31 <sup>st</sup> Jul., 2013	31 <sup>st</sup> Jul., 2013	30 <sup>th</sup> Nov. 2015	Guarantee for joint liabilities	No	No	0	Yes	No	
Guarantee amounts spent during the report period (excluded guarantee to affiliate company.)													16,232
Total balance of guarantee at the end of period (affiliate companies are not quailed.) (A)													16,232
Guarantee of company to affiliates													
Total guarantee amounts of subsidiaries in the report period													8,000
Total balance of guarantee to subsidiaries at the end of report period (B)													11,766
Company total guarantee amounts (including those to subsidiaries)													
Total guarantee amounts (A+B)													27,998
Ratio of total guarantee amounts to company net assets (%)													30.11
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)													0
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)													0

1. During the report period, company takes 100% stock rights of its subsidiary of Shanghai SG Butterfly Sewing Machine Co., Ltd., 80% stock rights of the Shanghai Butterfly Import and Export Co., Ltd. held by the SG Butterfly Sewing Machine Co., Ltd., and the real estate Located at No.190 of Shanghai-Yixing Road held by company, as counter-guarantee hypothecation subject matter for the guarantee of borrowings counted of RMB 115600000 Yuan to Shanghai Pudong Development (Group) Co., Ltd., with the guarantee period from 9<sup>th</sup> Jun., 2012 to 8<sup>th</sup> Jun., 2012.

2. In 2005, company issued the guarantee letter to FAG for house rent by DA subsidiary, with amounts less than \$5,300,000 dollar, and the guarantee period starts from 30<sup>th</sup> Jun., 2005 till 31<sup>st</sup> Oct., 2015. At the same time, SG (Europe) provide cash hypothecation counted to 635,000 Euro dollar and with similar time limit to FAG on the 30<sup>th</sup> Jun., 2005, so that FAG may guaranty the guarantee provided by the house lease-back between one of DA's affiliates .

3. On the 31<sup>st</sup> Jul., 2013, company, instead of SG (Europe) Holding Co., Ltd., applied short-term bank loans in Euro dollar (less than equivalent RMB counted of 80,000,000 Yuan) to the Communication Bank of China, Germany Frankfurt Branch, with one-year time limit. Method of guarantee is that the Communication Bank of China Shanghai Branch issued out financing guarantee letter, and company mortgaged RMB 4,000,000 Yuan and the industrial real estate located at the No.603 Shanghai Dapu Road to the Communication Bank of China Shanghai Branch.

4. SG (Europe) mortgaged the 1,200,000 shares of stock shares of the Duerkopp Adler to gain one bank guarantee letter values of 5,550,000 Euro dollar issued by the Germany Commercial Bank, while the guarantee time limit is two years and four month, as guarantee for second-phase acquisition of stock rights of Germany Kelman Co., Ltd. by the SG Europe.

### (3) Other significant contract

Company has no significant contract signed this year.

### 8. Commitment Execution Status

√Inapplicable

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

Unit: 10,000 Yuan; Currency: RMB

If change the accountant's firm?	No	
	Previous vendor	New vendor
Name of China domestic accountant's firm	BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP (special ordinary partnership)	BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP (special ordinary partnership)
Payment to the China domestic	75	75

accountant's firm		
Service life of China domestic accountant's firm providing audit services	7	7

	Name	Payment
Certified accountant's firm for internal control audit	BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP (special ordinary partnership)	30
Sponsor	Shenyin & Wanguo Securities Co.,Ltd.	100

During the report period, company has hired the BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP as company audit vendor for company annual financial statements and internal control systems this year. And this year is the 7<sup>th</sup> year for the vendor to provide financial audit, and the 1<sup>st</sup> year to provide internal control audit.

Company has paid financial audit expenses counted of RMB 750,000 Yuan, internal control audit expenses of RMB 300,000 Yuan and Other special audit expenses of RMB 100,000 Yuan to the BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP this year, including travelling fees counted of RMB 20,000 Yuan during the audit period.

During the reporting period , the company hired Shenyin Securities Co., Ltd. as the Company's sponsor, and paid one million RMB to the sponsor for the service.

