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**Private and Confidential**
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March 16, 2013

**Announcement of audit opinion**

**IMPORTANT NOTICE:**
**This letter is a courtesy translation of a letter in German language.**
**For any cases the German version of this letter shall be the binding version.**

Dear Ms Mast,

for implementation of the measures agreed upon with ShangGong (Europe) Holding Corp. GmbH in the Share Purchase Agreement of March 06, 2013 you need the current state of the financial statement and the management report of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern as of December 31, 2012 and requested from us, Warth & Klein Grant Thornton GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as statutory auditors of the financial statement and the management report of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern as of December 31, 2012, to inform you on the state of our audit works by announcing our audit opinion and sending you the corresponding draft.

In connection with this professional statement, Warth & Klein Grant Thornton GmbH & Co. KG shall only work as a statutory auditor of PFAFF Industriesysteme und Maschinen AG. In all cases of negligent breach of duty, the liability of Warth & Klein Grant Thornton GmbH & Co shall be exclusively governed by the provisions of section 323, sub-section 2, sentence 1 HGB [German Commercial Code]. With regard to the intended passing of this announcement to third parties the following applies:

In gaining knowledge of the content of this announcement in accordance with IDW PS 400 *Principles for audit opinions of financial statements*, Tz. 14, 103 any third party declares that such knowledge does not establish an agreement for the provision of information or any other obligations between Warth & Klein Grant Thornton GmbH & Co. KG and such party. Warth & Klein Grant Thornton GmbH & Co. KG waives the reception of a declaration of acceptance.

The third party is solely responsible for the use of the information contained in this announcement of opinion. Warth & Klein Grant Thornton GmbH & Co KG cannot be held responsible in case such information will not be sufficient for the purposes of a third party. If translations are provided, the German version of the text shall prevail.

PFAFF Industriesysteme und Maschinen AG, Kaiserslautern, and the financing banks agreed on deferment of interest payment and redemption rates until March 30, 2013. Further capital injections are essential to the company’s survival. To ensure the going concern and providing for the financial recovery of the company, an agreement has been signed with ShangGong (Europe) Holding Corp. GmbH, Bielefeld, on March 06, 2013.

Fulfilment of the conditions ("Closing Conditions") set out in section 4.1 of the agreement of March 6, 2013 ("Share Purchase Agreement") or an agreement between the parties to waive the fulfilment of such conditions is the prerequisite of the purchase of the shares of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern, by ShangGong (Europe) Holding Corp. GmbH, Bielefeld and for the implementation of the abovementioned financing measures committed by ShangGong (Europe) Holding Corp. GmbH Bielefeld and thus for the going concern of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern. The conditions ("Closing Conditions") set out in section 4.1 are as follows:

- Approval of the Bundeskartellamt [German Federal Cartel Authority]

- Banks’ approval of the financing concept

- European Commission confirmation of the validity of the banks’ approval

- Shareholders of SGSB Group Co. Ltd., China, approval of the transaction

In the draft of the financial statement and the management report of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern as of December 31, 2012 (version of March 15, 2013) being enclosed with this letter as Annexes 1 to 4 and Annex 5, the management board assumed the business operations to continue ("going concern"). Within our audit of the financial statement and the management report 2012, we are not yet able to decide about the admissibility of such going concern, as the conditions ("Closing Conditions") set out in section 4.1 of the agreement of March 6, 2013 ("Share Purchase Agreement") for the purchase of the shares of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern, by ShangGong (Europe) Holding Corp. GmbH, Bielefeld and for the implementation of the abovementioned financing measures committed by ShangGong (Europe) Holding Corp. GmbH Bielefeld are the prerequisite of such going concern and have not yet been fulfilled. As a consequence, a positive forecast cannot yet be guaranteed. Accordingly, it is not possible to render an audit opinion for that time being.

To complete our audit work and to announce an unqualified opinion as mentioned below we need evidence that the conditions ("Closing Conditions") set out in section 4.1 of the agreement of March 6, 2013 ("Share Purchase Agreement") have been fulfilled or that the parties waive such fulfilment.

On condition that we are given such evidence until completion of our audit and unless other facts relevant for our opinion become known to us until completion of our audit we intend to issue an unqualified opinion on the financial statement and the management report of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern as of December 31, 2012 enclosed with this letter in draft version as Annexes 1 to 4 and Annex 5 and anticipating the fulfilment of the condition set out in section 4.1 of the agreement of March 6, 2013 ("Share Purchase Agreement"), the unqualified opinion reads as follows:

„Announcement of audit opinion of the auditor:

We have audited the annual financial statements – comprising balance sheet, profit and loss statement and notes to the financial statements – together with the bookkeeping system and the management report of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern for the business year from January 1 to December 31, 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB [German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements, whether due to error or fraud, materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of PFAFF Industriesysteme und Maschinen AG for the business year from January 1 to December 31, 2012 comply with legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development."

Frankfurt am Main, ….“

Both the draft of our report as of March 16, 2013 (Annex A) and the announced opinion anticipate the fulfilment of the condition set out in section 4.1 of the agreement of March 6, 2013 ("Share Purchase Agreement").

Once more, we would like to point out the provisional character of the above announcement and the draft of the report (Annex A) which are both subject to the fulfilment of the conditions ("Closing Conditions") set out in section 4.1 of the agreement of March 6, 2013 ("Share Purchase Agreement") for the purchase of the shares of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern, by ShangGong (Europe) Holding Corp. GmbH, Bielefeld and for the implementation of the financing measures committed by ShangGong (Europe) Holding Corp. GmbH Bielefeld. In addition, we reserve the right to adjust our opinion and the report in the event of new facts relevant for our opinion becoming known to us until completion of our audit and having the effect that the prerequisites for issuing the opinion and the report in the mentioned wording will no longer be fulfilled, or in case the final version of the financial statement and the management report of PFAFF Industriesysteme und Maschinen AG does not comply with the draft enclosed herein as Annexes 1 to 4 and Annex 5.

Yours sincerely,

Warth & Klein Grant Thornton GmbH & Co. KG

Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| R. Binder<br>Auditor | A. Heitger-Schmidt<br>Auditor |

**This letter is intentionally not signed due to the fact that this letter is a courtesy translation of the German original which is duly signed as of March 16, 2013. Reference is made to the German original which prevails.**

**Enclosures:**

| | |
|---|---|
| **Annexes 1-4:** | **Draft of the financial statement of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern as of December 31, 2012 (Version of March 15, 2013)** |
| **Annex 5:** | **Draft of the management report of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern as of December 31, 2012 (Version of March 15, 2013)** |
| **Annex A:** | **Draft of the auditor's report on the audit of the financial statement and the management report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern** |

**PFAFF Industriesysteme und Maschinen AG**
**Kaiserslautern**

**Balance Sheet as of December 31, 2012**

**Draft as of March 15, 2013 of Financial Statements and Management Report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**

| A S S E T S | Dec. 31, 2012 € | Dec. 31, 2011 € |
|---|---|---|
| **A. Fixed assets** | | |
| **I. Intangible assets** | | |
| 1. Self-created industrial rights and similar rights and assets | 2,402,594.22 | 2,876,376.66 |
| 2. Acquired franchises, industrial rights and similar rights and assets and licenses in such rights and assets | 1,619,602.57 | 1,952,453.16 |
| | 4,022,196.79 | 4,828,829.82 |
| **II. Property, plant and equipment** | | |
| 1. Land, land rights and buildings, including buildings on third-party land | 19,188.52 | 17,126.86 |
| 2. Technical equipment and machines | 1,716,647.47 | 1,989,858.13 |
| 3. Other equipment, furniture and fixtures | 712,595.59 | 765,247.35 |
| 4. Payments on account and assets under construction | - | 114,045.00 |
| | 2,448,431.58 | 2,886,277.34 |
| **III. Financial assets** | | |
| 1. Shares in affiliated companies | 25,210.50 | - |
| 2. Other loans | 1,219,176.74 | 1,598,763.02 |
| | 1,244,387.24 | 1,598,763.02 |
| | 7,715,015.61 | 9,313,870.18 |
| **B. Current assets** | | |
| **I. Inventories** | | |
| 1. Raw materials, consumables and supplies | 3,461,548.30 | 2,981,991.03 |
| 2. Work in process | 3,507,037.90 | 3,265,977.60 |
| 3. Finished goods and merchandise | 1,372,231.55 | 1,499,867.95 |
| 4. Payments on account | 399,597.35 | 503,196.85 |
| | 8,740,415.10 | 8,251,033.43 |
| **II. Receivables and other assets** | | |
| 1. Trade receivables | 1,552,185.17 | 3,213,857.57 |
| 2. Receivables from affiliated companies | 890,923.04 | - |
| 3. Other assets | 195,692.47 | 685,023.15 |
| | 2,638,800.68 | 3,898,880.72 |
| **III. Cash on hand, Bundesbank balances, bank balances and checks** | 99,017.53 | 196,497.17 |
| | 11,478,233.31 | 12,346,411.32 |
| **C. Prepaid expenses** | 211,313.52 | 248,081.62 |
| **D. Deficit not covered by equity** | 7,000,494.02 | 1,935,903.19 |
| | 26,405,056.46 | 23,844,266.31 |