10. Fine and correction situations of the public company, directors/supervisors/high management of the public company, stockholders holding stock shares above 5%, actual control party, acquirer

There are no inspection or administration fines, circulated criticism notice issued by the China Securities Regulatory Commission (CSRC ) or public blames made by the Security Exchanges to the public company, directors/supervisors/high management of the public company, stockholders holding stock shares above 5%, actual control party, acquirer this year.

11. Other significant event's note:

No significant events during the report period.

# Chapter 6 Changes in Share Capital and Shareholder Status

## 1. Changes

### (1) Changes in Share

#### 1.Changes in Share

Unit: Share

	Before		Change (+, -)					After	
	Number	Percentage(%)	New Share	Free Share	Shares Converted from Reserve	Others	Subtotal	Number	Percentage (%)
I.Restricted shares									
1. Stage Share									
2. SOE Shares									
3. Other Domestic Shares									
Including: Domestic Non-SOE Shares									
Domestic Natural Person Shares									
4. Foreign Shares									
Including: Foreign Legal Person Shares									
Foreign Natural Person Shares									
II. Unrestricted Shares	448,886,777	100						448,886,777	100
1. RMB Ordinary Shares	204,943,027	45.66						204,943,027	45.66
2. Domestically Listed Foreign Shares	243,943,750	54.34						243,943,750	54.34
3. Oversea Listed Foreign Shares									
4. Others									
II. Total Shares	448,886,777	100						448,886,777	100

## 2.Share Change Summary

No share change in the reporting period.

### (2) Restricted Share Change Summary

No restricted share change in the reporting period.

## 2. Security Issuing and Listing

### (1) Security Issuing during the last three years until the reporting date

No security issuing and listing in the last three years until the reporting date.

(2) Total share and shareholder change and asset and liability change

No total share number and share structure change caused by bonus issue and rights issue in the reporting period.

(3) Employee shareholding status

No internal employee share in reporting period.

3. Shareholder and Actual Controller Status

(1) Shareholder Number and Shareholding Status

Unit: Share

Total Shareholder Number at the End of Reporting Period	46511(A:18209;B:28302)		Total Number of Shareholders 5 Trading Days before Annual Report Disclosure Date	47530 (A:19027;B:28503 )		
Top 10 Shareholders						
Shareholder Description	Shareholder Status	Holdin g Percent age(%)	Total Shares Held	Changes in Report Period	Restr icted Share	Shares pledged or frozen
Shanghai Pudong New Area State-owned Property Monitoring and Management Committee	State	23.48	105,395,358	105,395,358	0	None
China Changcheng Capital Management	State	1.23	5,530,514	5,530,514	0	None
YUE LIYING	Domesti c Natural Person	0.67	2,990,000	2,990,000	0	Unknown
HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED-ACCOUNT CLIENT	Foreign Legal Person	0.52	2,330,700	2,330,700	0	Unknown
SHENYIN WANGUO NOMINEES (H.K.) LTD.	Foreign Legal Person	0.50	2,248,228	2,248,228	0	Unknown
Shanghai International Trust	State	0.44	1,965,210	1,965,210	0	No
GUOTAI JUNAN SECURITIES(HONGKONG ) LIMITED	Foreign Legal Person	0.42	1,882,836	1,882,836	0	Unknown
UBS CUSTODY SERVICES SINGAPORE PTE. LTD.	Foreign Legal Person	0.33	1,485,000	1,485,000	0	Unknown
Shanghai Sanmao Enterprise (Group) Co., Ltd.	Domesti c Legal Person	0.31	1,400,000	1,400,000	0	No
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign Legal Person	0.27	1,210,896	1,210,896	0	Unknown
Top 10 Unrestricted Shareholder						
Shareholder Description	Unrestricted Shares		Share type and number			
Shanghai Pudong New Area State-owned Property Monitoring and Management Committee	105,395,358		RMB Ordinary Share		105,395,358	
China Changcheng Capital	5,530,514		RMB Ordinary Share		5,530,514	