| E Q U I T Y  A N D  L I A B I L I T I E S | Dec. 31, 2012 € | Dec. 31, 2011 € |
|---|---|---|
| **A. Equity** | | |
| **I. Subscribed capital** | 200,000.00 | 200,000.00 |
| **II. Revenue reserves** | 10,588.83 | 10,588.83 |
| **III. Accumulated loss** | -7,211,082.85 | -2,146,492.02 |
| **IV. Deficit not covered by equity** | 7,000,494.02 | 1,935,903.19 |
| | - | - |
| **B. Accruals** | | |
| 1. Other accruals | 602,205.05 | 589,349.04 |
| **C. Liabilities** | | |
| 1. Liabilities to banks | 19,798,062.69 | 19,382,218.09 |
| - thereof with a term of up to one year: € 15,566,214.02 (prior year: € 14,499,460.60) | | |
| 2. Payments received on account of orders | 651,153.81 | 452,857.19 |
| 3. Trade payables | 2,949,859.36 | 2,082,512.92 |
| 4. Other liabilities | 1,434,359.55 | 1,337,329.07 |
| thereof for taxes: € 202,323.51 (prior year: € 223,372.97) | | |
| thereof for social security: € 2,327.38 (prior year: € 229,151.53) | | |
| | 24,833,435.41 | 23,254,917.27 |
| **D. Deferred tax liabilities** | 969,416.00 | - |
| | 26,405,056.46 | 23,844,266.31 |

**PFAFF Industriesysteme und Maschinen AG**
**Kaiserslautern**

**Profit and loss statement**
**for the period from Januar 1 to December 31, 2012**

**Draft as of March 15, 2013 of Financial Statements and Management Report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**

| | | 2012 € | 2011 € |
|---|---|---|---|
| 1. | Sales | 24,253,657.50 | 25,464,169.92 |
| 2. | Increase or decrease in finished goods and work in process | 102,036.07 | -320,179.53 |
| 3. | Own work capitalized | 370,028.00 | 999,165.70 |
| 4. | Other operating income | 1,146,653.59 | 637,048.85 |
| | - thereof from currency translation: € 44,284.89 (prior year: € 125,410.48) | | |
| 5. | Cost of materials | | |
| | a) Cost of raw materials, consumables and supplies and of purchased merchandise | 10,277,376.17 | 11,448,292.39 |
| | b) Cost of purchased services | 410,286.85 | 452,742.82 |
| | | 10,687,663.02 | 11,901,035.21 |
| 6. | Personnel expenses | | |
| | a) Wages and salaries | 9,422,779.26 | 10,044,366.34 |
| | b) Social security, pension and other benefit costs | 1,844,341.63 | 1,974,379.12 |
| | | 11,267,120.89 | 12,018,745.46 |
| 7. | Amortization, depreciation and write-downs | | |
| | a) on intangible assets and property, plant and equipment | 1,417,187.74 | 1,242,028.27 |
| 8. | Other operating expenses | 4,256,820.51 | 3,513,546.13 |
| | - thereof from currency translation: € 50,015.24 (prior year: € 122,825.90) | | |
| 9. | Other interest and similar income | 118,839.91 | 127,294.58 |
| | - thereof from affiliated companies: € 118,415.85 (prior year: € 127,018.06) | | |
| 10. | Interest and similar expenses | 1,512,483.20 | 1,534,957.21 |
| 11. | Result from ordinary activities | -3,150,060.29 | -3,302,812.76 |
| 12. | Extraordinary income | 47,601.27 | 185,963.16 |
| 13. | Extraordinary expenses | 990,082.53 | 20.00 |
| 14. | Extraordinary result | -942,481.26 | 185,943.16 |
| 15. | Income taxes | -969,750.28 | 72,570.44 |
| 16. | Other taxes | -2,299.00 | -3,380.63 |
| 17. | Net loss for the year | -5,064,590.83 | -3,047,679.79 |
| 18. | Loss carryforward (prior year: Profit carryforward) | -2,146,492.02 | 201,187.77 |
| 19. | Withdrawals from profit-and-loss-participation capital | - | 700,000.00 |
| 20. | Accumulated loss | -7,211,082.85 | -2,146,492.02 |

**Draft as of March 15, 2013 of Financial Statements and Management Report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**

**Annex 3**

## Notes to the Financial Statements for the Business Year 2012

### A. General Information

The annual accounts of PFAFF Industriesysteme und Maschinen AG were compiled in accordance with the legal regulations, particularly the accounting standards and valuation provisions of the HGB (German commercial code). In addition, the AktG-guidelines were observed (Corporation law). The profit and loss statement was compiled based on the total expenditure format.

The corporation is a medium-sized company with share capital as defined by § 267 para 2 HGB in conjunction with § 267 para 4 HGB.

Data that could be listed either on the balance sheet, the profit & loss statement or the Appendix are collectively listed in the Appendix.

### B. Accounting and Valuation Methods as well as Explanations regarding the Balance Sheet and the Profit & Loss Account

The annual accounts include all assets, debts, accruals, special items, expenditures and revenues, unless nothing else has been specified by law. Itemized assets have not been offset against itemized liabilities and expenditures have not been offset against revenues unless this is specifically required in accordance with § 246 HGB.

The valuations of the opening balance sheet of the business year correspond with those of the closing balance sheet of the previous business year. The valuation is based on the assumption that the proprietary activities would be continued. Assets and liabilities were valuated individually.

The valuation was done carefully, namely all foreseeable risks and losses that arose up until the balance sheet date, were taken into account, even if they only became known between the balance sheet date and the compilation of the annual accounts. Unless specifically required by law profits were only taken into account, if they were realized prior to the balance sheet date. Expenditures and revenues were taken into account regardless of the time of payment.

## ASSETS

### Fixed assets

The development of the individual items listed as fixed assets as well as the depreciations of the financial year are indicated in Annex 4.

During the financial year TEUR 249 in capitalized own work in process was written off, as the project was no longer pursued.

Intangible Assets

The acquired intangible assets were valuated at acquisition costs less the scheduled depreciations. The depreciations are done at the straight-line method as well as pro rata temporis.

The „Self-created industrial rights and similar rights and assets“ referred to the pro-rata capitalization of development costs that include new machines that are ready for production and market as well as their newly developed innovative technical product functions. Based on the currently known product life cycle ranging from 10 to 15 years we specified the depreciation period and the useful economic life to be 5 resp. 8 years. The valuation is based on the costs of the goods manufactured, the expenses incurred during the development in the form of direct material costs and manufacturing overhead expenses and taking into account the consumption of resources of the fixed assets.

The „Acquired franchises, industrial rights and similar rights and assets and licenses in such rights and assets" largely consist of product patents acquired from the insolvency estate of PFAFF Industriemaschinen AG i.I.. Due to the previously known product life cycles of 10 to 15 years we also specified the depreciation period and useful economic life with the newly registered patents to be 8 years.

The pro rata temporis valuation of the use of the brand name as part of the license agreement with the owner of the trade mark right VSM Group AB is also shown under “Acquired franchises, industrial rights and similar rights”. Since the brand name „PFAFF“ resp. „PFAFF Industrial“ will in the long run be of utmost importance for our company and the above mentioned license agreement will remain valid for at least 20 years, the depreciation period and useful economic life was specified to be 15 years.