Management			
YUE LIYING	2,990,000	Domestically Listed Foreign Share	2,990,000
HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED-ACCOUNT CLIENT	2,330,700	Domestically Listed Foreign Share	2,330,700
SHENYIN WANGUO NOMINEES (H.K.) LTD.	2,248,228	Domestically Listed Foreign Share	2,248,228
Shanghai International Trust	1,965,210	RMB Ordinary Share	1,965,210
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	1,882,836	Domestically Listed Foreign Share	1,882,836
UBS CUSTODY SERVICES SINGAPORE PTE. LTD.	1,485,000	Domestically Listed Foreign Share	1,485,000
Shanghai Sanmao Enterprise (Group) Co., Ltd.	1,400,000	RMB Ordinary Share	1,400,000
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	1,210,896	Domestically Listed Foreign Share	1,210,896
Shareholder Relationship and Consistent Actions Notes	No relationship between the above shareholder is not known to the Company.		

## 4. Controlling Shareholder and Actual Controlling Party

## (1) Controlling Shareholder

## 1. Legal Person

Unit: Yuan, Currency: RMB

Name	Shanghai Pudong New Area State-owned Property Monitoring and Management Committee
Responsible Person and Legal Representative	Huang Guoping
Establishment Date	Sep. 1 <sup>st</sup> , 1996
Organization Code	00245606-0
Main Business	Assigned by Pudong Government, Shanghai, responsible for managing national property of Pudong New Area.

## (2) Actual Controlling Party

## 1. Legal Person

Unit: Yuan, Currency: RMB

Name	Shanghai Pudong New Area State-owned Property Monitoring and Management Committee
Responsible Person and Legal Representative	Huang Guoping
Establishment Date	Sep. 1 <sup>st</sup> , 1996
Organization Code	00245606-0
Main Business	Assigned by Pudong Government, Shanghai, responsible for managing national property of Pudong New Area.

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

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

# Chapter 7 Director, Supervisor, Officer and Employee Status

## 1. Share changes and compensation

### (1) Current and former director, supervisor and officer share change and compensation

Unit: Share

Name	Title	Gender	Age	Stating Date	End Date	Shares Beginning of Year	Share End of Year	Changes in the Year	Reason for the Change	Compensation Payable in the Reporting Term (10,000RMB, before tax)	Compensation Payable by Shareholders in the Reporting Term (10,000RMB)
Zhang Min	Chairman, CEO	Male	51	2012-12-27	2015-12-26	70000(B)	70000(B)			41	
Ma Minliang	Director, GM	Male	57	2012-12-27	2015-12-26	5520	5520			40	
Fang Haiyang	Director, DGM	Male	47	2012-12-27	2015-12-26					31	
Sungang	Director	Male	50	2012-12-27	2015-12-26					1	
Lu Yujie	Director	Male	43	2012-12-27	2015-12-26					1	
Baoqi	Director	Female	37	2012-12-27	2015-12-26					1	
Zhang Ping	Independent Director	Male	55	2012-12-27	2015-12-26					8	
Su Yong	Independent Director	Male	58	2012-12-27	2015-12-26					8	
He Hua	Independent Director	Female	50	2012-12-27	2015-12-26					8	
Xie Yushou	Supervisory Board Chairman	Male	60	2012-12-27	2015-12-26					0	
Ding Binhui	Supervisor	Male	49	2012-12-27	2015-12-26					0	
Zhuge Huiling	Supervisor	Female	45	2012-12-27	2015-12-26					29	
Chen Guolin	Supervisor	Female	51	2012-12-27	2015-12-26	2645(B)	2645(B)			19	
Xu Yuping	Supervisor	Male	51	2012-12-27	2015-12-26					13	
Li Jiaming	DGM	Male	53	2012-12-27	2015-12-26					31	
Zheng Ying	DGM	Female	48	2012-12-27	2015-12-26	1500、6300(B)	1500、6300(B)				
Li Xiaofeng	DGM	Male	39	2012-12-27	2015-12-26					44	
Zhang Jianguo	Board Secretary	Male	54	2012-12-27	2015-12-26					29	



Total	/	/	/	/	/	85,965	85,965	/	304
-------	---	---	---	---	---	--------	--------	---	-----

Zhang Min: Former GM of Shanghai Zanussi Electric Machinery Co., Ltd. ,GM, Chairman of Shanghai Shenbe Office Equipment Co. From July 2004, he has served as the Party Secretary, President and CEO of the Company and Chairman of the Supervisory Board of SG Europe ( Holdings ) Dürkopp Adler Corporation Limited and Duerkopp Adler Germany, Vice President of China Sewing Machinery Association. Chairman of the 7th Board of Directors of the company.

Ma Minliang: former Shanghai Maling Aquarius ( Group ) Co., Party Secretary and GM; Shanghai Light Industrial Equipment (Group ) Co., Ltd. Party Secretary and VP; Shembe Office Machinery Co., Ltd. Shanghai Party Secretary , Deputy GM, GM; July 2004 to September 2007, Vice Chairman and CFO of the Company. From September 2007, he started to serve as Managing Director and GM. and Deputy Party Secretary of the company and the Managing Director of the 7th Board.

Fang Haixiang: former Deputy GM of Shanghai Xiechang Feiren Co., Ltd., Chief Engineer. Since April 2008, he served as VP of the Company, and Mar. 2012, GM of Shanghai Shangong Butterfly Sewing Machine Co. Ltd. Managing Director and GM of the 7th Board.

Sun Gang: Risk Detection Department Manager, Risk Compliance Senior Manager of China Great Wall Asset Management. Since Mar. 2011, he served as the Great Wall Asset Management Corporation Shanghai Office Party Committee Member and Deputy GM. Director of the 7th Board.

Lu Yujie: former Operation Director and Controller of Shanghai International Group Asset Management Co., Ltd., current Investment Director. Director of the 7th Board.

Bao Qi: from Jul. 2008, General Counselor Shanghai Pudong Science and Technology Investment Co. Act; from Sep. 2012, Operations Director, Shanghai Pudong Technology Investment Co., Ltd. Director of the 7th Board.

Zhang Ming: Professor, Doctor Tutor with Shanghai University of Finance and Economics, Director of China Accounting Society, China Banking Accounting Society, Shanghai Accounting Association and Shanghai Cost Research Institute. Director of the 7th Board.

Su Yong: Professor with Business Management Department, Deputy Director of Fudan Oriental Management Research Center, Doctor Supervisor of Oriental, Vice Chairman of Shanghai Association of Productivity, Standing Director of Chinese Enterprise Management Research Association , Chinese Culture Research Association and Japan Oriental International Economics Association. Director of the 7th Board.

He Ye: former Deputy Secretary General, Vice Chairman and Secretary General, and Standing Vice Chairman of China Sewing Machinery Association, starting from Sep. 2011, he was appointed Chairman of Sewing Machinery Association. Director of the 7th Board.

Xie Yushou: former Deputy Director, Party Secretary of Pudong New Area Labor Management Center , Director Labor Department, Pudong New Area Labor Human Resource, Party Member, Deputy Director of Pudong New Area Labor and Social Security Bureau, Deputy Director Pudong New Area CPPCC Social and Legal Committee. Chairman of the 7th Supervisory Board.

Ding Huibin : former Chief Accountant with Shanghai Lujiazui Property ; from Aug. 2009, work in Director and Supervisor Center, Pudong New Area SAC. Supervisor of the 7th Supervisory Board.

Zhuge Huiling: from Sep. 2007 to Dec. 2012, Deputy GM of the Company, from Dec. 2012 Secretary of Discipline Committee of the Company. Supervisor of the 7th Supervisory Board.

Chen Guoling: former GM with Shanghai Shenbei Real Estate Development Co., Ltd. , Deputy GM, Union Chairman of Shanghai Fengjian Real Estate, Party Secretary, Deputy GM, Secretary Office Manager, Union Vice Chairman of Shangong Shenbei Mechanical Branch, since Dec. 2012 Company Union Chairman. Supervisor of the 7th Supervisory Board.