Fixed Assets

The valuation was done at acquisition resp. production costs less scheduled depreciations based on the useful life. All capital additions were depreciated on a straight-line basis. For the production costs of the self-made systems the proportionate overhead expenses and depreciations as well as the traceable costs were taken into account.

The acquisition costs of movable commodities of the fixed assets up to a value of EUR 150.00 were fully written off during the acquisition year.

In accordance with the fiscal guidelines movable commodities of the fixed assets with an acquisition value between EUR 150.00 and 1,000.00 were posted in a compound item in the year they were acquired. This item is written off straight line over a period of 5 years.

Financial Assets

The financial assets were assessed at acquisition cost taking the lower of cost or market principle into account. The financial assets refer to the net book value of a loan resulting from an inventory sale and granted to JRB GmbH at the beginning of the year that was returned as scheduled.

Furthermore the shares on JRB GmbH were acquired in 2012.

**Current Assets**

Inventories

The raw materials, consumables and supplies as well as merchandise were valuated at acquisition costs which were determined by the purchasing prices from the moving average taking into consideration the strict lower of cost or market principle resp. balanced with the lower value to be attributed on the balance sheet day.

The finished goods and work in process were valuated at production costs in accordance with § 255 para. 2 sentence 2 HGB resp. the lower value to be attributed on the balance sheet day.

Receivables and other assets

These are valuated at their nominal value. Due to the general credit risk and taking into consideration the anticipated utilization of discounts a lump-sum adjustment of around 2% of the nominal value following the VAT-deduction was formed. This applies to domestic and foreign receivables. For individual known risks corresponding special provisions were made.

Receivables listed under other assets were assessed with no more than their nominal value.

All receivables have a remaining term of less than one year.

Prepaid expenses

This include a disagio with EUR 147,034.63 which has been dissolved since June 2010 at a monthly rate of EUR 1,980.83.

## EQUITY AND LIABILITIES

### Equity Capital

Share capital
The share capital in the amount of EUR 200,000.00 is fully paid in. It consists of 200,000 non par value shares.

Retained earnings

In the 2010 business year EUR 3,441.12 of the profit for the year were transferred to the retained earnings as a legal reserve. Thus the legal reserve has grown to EUR 10,588.83 effective the end of the 2010 business year which also matches the value at the end of the 2012 business year.

Jouissance right capital

During the previous year the jouissance right capital was EUR 700.000. Since this capital participates in any loss of the Company, it was already completely consumed in 2011. As agreed, it will be reinstated should there be future profits. A termination agreement was concluded with the owners of the jouissance rights which takes effect upon the payment of the agreed settlement.

Accumulated deficit

The accumulated deficit in the amount of EUR 7,211,082.85 includes a loss carried forward in the amount of EUR 2.146,492.02.

**Liabilities**

Accruals

The other accruals are assessed with their estimated amount repayable; all risks and uncertain obligations that have arisen prior to the date of the balance sheet and have become known prior to the day the balance sheet was prepared have been considered taking anticipated future price and cost adjustments into account. Substantial accruals among the other accruals are warranty obligations at TEUR 100, accruals for annual leave, flex time and overtime payment of the employees at TEUR 213, accruals for the workmen's compensation board at TEUR 84 as well as an accrual for the audit fees at TEUR 56.

Liabilities

The liabilities are basically assessed with the amount payable. The payment dates can be found in the payables/receivables aging report below.

Table of liabilities:

| | Total EUR | up to 1 year EUR | 1 to 5 years EUR | more than 5 years EUR | secured amounts EUR |
|---|---|---|---|---|---|
| Liabilities to banks | 19,798,062.69 | 15,566,214.02 | 3,179,953.39 | 1,051,895.28 | 19,798,062.69 |
| Payments received on account | 651,153.81 | 651,153.81 | 0.00 | 0.00 | 0.00 |
| Trade payables | 2,949,859.36 | 2,949,859.36 | 0.00 | 0.00 | 0.00 |
| Liabilities against related parties | 384,517.72 | 384,517.72 | 0.00 | 0.00 | 0.00 |
| Other liabilities | 1,049,841.83 | 1,049,841.83 | 0.00 | 0.00 | 0.00 |
| Sum | 24,833,435.41 | 20,601,586.74 | 3,179,953.39 | 1,051,895.28 | 19,798,062.69 |

All liabilities to banks are collaterized by a chattel mortgage of machines and equipment, a transfer of ownership by way of security of the warehouse, the pledging of patents, trademark right and the like as well as a blanket assignment of the receivables.

Liabilities in the previous years up to 1 year remaining term:

| | |
|---|---|
| Liabilities to banks | 14,999,460.60 EUR |
| Trade payables | 2,082,512.92 EUR |
| Payments received on account of orders | 452,857.19 EUR |
| Liabilities against related parties | 199,511.58 EUR |
| Other liabilities | 1,137,817.49 EUR |

Currency translations

As part of the initial valuation receivables and liabilities in foreign currencies are valuated at the currency rate applicable on the day of the business transaction. Losses resulting from currency fluctuations up to the balance sheet date are always taken into account; profits resulting from currency fluctuations are only taken into account when the remaining term is one year or less.

**PROFIT- AND LOSS STATEMENT**

The net sales are made up as follows:

| | **31.12.2012** |
|---|---|
| Sales domestic | 5,209,413.52 EUR |
| Sales EU | 7,612,624.99 EUR |
| Sales other countries | 11,670,945.47 EUR |
| Granted discounts | -239,326.48 EUR |
| | **24,253,657.50 EUR** |

The other operating income in the amount of TEUR 1,147 is mainly made up of costs in the amount of TEUR 147 that were passed on, transferred technology in the amount of TEUR 815, license fees in the amount of TEUR 54, the charge of the withdrawal from the consignment stock to Hong Kong in the amount of TEUR 54 and exchange profits in the amount of TEUR 44. In addition, income belonging to other accounting periods are included in the amount of TEUR 21.

The other operating expenses in the amount of TEUR 4,257 refer particularly to sales costs in the amount of TEUR 1,043, legal and consulting fees in the amount of TEUR 346, fees for services rendered by related parties in the amount of TEUR 257, travel expenses in the amount of TEUR 179, IT-expenses in the amount of TEUR 219, maintenance costs in the amount of TEUR 143, rental expenses in the amount of TEUR 419 as well as expenses belonging to other accounting periods in the amount of TEUR 251 that mainly result from writing off capitalized own work in progress.

The extraordinary result lists non-recurring income from GA-subsidies (joint task „Improvement of regional economic structure“ in the amount of TEUR 22 and non-recurring income from ZIM (central innovation program for mid-sized companies) in the amount of TEUR 25. The expenses in the amount of TEUR 990 refer to various consulting fees as part of the restructuring of the company.

The item income taxes mainly includes expenses resulting from the reversal of deferred tax assets.

## C. Contingent liabilities and other financial Commitments

There were no contingent liabilities on the balance sheet date.

Transactions not included in the balance sheet mainly consist of a rental contract that was rent-free until July 9, 2012. Thus the company gains advantages regarding the liquidity.

The total amount of other financial commitments that are not listed under guarantees refers to:

Commitments from rental/maintenance/leasing contracts in:

| In TEUR each due in | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| - Rent building | 605.7 | 589.1 | 589.1 | 589.1 | 589.1 |
| - License fees | 30.3 | 31.9 | 33.5 | 35.2 | 37.0 |
| - Rent office furniture and equipment. | 34.1 | 12.8 | 0.0 | 0.0 | 0.0 |
| - Maintenance contracts building | 108.9 | 11.9 | 3.5 | 0.0 | 0.0 |
| - Maintenance-/hotline-/support IT | 187.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Car leasing | 39.5 | 37.5 | 24.5 | 0.0 | 0.0 |
| Total | 1,006.0 | 683.7 | 650.8 | 624.3 | 626.1 |

Listed are the payable financial obligations until the expiration of the currently valid contractually required period within the above mentioned periods.

**Draft as of March 15, 2013 of Financial Statements and Management Report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**



**Other Information**

Information regarding transactions with related parties

During the 2012 business year the following transactions were concluded with related parties:

| | Principal partner board | Supervisory board | Afifiliated companies |
|---|---|---|---|
| | TEUR | TEUR | TEUR |
| Purchase of services | 0 | 71 | 279 |
| Purchase of products | 0 | 0 | 745 |
| Cost transfer of services | 0 | 0 | 180 |
| Sale of products | 0 | 0 | 3,372 |
| Interest loan | 8 | 0 | 0 |

This list includes all transactions that were concluded. The loan interest results from a shareholder loan granted in January 2012.

Costs for research and development

In the 2012 business year the costs for research and development totalled TEUR 1,862. Of those development expenses in the amount of TEUR 370 (this equates 20%) were capitalized as “Self-created industrial rights and similar rights and assets” based on firmly specified criteria (before depreciation). The capitalization was carried out in accordance with the criteria worked out for the previous and specified for the subsequent business years.

**Draft as of March 15, 2013 of Financial Statements and Management Report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**

**Annex 3**

Information regarding the disbursement block

According to § 268 para 8 HGB there is a disbursement block for corporations.

This results in the following arrangement in the balance sheet at the end of the 2012 business year:

| | | |
|---|---|---|
| + Capitalization of internally generated intangible assets | | + 2,402,594.22 EUR |
| ./. deferred tax liabilities | | ./. 969,416.00 EUR |
| + deferred taxes on the asset sides | | + 0.00 EUR |
| Subtotal (balance) | = | + 1,433,178.22 EUR |

Information regarding the deferred taxes on the asset side

The capitalization of Self-created industrial rights and similar rights and assets in the amount of EUR 2,402,594.22, the consideration of the GA-subsidy as fixed assets in the amount of 826,410.00 as well as unrealized revenue from currency conversions in the amount of EUR 2,382.00 result in a total of EUR 969,416.00 in deferred tax liabilities. The valuation of the deferred tax is based on a tax rate of 30%.

Number of employees during the 2012 business year

The number of employees per quarter and annual average was:

| | Average business year |
|---|---|
| • Administration: management | 2 |
| others | 60 |
| • Production | 147 |
| • Sales | 28 |
| Total | 237 |

Information regarding the members of the group of companies:

Until September 30, 2012 Mr. Joachim Richter, engineer, was a member of the board. He was removed from the trade register on October 5, 2012.

On March 6, 2012, Mrs. Cornelia Mast, a business economist, was entered as board member in the commercial register.

Mr. Jürgen Roth, lawyer, is chairman of the supervisory board, his deputy is Mr. Herbert Härtel, clerk (until September 12, 2012), Mr. Winfried Ott., Dipl. Physiker (master of science in physics; from September 12, 2012) and chief administrative officer of Kusel county Dr. Winfried Hirschberger were members of the supervisory board.

The declaration in accordance with § 285 no. 9 HGB was waived by the board based on § 286 para 4 HGB. For the 2012 business year remunerations in the amount of EUR 37,200 were granted to the members of the Supervisory Board, thereof EUR 13,600 were paid out.

Kaiserslautern,

____________________

The board

**PFAFF Industriesysteme und Maschinen AG, Kaiserslautern**

**Statement of Changes in Fixed Assets**
**for Fiscal Year 2012**

**Draft as of March 15, 2013 of Financial Statements and Management Report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**

| | Acquisition and production cost ("at cost") | | | | | Accumulated depreciation | | | | | Net book value | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. 1, 2012 | Additions | Disposals | Reclassifications | Dec. 31, 2012 | Jan. 1, 2012 | Additions | Disposals | Reclassifications | Dec. 31, 2012 | Dec. 31, 2012 | Dec. 31, 2011 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| **I. Intangible assets** | | | | | | | | | | | | |
| 1. Self-created industrial rights and similar rights and assets | 3,251,284.81 | 370,608.00 | 426,376.00 | 0.00 | 3,195,516.81 | 374,908.15 | 459,446.98 | 41,432.54 | 0.00 | 792,922.59 | 2,402,594.22 | 2,876,376.66 |
| 2. Acquired franchises, industrial rights and similar rights and assets and licenses in such rights and assets | 3,137,224.73 | 41,667.76 | 0.00 | 0.00 | 3,178,892.49 | 1,184,771.57 | 374,518.35 | 0.00 | 0.00 | 1,559,289.92 | 1,619,602.57 | 1,952,453.16 |
| **Sum Intangible assets** | **6,388,509.54** | **412,275.76** | **426,376.00** | **0.00** | **6,374,409.30** | **1,559,679.72** | **833,965.33** | **41,432.54** | **0.00** | **2,352,212.51** | **4,022,196.79** | **4,828,829.82** |
| **II. Property, plant and equipment** | | | | | | | | | | | | |
| 1. Land, land rights and buildings, including buildings on third-party land | 19,388.90 | 4,027.40 | 0.00 | 0.00 | 23,416.30 | 2,262.04 | 1,965.74 | 0.00 | 0.00 | 4,227.78 | 19,188.52 | 17,126.86 |
| 2. Technical equipment and machines | 2,879,919.48 | 11,596.00 | 0.00 | 114,045.00 | 3,005,560.48 | 890,061.35 | 398,851.66 | 0.00 | 0.00 | 1,288,913.01 | 1,716,647.47 | 1,989,858.13 |
| 3. Other equipment, furniture and fixtures | 1,225,664.79 | 129,753.25 | 0.00 | 0.00 | 1,355,418.04 | 460,417.44 | 182,405.01 | 0.00 | 0.00 | 642,822.45 | 712,595.59 | 765,247.35 |
| 4. Payments on account and assets under construction | 114,045.00 | 0.00 | 0.00 | -114,045.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 114,045.00 |
| **Sum Property, plant and equipment** | **4,239,018.17** | **145,376.65** | **0.00** | **0.00** | **4,384,394.82** | **1,352,740.83** | **583,222.41** | **0.00** | **0.00** | **1,935,963.24** | **2,448,431.58** | **2,886,277.34** |
| **III. Financial assets** | | | | | | | | | | | | |
| 1. Shares in affiliated companies | 0.00 | 25,210.50 | 0.00 | 0.00 | 25,210.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 25,210.50 | 0.00 |
| 2. Other loans | 1,598,763.02 | 0.00 | 379,586.28 | 0.00 | 1,219,176.74 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,219,176.74 | 1,598,763.02 |
| **Sum Financial assets** | **1,598,763.02** | **25,210.50** | **379,586.28** | **0.00** | **1,244,387.24** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **1,244,387.24** | **1,598,763.02** |
| | **12,226,290.73** | **582,862.91** | **805,962.28** | **0.00** | **12,003,191.36** | **2,912,420.55** | **1,417,187.74** | **41,432.54** | **0.00** | **4,288,175.75** | **7,715,015.61** | **9,313,870.18** |

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**Management Report**
for the financial year 2012
PFAFF Industriesysteme und Maschinen AG, Kaiserslautern

## A. Business and Business Environment

### Account of the Business Development

#### 1. Development of the Economy as a whole and the Industry

Never before did the German economy depend as much on exports as right now: In 2012 goods valued at almost trillion € 1.1 were exported; this corresponds to approximately 44% of the gross domestic product. At the same time the German share in world trade dropped. Thus the weak development in the EURO-zone contributed to the fact that Germany is now only the world's third largest exporting country behind China and the US. The crisis is not the only cause; the development in the EURO-zone has been weak for a decade. Although the countries of the European Union (EU) still remain the largest market for German exporters, they increasingly lose importance. On the other hand, trade with Asia and European non-EU countries such as Russia increases. The typical trade partners become less important. Whilst today the EU-share of German exports is at 57% seven percentage points lower than in 2000, the share of the EURO-zone dropped by eight percentage points to 37.5%.

PFAFF has been known in the market for decades and manufactures high-end sewing machines for the clothing, shoe and leather industry, the furniture and the automotive upholstery industry as well as for the field of technical textiles. The latest sewing and welding solutions with flexible process design are developed and manufactured as customer-oriented solutions – made in Germany.