Xu Yuping: former Finance and Auditing Department Leader, Manager, Operation Deputy Manager of Shanghai Shenbei Office Equipment Co., Ltd., since Jan. 2012, Audit Department Deputy Manager of the Company. Supervisor of the 7th Supervisory Board.

Li Jiaming: former R&D Director, Deputy GM of Shanghai Shenbei Office Equipment Co., Ltd. , Site Manager of Shenbei Photosensitive Materials Factory, GM and Party Secretary of Shanghai Machinery Co., Ltd. Since Apr. 2008, VP of this Company.

Zheng Ying: Party Secretary, Deputy GM of Fuji Xerox Co., since October 2008, Deputy GM of the Company , and Executing Director of SG Europe ( Holdings ) Limited and German Dürkopp Adler Corporation.

Li Xiaofeng : former GM Assistant of the Company, GM of Shanghai Import and Export Co., GM of Shanghai Shangong Butterfly Sewing Machine Co. , currently GM with Dürkopp Adler Trading ( Shanghai ) Co., Ltd. , since Dec. 2012, he served as the Company VP.

Zhang Jianguo: former Party Secretary, Deputy DM of Fuji Xerox Co., since Aug. 2011 Secretary of the Board of Directors of the Company.

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

## 2. Current Former Director, Supervisor and Office's Employment Status

## (1) Employment with Shareholders

Name	Shareholder	Title	Starting From	End Date
Lu Yujie	Shanghai International Group Investment Management Co. Ltd.	Investment Director	2012-6-1	
Sun Gang	China Changcheng Investment Management Co., Shanghai Office	Deputy GM	2012-3-19	
Ding Binhui	Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission Supervisors Center	Professional Supervisor	2009-8-1	

## (2) Employment with Other Companies

Name	Company Name	Title	Starting From	End Date
Zhang Min	Shanghai Pudong Technology Investment Co., Ltd.	Director	2012-11-1	
Zhang Min	China Sewing Machinery Society	Deputy Director	2011-9-26	
Bao Qi	Shanghai Pudong Technology Investment Co.	Operation Director	2012-9-18	
Zhang Ming	Haitong Security Co., Ltd.	Independent Director	2008-5-6	
Zhang Ming	Shanghai Shenda Co., Ltd.	Independent Director	2010-5-24	
Zhang Ming	Tibet Haisike Pharmaceutical Group Co., Ltd.	Independent Director	2010-8-8	
Zhang Ming	Shanghai Jinqiao Export Processing Area Development Co., Ltd.	Independent Director	2011-6-2	
Su Yong	Shanghai Baoxin Software Co., Ltd.	Independent Director	2007-4-20	2013-4-16
Su Yong	Shanghai International Airport Co., Ltd.	Independent Director	2007-6-28	2013-6-27
Su Yong	Shanghai Youyi Co., Ltd.	Independent Director	2007-5-22	

Su Yong	Shanghai Jiahua Lianhe Co., Ltd.	Independent Director	2012-12-19	
He Ye	China Sewing Machinery Society	Chairman	2011-9-26	
Xie Yushou	Shanghai Pudong New Area Labor and Social Security Bureau		2000-9-1	

### 3. Compensation for Director, Supervisor and Officer

Decision Making Procedure for Director, Supervisor and Officer Compensation	Apply the regulation on Officers' Salary, in Company Performance Review and Salary Management Method.
Basis for Director, Supervisor and Officer Compensation	Apply PGZW 2010 284 Opinion on Salary Management of Officer Salary with Companies Directly under Pudong New Area and Company Performance Review and Salary Management Method issued by Shanghai Pudong New Area State-owned Assets Supervision and Administration Commission.
Director, Supervisor and Officer Compensation Payable	Compensation will be paid according KPI, according to independent director compensation standard and procedure approved by the shareholder general meeting.
Total Compensation at End of Reporting Period for Director, Supervisor and Officer	3.04 million RMB, before tax.

### 4. Director, Supervisor and Officer Changes with the Company

No Director, Supervisor and Officer changes with the Company during the reporting period.