Around the globe the situation in the market is marked by a cut-throat pricing competition. We counter this cut-throat competition with innovative and technologically sophisticated products with high customer value, high quality and reliability. Thus PFAFF products with a service life of more than 20 years can be found still working at our customers around the globe. In addition to the business with new machines and systems this results in a very interesting and lucrative service and spare parts business. Overall we create a versatile and strongly application-driven product range for our customers in various regions on all continents.

#### 2. Development of Turnover and Orders

In 2012 the pricing pressure within the industry remained high across all product lines. Our company as a small player in the market is not able to influence the market situation with our own resources.

Whilst keeping the manufacturer's suggested retail price for the end user at a steady level, we noticeably increased the prices for our dealer network in spring 2012 and considerably purged the rebate structure.

From the middle of the reporting year the demand for spare parts dropped significantly due to insufficient delivery dependability on our part. In light of the potentially high gross margin this development was particularly painful.

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The Chinese cooperation partner Golden Wheel who was supposed to supply PFAFF with basic merchandise (high-speed sewing machines) from the lower market segment as of early 2012 was not able to fulfil the technical requirements within the anticipated timeframe, so that during the financial year almost exclusively turnover resulting from in-house production was recorded in the profit and loss statement. Subsequently it was not possible to generate substantial amounts of the anticipated turnover with the merchandise and thus the profit margins.

At 24.2 M€ the annual turnover for 2012 is approximately 1.2 M€ less than that of the previous year and also fell short of the expectations for the financial year. Domestically 20 % of the turnover were generated, Europe contributed 31 % and the share of the regions outside Europe across all continents accounted for 49 %. This division of the markets matches the trend from the two previous years.

The overall performance of the company during the financial year came to 25.9 M€ with a 0.1 M€ increase in the stock of finished and unfinished products.

The other income amounted to 1,147 T€ and is largely made up of costs in the amount of 101 T€ that were passed on, transfer of technology in the amount of 815 T€, income from licensing fees in the amount of 54 T€, charges for removal from the consignment stock to Hong Kong in the amount of 54 T€ and exchange profits in the amount of 44 T€.

In 2012 the order situation has remained largely stable despite noticeable problems with the delivery dependability and significant price increases in early 2012. At the end of the business year the goods on order had a range of approx. 3 months. This fact clearly shows that the acceptance of PFAFF-products and the demand for them is still very high. There is a lot of potential for the company and this should be realized with the help of the restructuring concept.

### 3. Production

In the middle of the 2011 business year it already became evident that the decision to relocate the production of the Powerline product line completely to Kaiserslautern was unsound under cost accounting aspects. As a consequence we already reduced the scale of production considerably in 2011. This product line can only be feasibly manufactured in a low-wage region such as Asia. It has, however, have to be sufficiently supported by our experts.

In the future the production in Kaiserslautern will focus on products in the segment of highest technological sophistication in our industry. These include sewing automats, sewing systems as well as welding machines and welding systems particularly, however, the combination of various components using a specific manufacturing know-how to create so-called „Customized Solutions“. Potential customers for these highly sophisticated solutions are for example the automotive industry, filter manufacturers and medical technical companies.

The reliability associated with the PFAFF brand must be regained to revitalize the turnover generated by spare parts. To that end and as a first step we extracted those parts of particular economic importance (highest turnover ratio). The next step will be to purchase parts of lesser importance instead of manufacturing them. With these measures we want to regain the required reliability in this high-yield business.

## 4. Purchasing

In light of our great in-house production depth the basic development of the markets for raw materials and energy used to be of lesser importance for our acquisition expenses. An anticipatory optimization of the acquisition policy is supposed to absorb future price increases among others by framework contracts. Spare parts and upstream products that could be manufactured in sufficient quality in China, will in the future be sourced from there.

## 5. Investments

Following the high initial investments made in 2009 and 2010, but also as a consequence of the severely strained financial situation, the investment volume was largely limited to needed replacement investments. Administration and production are housed in a rental property. Due to a clause in the rental contract payments only had to be made from the middle of the 2012 business year.

## 6. Funding

During the reporting period the funding for the company was still based on loans by the consortium of banks made up by Kreissparkasse Kusel, Kreissparkasse Kaiserslautern and Stadtsparkasse Kaiserslautern as well as the jouissance right capital. In 2011 the overdraft facility granted by the consortium of banks was extended by 1.2 M€, supported by an additional performance guarantee of the state of Rheinland-Pfalz. Meanwhile this has been largely exhausted. During the first half of the business year the loans were repaid within the period prescribed. In September 2012 the consortium of banks at the company's request granted a deferral of the debt service due to the strained financial situation. Due to this moratorium, the rates for repayment for the third and fourth quarter 2012 were deferred until February 28, 2013.

## 7. Human Resources and Social Matters

At the board level of the company changes resulted insofar as a second board member for financial matters and HR was appointed effective March 1, 2012. At the end of September the board member who had been active since the company's establishment in 2009 resigned so that from October 1, 2012 the company is again led by just one board member. During the business year there were no noticeable fluctuations in the number of employees, however, key management positions (production director, sales director) were already replaced in late 2011 resp. early 2012 to have the required know-how available for the upcoming restructuring. In 2012 the company offered a total of 15 apprenticeship slots. There has been a works council since 2011. We continue to support our employee in creating their private retirement provisions. Moreover no noteworthy on-the-job accidents were recorded during the reporting year.

## B. Description of the Situation

Profit situation

During the reporting year the net sales dropped by 4.8% to M€ 24.2. The change in the stock of finished and unfinished products can be explained by the fact that parts are produced for the “Myanmar” bulk order. The position „other own work capitalized“ refers to capitalized R & D-costs for internally generated intangible assets in the amount of T€ 370 (previous year: T€ 999). In 2012 the other operating income increased to T€ 1,147 (previous year: T€ 638). The significant increase of the other operational income over the previous year is due to the sale of R & D- services to the Chinese cooperation partner Golden Wheel. Compared to the previous year the expenses for raw materials, manufacturing supplies and purchased goods dropped by T€ 1,171 to T€ 10,277. This drop largely resulted from the lower volume of business; furthermore new purchasing agreements with better terms and conditions were concluded. Due to the ongoing restructuring measures the expenses for purchased services dropped by another 9.2% in 2012 and amount to 410 T€ on the balance sheet date (previous year: 453 T€). In 2010 and to some degree in 2011 higher numbers of parts were sent to external companies for processing and then returned to PFAFF AG for finishing. This purely contracted service was further reduced in 2012 so that the external companies had to procure the parts themselves and PFAFF AG directly received the processed parts that are completely reflected in the cost of materials.

Compared to 2011 the other operational expenses increased by T€ 743 to T€ 4,257. This development is largely based on the rent that had to be added from mid-2012 and two required allowances for accounts that were formed due to differing interpretations of the law of the parties – one being an sales partner and the other one a supplier.

Since the jouissance right capital was completely consumed by the high loss in 2011, there was no compensation for the jouissance right capital in 2012 either (previous year T€ 0).

During the year under report the personnel costs dropped by 6% to T€ 11,267. This cost reduction resulted from the voluntary complete salary waiver and subsequent resignation of the then-board member Joachim Richter as well as the resignation of some staff members whose positions were not filled.

The extraordinary result in the amount of T€ -942 is made up of income resulting from public subsidies in the amount of T€ 47 as well as for expenses for the company’s restructuring in the amount of T€ 990. The restructuring costs mainly refer to consulting costs for process optimization and the search for investors.

During the business year a loss of T€ 5,065 was generated.

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**Management Report**
for the financial year 2012
PFAFF Industriesysteme und Maschinen AG, Kaiserslautern

Financial situation

During the financial year the company's balance sheet total increased by T€ 2,561 to T€ 26,405.

In the fixed assets-section the intangible and the fixed assets decreased by M€ 1.24 largely due to scheduled depreciations that were applied during the business year.

The financial assets in the amount of T€ 1,244 show the net book value of a loan granted in 2011 from the sale of inventory which is repaid on schedule as well as the JRB GmbH shares that were acquired in 2012.

The drop in trade accounts receivables and other assets in the amount of T€ 1,260 is mainly caused by reduced trade accounts receivables. A stringent claims management and the additional reduction of the due dates for payment resulted in a reduced capital lockup and thus helped the strained liquidity.