### 5 Staff Condition of Parent Company and Major Subsidiary Companies

#### (1) Staff Condition

Population of serving staff in parent company	181
Population of serving staff in major subsidiary companies	444 (Excluding 1,508 staff in oversea holding companies)
Total population of serving staff	625
Population of retired staff who have to undertake expense in parent company and major subsidiary companies	0
<b>Professional Composition</b>	
Type of Professional Composition	Population of Professional Composition
Production Staff	262
Sales Personnel	79
Technician	42
Financial Staff	41
Administrative Staff	201
Total	625
<b>Educational Degree</b>	
Type of Educational Degree	Population (Person)
Postgraduate, undergraduate and above	104
Junior college	127
Technical secondary school	90
High school and below	304
Total	625

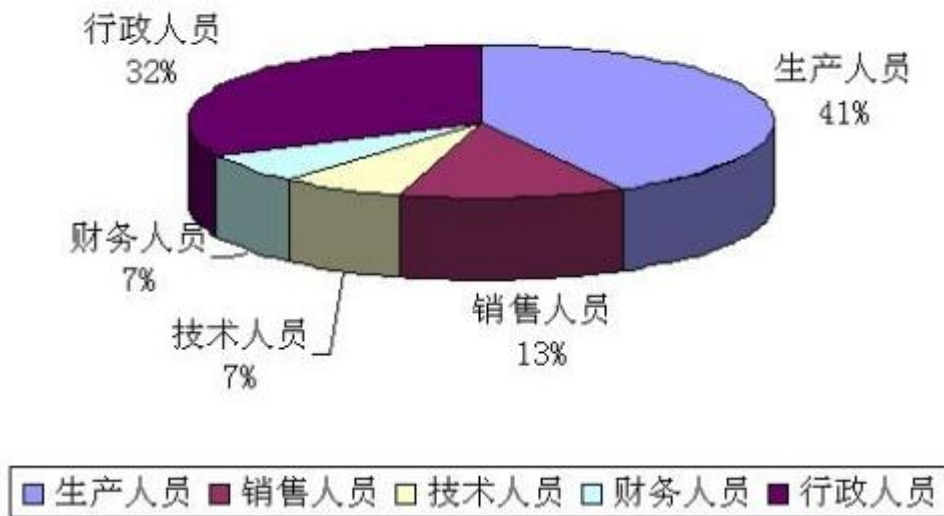
(2) Pay Policy

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

(3) Training Plan

According to the overall development strategy of the “12<sup>th</sup> Five-Year Plan”, the company carries out highly skilled technician training and professional technical force training in order to create a staff team with adaptability, innovation, improvement and execution abilities, and enhance the staff quality. In order to offer suitable human resources for the company to become an enterprise with sustainable development and competitiveness, the company has formulated all levels and various forms of training plans.

(4) Professional statistical chart:



Production personnel 41%

Sales personnel 13%

Technical personnel 7%

Financial personnel 7%

Administrative personnel 32%

(5) Education degree statistical chart:



Graduate and postgraduate and above 17%

Junior college 20%

Technical secondary school 14%

Senior high school and below 49%

# Chapter 8 Corporate Governance

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

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

### 1. Shareholders and Shareholders' Meeting

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

### 2. Controlling Shareholders and Companies

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

### 3. Directors and Board of Directors

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

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

### 4. Supervisors and Board of Supervisors

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

### 5. Information Disclosure and Transparency

The company appoints the secretary of the board to be responsible for the company's information disclosure, receiving investors' visit and consultation, and designates Shanghai Securities News and Hong Kong Commercial Daily to disclose the company's information. The company strictly abides relevant stipulations of information disclosure, effectively prevents selective information disclosure and occurrence of insider trading, and makes everything in a just, impartial and open way. The company can disclose relevant information truly, accurately, completely and timely according to relevant stipulations of laws, regulations and the Articles of Association to ensure that all the shareholders have the equal opportunity to gain information. During the report period, the company has revised the Information Disclosure Affairs Management System in order to enhance the company

internal control and further stipulate the company's information disclosure affairs management according to the stipulation of the Shanghai Stock Exchange on implementing direct business in information disclosure.

#### 6. About Investors' Relation and Related Interest Parties

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

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

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

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

During the report period, the company has revised the Articles of Association, Procedure Rules of Shareholders' Meeting, Procedure Rules of the Board of Directors, Procedure Rules of the Board of Supervisors, Management System of Related Transaction, Use Management Method of Raising Funds, Annual Report Work System of Independent Directors, Implementation Rules of the Board of Directors' Audit Committee, Management Method of Strategic Plan, Management System of Information Disclosure Affairs, and various regulations and systems to further perfect the corporate governance and normalize operation.

#### B. Brief Introduction to Shareholders' Meeting Condition

Meeting Sessions	Holding Date	Name of Meeting Proposals	Resolution Condition	Inquiry Index of Designated Website for Publishing Resolutions	Disclosure Date for Publishing Resolutions
1 <sup>st</sup> temporary shareholders' meeting in 2013	March 25, 2013	Proposal on purchasing and increasing the capital of Germany Pfaff by Shanggong Europe	All have been deliberated and approved	Shanghai Stock Exchange Website: : <a href="http://www.sse.com.cn">www.sse.com.cn</a>	March 26, 2013
Annual shareholders' meeting in 2012	June 18, 2013	I The annual work report of the board of directors in 2012; II The annual work report of the board of supervisors in 2012; III The annual financial work report in 2012; IV The annual profit distribution plan in 2012; V The proposal of annual borrowing plan in 2013; VI Proposal on offering	All have been deliberated and approved	Shanghai Stock Exchange Website: : <a href="http://www.sse.com.cn">www.sse.com.cn</a>	June 19, 2013

		<p>security limit for holding subsidiaries by the company in 2013; VII Proposal on making 2012 annual audit payment to the accounting firm by the company; VIII Proposal on employing 2013 audit institution by the company; IX Annual independent director's report on work in 2012; X Proposal on setting up Shanghai SGSB Electronics Co., Ltd.; XI Proposal on company's daily related transactions; XII Proposal on revising the Management System of Company's Related Transactions; XIII Proposal on revising the Use Management Method of Company's Raised Capital; XIV Proposal on revising the Procedure Rules of the Board of Supervisors.</p>			
2nd temporary shareholders' meeting in 2013	July 24, 2013	<p>I Proposal on approving Shangong Europe to make investment in Germany Kelman and its affiliated companies; II Proposal on borrowing money from banks by Shangong Europe; III Proposal on obtaining bank guarantees by Shangong Europe with its part of assets pledge.</p>	All have been deliberated and approved	Shanghai Stock Exchange Website: : <a href="http://www.sse.com.cn">www.sse.com.cn</a>	July 25, 2013
3rd temporary shareholders' meeting in 2013	August 20, 2013	<p>1. Proposal on complying with the condition of private stock offering; 2. Proposal on the scheme of private stock offering (vote item by item); 2.1 The category and face value of issuing stocks; 2.2 Issuing way; 2.3 Issuing quantity; 2.4 Issuing objective and subscription mode; 2.5 Pricing mode or price range; 2.6 Lock-in period of issued stocks this time; 2.7 Listing address; 2.8 Application of raising capitals; 2.9 Accumulated</p>	All have been deliberated and approved	Shanghai Stock Exchange Website: : <a href="http://www.sse.com.cn">www.sse.com.cn</a>	August 21, 2013



		undistributed profit arrangement before the issuance; 2.10 Validity of the issuance resolution; 3. Proposal on the plan of private stock offering (revised edition); 4. Proposal on fund-raising application feasibility analysis report of company's private stock offering; 5. Proposal on requiring stockholders' meeting to authorize the board of directors to have the full power to handle relevant issues of the private stock offering; 6. Proposal on illustration of the use condition of previous fund raised			
4th temporary shareholders' meeting in 2013	November 15, 2013	1 Proposal on transferring 69% stock right of Suoying Company; 2. Proposal on revising the Articles of Association and its attachment Procedure Rules of Directors' Meeting and Procedure Rules of the Board of Directors	All have been deliberated and approved	Shanghai Stock Exchange Website: : <a href="http://www.sse.com.cn">www.sse.com.cn</a>	November 16, 2013