Compared to the previous business year the liabilities towards the credit institutions increased by M€ 0.4, the available credit-lines are nearly totally used.

The 2012 results are significantly outside the expectations mentioned in the 2011 management report. Since despite expectations to the contrary, merchandise turnover resulting from deliveries by our cooperation partner Golden Wheel could not be generated during the second half of 2012, significant losses in turnover and profit margin were inevitable. Additionally, one can only expect the numbers to recover after the required restructuring measures have been implemented. These measures can, however, only be started upon the influx of fresh funds which is why no turnaround could be initiated in 2012.

The year-end closing in accordance with the commercial law for December 31, 2012 shows a deficit of M€ 7.0 not covered by equity.

Due to the very high annual deficit during the previous year the jouissance right capital in the amount of T€ 700 was already completely consumed in 2011. In combination with the loss carried forward in the amount of T€ 2,146 this results in an accumulated loss of T€ 7,211 for the 2012 business year.

Financial situation

The cash flow from operating activities was negative in the amount of T€ 561. On the other hand there were positive cash flows resulting from investment activities in the amount of T€ 47 as well as from financing activities in the amount of T€ 417. The financial situation is as of the balance sheet date furtheron severely strained with little financial opportunities. Release is expected after contribution of new funds by the investor.

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**Management Report**
for the financial year 2012
PFAFF Industriesysteme und Maschinen AG, Kaiserslautern

## C. Events after the Balance Sheet Date

As a result of the negotiations with potential investors that took place in 2012, a term sheet was signed with the Chinese investor Shanggong which comprises the basic results of the negotiations. The strategy of the investor Shangong the agreement is based on shows in the view of the company some promising approaches and is suitable to successfully lead PFAFF into the future.

On March 6, 2013 a share purchase agreement for the sale of 100% of the shares of PFAFF Industriesysteme und Maschinen AG was concluded between Fundamenta VV GmbH, PFAFF Industriemaschinen AG and ShangGong (Europe) Holding Corp. GmbH located in Bielefeld.
In the Sales and Purchase Agreement the Purchaser agreed as part of the total investment volume of approximately Mio. € 24.0 to carry out a Share Capital increase from Mio. € 0.2 to Mio.€ 5.0. Using the provided capital the company will be enabled to finalize its substantial restructuring process and with the resulting recovery of competitiveness and success to permanently survive in the market. The Purchase Agreement dated March 6, 2013 has several closing condition which will be fulfilled shortly.

In order to not endanger the conclusion of the transaction, the financing credit institutions agreed to extend the deferral of the debt service by one month to March 30, 2013. The transfer of the shares to the new owner is supposed to be completed shortly.

In January 2013 a termination agreement was concluded with the owners of the jouissance right who in 2009 had made a total of T€ 700 in jouissance right capital to the company. This agreement takes effect upon the payment of the agreed settlement.

Beyond that no events of particular importance in the sense of § 289 para 2 no 1 HGB occurred.

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**Management Report**
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PFAFF Industriesysteme und Maschinen AG, Kaiserslautern

## D. Significant Risks and Rewards from the future Development

In light of the dimension of the restructuring tasks the company has been confronted with, the time and financial means have not been sufficient to handle the comprehensive and needed measures since the need for restructuring has been realized.

Due to the liquidity so far only cost-free measures could be implemented at the Kaiserslautern production facility which of course cannot bring about any significant turnaround. Following the entry of a new owner and investor, the corresponding liquidity will be available so that the restructuring measures will have to be consistently continued .The technologically sophisticated products “Made in Germany” listed in the product range could then be placed in the market at competitive prices in the foreseeable future while yielding market-driven margins.

Due to the new sales and production strategy machine classes that are under great pressure from the competition and thus pricing pressure will in the future be manufactured by a cooperation partner in Asia in accordance with German quality standards. With this course of action we will be able to offer competitive prices while at the same time achieving satisfactory margins in this segment as well.

A new sales concept that among others also provides for the close cooperation with sales partners around the world is currently being implemented and already proves successful. The participants already reached a consensus regarding further required restructuring measures. This was a requirement to work on the respective measures, particularly the upcoming comprehensive „Make or Buy“-decisions in the weeks and months to come.

In the mid- to long run we would like to develop from a mere sewing machine manufacturer to a provider of processing solutions for textile materials and leather. This way we will achieve a significant increase in customer value and thus conquer new industrial applications. Here PFAFF could find new customers e. g. in filter and medical technology, the packaging or the automotive industry.

The initial success stories in this field show us in somes cases completely new promising possibilites where customers are willing to pay considerably higher prices for our quality products with high customer value. To complete the restructuring the company requires additional significant injections of capital.

In mid-2012 the company informed the financing credit institutions that it had already initiated a restructuring of the company to increase the profitability and held promising talk with investors to build up the capital equity base, which resulted in the Share Purchase Agreement dated March 6, 2013 between Fundamenta VV GmbH, PFAFF Industriesysteme und Maschinen AG and ShangGong (Europe) Holding Corp. GmbH, with seat in Bielefeld.

To increase the chances for a successful reorganization by the entry of an investor, the banks declared their willingness to defer the payments for interest and principal to be made by the company at the end of the 3rd and 4th quarters for the loans and credit lines under certain conditions until February 28, 2013. This deferral was prolonged in 2013 until March 30, 2013. Among the requirements for the deferral of the payments for interest and principal was that all shares of the company were to be transferred from the previous sole shareholder to a trustee who was supposed to sell these shares and ensure the transaction in the event of an investor's entry. The trust agreement between Mr. Joachim Richter as trustor, Fundamenta VV GmbH and PFAFF AG was effectively concluded on October 11, 2012.

The trust is supposed to ensure that it is possible to promptly and flexibly react to market conditions during the restructuring process and that complex stock-corporation law-related structural measures such as the entry of an investor could be implemented promptly and professionally. Moreover the trust is supposed to ensure that the engagement of the credit institutions is primarily reduced by selling the shares in the company and or financial contributions of an investor to the company before any payments are made to the trustor.

Risk management

As explained in the company's risk management report, all perceivable risks the company is exposed to are rated based on their extent (low-middle-high) and the corresponding measures for the early detection resp. avoidance are described. In addition, there is a weekly Management Meeting during which the most important divisions of the company (sales, purchasing, development, quality management, controlling) report to the board on the current business development as well as opportunities and risks.

## E. Future Development

During the first 2 months of the 2013 financial year a turnover in the amount of M€ 5.1 could be generated. We anticipate a turnover of approximately M€ 32 and an EBIT of approximately M€ 0.6 for the full 2013 financial year. For 2014 we expect around M€ 37.8 net sales and an EBIT of around M€ 4.0. The aforementioned numbers are based on the business plan for 2013 to 2015 and include the successful implementation of the restructuring process as well as the establishment of a production facility in China which ensures the supply of merchandise in the shape of complete machines and parts at market-driven prices. Particularly due to the supply of low-priced parts from China as well as from affiliated production facilities in Eastern Europe the sophisticated products manufactured at the Kaiserslautern facility can in the future be offered at market-driven prices.

**Draft as of March 15, 2013 of Financial Statements and Management Report 2012 of PFAFF Industriesysteme und Maschinen AG, Kaiserslautern anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**

**Management Report**
for the financial year 2012
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## F. Dependency Report

Until the end of September 2012 Mr. Joachim Richter held the majority of the shares of Pfaff AG. As of October 1, 2012 Fundamenta VV GmbH, a trust company, holds the majority of the shares. The board therefore compiled a dependency report and submitted it to the auditor and the supervisory board. The report closes with the following declaration: „I as a member of the board herewith declare that Pfaff Industriesysteme und Maschinen AG received appropriate compensation for each legal transaction with affiliated companies. Measures as defined by § 312 AktG were neither taken nor omitted.“

Kaiserslautern, …

The board

Warth & Klein Grant Thornton

Appendix A

PFAFF INDUSTRIESYSTEME UND MASCHINEN AG,

KAISERSLAUTERN

**IMPORTANT NOTICE:**
**This report is a courtesy translation.**
**For any cases the German version of this report shall prevail.**

**Draft as of March 16, 2013 anticipating "Closing Conditions" as defined in Section 4.1 of the "Share Purchase Agreement" dated March 6, 2013**

Report on the

Audit of the annual financial statements and management report

for the year ended December 31, 2012

**C o n t e n t s**

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## I n d e x t o A p p e n d i c e s

## A. AUDIT ENGAGEMENT

By resolution of the shareholders's meeting on December 4, 2012 of

**PFAFF Industriesysteme und Maschinen AG,**
**Kaiserslautern**
(hereinafter „PFAFF AG“ or „Company“)

we, Warth & Klein Grant Thornton GmbH & Co. KG, Frankfurt am Main, have been elected as auditors for the financial year 2012.