C. 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	Attendance by telecommunication	Attendance by proxy	Absences	Two continuous absences	Attendances in Shareholder Meeting
Zhang Min	No	9	9	5		0	No	5
Ma Minliang	No	9	8	5	1	0	No	5
Fang Haixiang	No	9	9	5		0	No	5
Sun Gang	No	9	9	6		0	No	2
Lu Yujie	No	9	9	5		0	No	5
Bao Qi	No	9	9	5		0	No	3
Zhang Ming	Yes	9	9	5		0	No	2
Su	Yes	9	9	5		0	No	2

Yong								
He Ye	Yes	9	9	5		0	No	0

Number of Board Meeting within year	9
Including on-site meeting	3
meetings by telecommunication	5
On-site with telecommunication meeting	1

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

During the report period, the Independent Directors did not make objection against relevant affairs of the Company.

D. Important opinions and recommendations of the special committees under the Board during report period

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

E. Explanation by Supervisory Board on the risks of Company

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

F. 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.

G. Appraisal and incentive system for senior executives

The Company established the performance evaluation systems by which the income of senior officers was linked with their performance and operation objective. The remuneration and evaluation committee made evaluation on the senior officers according to 2013 operation situation, in combination with the respective duty fulfillment, business innovation and profit contribution of every senior officer and their yearly work, and in accordance with standards and procedures of performance evaluation.

# Chapter 9 Internal Control

## 1. Construction and perfection of internal control mechanism

In accordance with provisions of internal control regulations and systems of enterprise, to establish and perfect and effectively implement the internal control, appraise its effectiveness, and faithfully disclose the evaluation report for internal control were the duties of Board. The supervision commission was responsible to supervise the Board to establish and implement the internal control. The managers were responsible to lead the daily operation of internal control. The Board and the supervision commission and directors, supervisors, senior officers guarantee that there are no false record, misrepresentation, and/or major omission in the content of this Report, and they assume the joint and several responsibilities for truthfulness, accuracy and completeness of the content of this Report.

The objective of internal control of the Company was to reasonably guarantee that the operation and management of Company are in compliance with laws and regulation, its assets are safe, and its financial statements and relevant information are true and complete, to improve operation efficiency and effect, and promote and achieve the development strategies. Because of the inherent limit of internal control, the Company only could provide reasonable guarantees for the above-said objective. In addition, because the situation change can lead to the improper internal control, or not following the control policies and procedures to some extent, to project the effectiveness of internal control in the future according to the evaluation results on internal control took certain risks.

The evaluation of internal control of the Company was based on the Basic Regulations on Internal Control of Enterprise issued on June 28, 2008, and the Application Guidelines on Internal Control of Enterprise, Appraisal Guidelines on Internal Control of Enterprise and Internal Self-evaluation Systems of Enterprise issued on April 26, 2010, by the Ministry of Finance, China Securities Regulatory Commission, National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission.

According to identification on major defects in the internal control of the Company's financial statements, on the benchmark date of self-evaluation report of internal control, there were not major defects in the internal control of financial statements, and the Board believed that the Company had maintained the effective internal control of financial statements in all major aspects in accordance with requirements of regulations and systems of internal control of enterprise and relevant provisions.

According to identification on major defects in the internal control of the Company's financial statements, on the benchmark date of self-evaluation report of internal control, the Company did not find out major defects in the internal control of financial statements.

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.

For details of self-evaluation report of internal control, please see appendixes.

## 2. Internal control audit report

Appointed by the Company, Shulun Pan Certified Public Accountants Co., Ltd. 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.

For details of audit report for internal control, please see appendixes.

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

In accordance with relevant provisions of regulatory authorities and requirement of relevant internal control systems, such as Management Systems on Information Disclosure, etc., the Company reviewed and adopted the Systems for Accountability for Significant Errors in Information Disclosure in Annual Report at Sixth session of the Sixth Board Meeting on March 24, 2010.

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

## **Chapter 10 For Financial Statements, see appendixes.**

## **Chapter 11 For Reference**

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

SGSB Group Co., Ltd.

Chairman of Board of Directors: Zhang Min  
March 19, 2014