Based on our proposal dated October 11, 2012 the supervisory board engaged us by letter dated December 4, 2012 to audit the annual financial statements for the financial year ended December 31, 2012 taking into account the bookkeeping and the management report.

In addition to that pursuant to section 313 AktG [“Aktiengesetz”: German Corporation Act] we were assigned to audit the report about relations to affiliated companies (dependent company report) for the financial year 2012, which has been prepared by the board of directors. Regarding this audit we also have prepared a separate audit report.

We conducted our audit in accordance with section 317 HGB and German Generally Accepted Standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Chartered Accountants in Germany], as laid down in the IDW Auditing Standards (IDW AuS).

Pursuant to section 321 paragraph 4a HGB we confirm that we observed the applicable regulations on auditor’s independence in our audit.

We have prepared the following report on the results of our audit. The audit report has been prepared in accordance with IDW AuS 450.

Execution of the engagement and the extent of our responsibility, also in relation to third parties, is governed by the “General Terms of Engagement for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften” of 01 January 2002 as issued by the IDW and by our particular requirements. These terms of engagement are included as Appendix to this report. The additionally enclosed English translation of the General Terms of Engagement is not legally binding. The extent of our liability is determined by section 323 paragraph 2 HGB. In relation to third parties No. 1 sec. 2 and No. 9 of these terms of engagement are relevant.

## B. BASIC FINDINGS

### I. Position of the Company

Pursuant to section 321 paragraph 1 clause 2 HGB we are required to take a position on the legal representatives' assessment of the position of the company, whereby the assessment of the company's continuance as a going concern and the opportunities and risks of the future development as set out in the management report are to be addressed in particular, insofar as the audited documents allow for such an assessment to be made.

The basis for our reporting on this matter is the legal representatives' assessment of the position of the company, insofar as this is documented in the management report. We have investigated the plausibility of the statements contained in the management report and their consistency to our findings made during the course of the audit. In accordance with professional regulations, we are not required to include our own forecasts and it is not our duty to make the individually required disclosures on the position of the company in place of the legal representatives.

The management report prepared by the company's legal representatives (board of directors) contains from our point of view the following key statements regarding the **economic position and the business performance including the company results**:

1. At 24.2 M€ the annual turnover/sales for 2012 is approximately 1.2 M€ less and also fell short of the expectations for the financial year. At the end of the business year the goods on order had a range of approx. 3 months.

2. During the financial year the balance sheet total increased by T€ 2,561 to T€ 26.405. The commercial Financial Statements for December 31, 2012 shows a deficit of m€ 7.0 not covered by equity.

3. Due to the very high annual deficit during the previous year the jouissance right capital in the amount of T€ 700 was already completely consumed in 2011. In combination with the loss carried forward in the amount of T€ 2,146 this results in an accumulated loss of T€ 7,211 for the 2012 financial year.

4. The financial situation is as of the balance sheet date furtheron severely strained with little financial opportunities. Release is expected after contribution of new funds by the investor.

Overall, it can be observed that the economic situation of the company during the past financial year has worsened in comparison to the previous year.

The key statements on the economic position and on the business performance have been sufficiently detailed in the management report. For further details we therefore refer to the management report, which is attached to this report as Appendix 5.

The management report of the company's legal representatives contains from our point of view the following key statements regarding the **opportunities and risks of the future development** of the company:

1. In light of the extent of the restructuring measures the company has been tasked with, time and financial means since the need for a restructuring was first understood did not suffice to implement the comprehensive and required measures. Due to the liquidity only cost-free measures could be implemented at the Kaiserslautern production facility. These, however, cannot result in a noticeable turnaround.

2. In the mid- to long term the company wants to evolve from a mere manufacturer of sewing machines to a solutions provider for processing textile materials and leather. This way the company is supposed to significantly increase the customer value and thus conquer new areas of industrial applications. Here PFAFF should be able to find new customers e. g. in the filter and medical technologies industries, the packing or the automotive industry.

3. In mid-2012 the Company informed the financing credit institutions that it had already initiated a restructuring of the company to increase profitability and was conducting promising talks with investors to build up the Company's capital equity base. To increase the chances for a successful reorganization by the entry of an investor, the banks declared their willingness to defer the payments for interest and principal to be made by the company at the end of the 3rd and 4th quarters for the loans and credit lines under certain conditions until March 30, 2013.

4. A requirement for the deferral of the payments for interest and principal was that all shares of the company were to be transferred from the previous sole shareholder to a trustee who was supposed to sell these shares and ensure the transaction in the event of an investor's entry. The trust agreement between Mr. Joachim Richter as trustor, Fundamenta VV GmbH and PFAFF AG was effectively concluded on October 11, 2012.

5. As a result of the negotiations with potential investors a term sheet which comprised the basic results of the negotiations was signed with the Chinese investor ShangGong in early January 2013. In the view of the Company the strategy of the investor Shanggong that formed the basis for the agreement indicates some very promising approaches and is suited to successfully lead PFAFF into the future. On March 6, 2013 the share purchase agreement covering 100% of the shares in PFAFF Industriesysteme und Maschinen AG was signed between Fundamenta VV

GmbH, PFAFF Industriesysteme und Maschinen AG and ShangGong (Europe) Holding Corp. GmbH located in Bielefeld.

6. During the first 2 months of the 2013 financial year a turnover in the amount of M€ 5.1 could be generated. The board anticipates a turnover of approximately M€ 32 and an EBIT of approximately M€ 0.6 for the 2013 financial year.

The key statements on opportunities and risks of the future development of the company have been sufficiently detailed in the management report. For further details we therefore refer to the management report, which is attached to this report as Appendix 5.

On the basis of the assessment of the economic position of the company which we have been able to derive from our findings obtained during our audit of the annual financial statements and the management report we have – insofar as the audited documents permit such an assessment – come to the conclusion that the legal representatives' assessment of the company, in particular concerning the going concern and the opportunities and risks of the future development of the company, appears appropriate.

## II. Facts impairing developement or endangering the going concern

PFAFF AG has been founded with the Articles of Association dated March 10, 2009. With contract dated March 26, 2009 the company acquired all essential assets from Pfaff Industrie Maschinen AG i.L., which opened insolvency proceedings as of January 1, 2009. Besides the assets the main staff was also taken over.

Financing of the company was carried out by loans given by a bank consortium, whereas the loans were guaranteed by the county of Rheinland-Pfalz and by Mr. Joachim Richter (sole shareholder until October 11, 2012).

PFAFF AG generated in the business yeas 2012 a net loss of T€ 5,065 and shows as of December 31, 2012 a deficit not covered by equity of T€ 7,000.

As of December 31, 2012 the Company is not overindebted in terms of corporate law (§ 19 InsO), since the management acts on the assumption that the Company will be continued in accordance with section 19 paragraph 2 clause 1 InsO.

The Company's liabilities are reflected as follows:

| | T€ |
|---|---|
| Long- and mid-term liabilities | 4,232 |
| | |
| Liabilities to banks | 4,232 |
| Thereof | |
| Remaining term of 1 to 5 years | 3,180 |
| Remaining term of more than 5 years | 1,052 |

| | T€ |
|---|---|
| Short-term liabilities (all due in less than one year) | 20,602 |
| | |
| Liabilities to banks | 15,567 |
| Payments received on account of orders | 651 |
| Trade liabilities | 2,950 |
| Liabilities against related parties | 384 |
| Other liabilities | 1,050 |

All loans granted by the consortium are guaranteed by Land guarantees and personal guarantees by Mr. Richter. The commitment of the banks depends on the state government's willingness to grant further guarantees.

As of December 31, 2012 the loans at the consortium amount to T€ 5,385. In 2012 the Company fulfilled its payment obligations for the 1st and 2nd quarters as scheduled. The consortium initially deferred the payments obligations for the 3rd and 4th quarters 2012 until February 28, 2013.

The short-term liabilities in the amount of T€ 20,602 are opposed by short-term assets in the amount of T€ 11,690. These are divided into inventories in the amount of T€ 8,741, receivables and other assets, liquid assets and active deferred income in the amount of T€ 2,949.

In 2012 the Company generated a negative cash flow in the amount of T€ -97. It is made up of the negative cash flow resulting from operating activities in the amount of T€ 561, a positive cash flow resulting from investment activities in the amount of T€ 47 as well as a positive cash flow resulting from financing activities in the amount of T€ 417.

For the 2013 financial year the Company anticipates a positive EBIT of around 4.0 Mio.€

Comprehensive restructuring programs which mainly target purchasing and the production process have been initiated to push the Company into the operative profit zone. In 2012 this resulted in extraordinary expenses in the amount of T€ 990.

As a result of the negotiations with potential investors in 2012 a term sheet which comprised the basic results of the negotiations was signed with the Chinese investor ShangGong in early January 2013. On March 6, 2013 the share purchase agreement covering 100% of the shares in PFAFF Industriesysteme und Maschinen AG was signed between Fundamenta VV GmbH, PFAFF Industriesysteme und Maschinen AG and ShangGong (Europe) Holding Corp. GmbH.

Since Mr. Richter's resignation in October 2012 Fundamenta VV GmbH has been managing all his shares in PFAFF AG as a trustee.

For further information we refer to the Company's explanations in the Management Report.

As specified in section 16 InsO in conjunction with section 17 resp. section 18 InsO such a situation requires regular checks whether proceedings according insolvency law must be taken.

All in all the continuation of the Company within the next 12 months is likely, but afflicted with the aforementioned uncertainties.

## C. SUBJECT, NATURE AND SCOPE OF THE AUDIT

### I. Subject of the audit

As the company exceeded the relevant size criteria in section 267 paragraph 1 HGB the audit has been a statutory audit.

The subject of our audit were the annual financial statements together with the accounting system and the management report of PFAFF Industriesysteme und Maschinen AG for the financial year ended December 31, 2012. The annual financial statements have been prepared on the basis of German HGB in connection with the relevant regulations of the AktG ["Aktiengesetz": German Corporation Act].

We have audited the annual financial statements taking into consideration audit evidence for the asset and liability items and compliance with the HGB regulations by making use of the relevant size-dependent conveniences for medium-sized corporations with regard to the recognition, valuation and classification of the financial statement items, for the required disclosures in the notes to the annual financial statements and the appropriation of profits. We have also audited compliance with the relevant regulations of the AktG. We have included the company's accounting records in our audit.

We have audited the management report on the basis of considering whether it is consistent with the annual financial statements and our audit findings and whether it provides an accurate impression of the position of the company. In this respect we have also audited whether opportunities and risks of future development have been sufficiently presented.

The company's legal representatives are responsible for accounting and for preparing the annual financial statements and the management report as well as for the representations they make to us. It is our responsibility, based on the audit performed by us, to form an opinion on the annual financial statements including the accounting records and on the management report.

We point out that audits for fraud and other specialised audits do not form part of an audit of annual financial statements. This applies in particular to the audit of compliance with regulations concerning taxation, pricing, competition, foreign exchange, social security law and the adequacy of insurance cover.

The audit of compliance with other regulations is only relevant to the audit of financial statements insofar as these regulations normally have an impact on the annual financial statements or the management report.

## II. Nature and scope of the audit

We conducted our audit in accordance with section 316 cont. HGB and German generally accepted standards for the audit of annual financial statements promulgated by the IDW. These standards require that we plan and perform the audit so that we can determine with reasonable assurance whether the accounting records, annual financial statements and management report are free from material misstatements. Evidence supporting the disclosures in the accounting records, the annual financial statements and the management report are examined on a test basis within the framework of the audit. The audit includes the assessment of the accounting principles used and significant estimates made by management, as well as the evaluation of the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

The audit was planned and performed by taking a risk-oriented approach. Based on this approach, we derived the nature and scope of the audit procedures to be performed from several criteria.

Within the risk-oriented approach we assessed the risk of material misstatements in the accounting due to fraud and error (= misstatement risk) regarding the presentation of business transactions or account balances and disclosures. The assessment of these risks was based on an analysis of the environment of the company (in particular industry specific factors) and management representations on significant corporate aims and strategies and on business risks (client specific factors). Furthermore, our provisional assessment of the company's position and the general assessment of the accounting-related internal control system were considered in the risk assessment.

Based on the risk assessment, we identified critical assertions and accordingly designed the audit programme which determines the nature and extent of tests of operating effectiveness of internal controls and of substantive audit procedures, the timing of their performance and the use of personnel.

We have determined the following audit key areas:

- Recognition of the revenues
- Proof and valuation of the inventories
- Valuation of internally generated assets
- Proof, integrity and valuation of the trade accounts receivable and payable
- Going concern

Our audit procedures included tests of effectiveness of the internal control system as well as analytical audit procedures and tests of detail. Within the tests of effectiveness of the internal control system with regard to the determined audit emphasis we performed tests of design and – as far as deemed necessary – tests of operation of the of the internal control system. The resulting findings were the basis of the determination of the nature and extent of analytical audit procedures and tests of single business transactions and balance sheet items (tests of detail).

We performed our audit procedures from February to March 2013 on the premises of the company and in our premises. We performed a pre-audit in December 2012 whose results are incorporated in this report.

The starting point of our audit were the assets, deferred expenses/income, liabilities, and capital accounts brought forward from the prior year as presented in the annual financial statements for the financial year from January 1, 2011 to December 31, 2011. The annual financial statements for the year ended December 31, 2011 were audited by us and an unqualified audit opinion was issued.

The legal representatives and named contact persons willingly provided us with all explanations and supporting documents requested. We also requested and have received a standard written letter of representation, in which the legal representatives confirm in writing, that all transactions which require recognition in the accounting records are reported in the book-keeping, that in the annual financial statements to be audited all assets, liabilities (obligations, risks etc), accruals and special items, expenses and income are included, that all required disclosures have been made, and that the management report includes all material aspects, including anticipated developments, that are significant for an assessment of the position of the company as well as all disclosures required by section 289 HGB.

# D. FINDINGS AND EXPLANATIONS TO THE ACCOUNTING

## I. Correctness of the accounting

The company's accounting records are maintained in a proper manner. In our opinion, based on the findings of our audit, the bookkeeping and the other audited documents comply with the statutory provisions and German principles of proper accounting throughout the reporting period. According to the results of our sample testing the information drawn from the additional audited documents is appropriately reflected in the accounting records, annual financial statements and management report.

The Company's annual financial statement for the financial year ended December 31, 2012 submitted to us were prepared in accordance with HGB as well as the German principles of proper accounting and the regulations of the AktG.

The balance sheet and the profit and loss account were duly derived from the accounting records and from the additional audited documents. The regulations regarding classifications, disclosure and valuation established for medium-sized companies have been observed.

The notes to the financial statements for the financial year ended December 31, 2012 are presented as Appendix 3. They comply with legal requirements. The details in the notes to the various positions of the annual financial statements and other disclosures made are provided correctly and completely.

According to section 286 paragraph 4 HGB the company did not disclose the officers remuneration pursuant to section 285 no. 9 characters a) and b) HGB. We confirm that the legal requirements for making use of the protection clause have been fulfilled.

In our opinion, based on the findings of our audit, the management report of PFAFF Industriesysteme und Maschinen AG for the financial year 2012 contains the disclosures pursuant to section 289 HGB. In detail, we make the following statements with regard to the management report which is attached as Appendix 5 to this report:

- According to our audit findings the course of the business (including the company results) and the position of the company are appropriately described; the management report is consistent with the annual financial statements and with our audit findings. The management report, as a whole, provides a true and fair view of the company's position.

- Our audit according to section 317 paragraph 2 clause 2 HGB has led to the result that the significant opportunities and risks of future development of the company are appropriately described and that the disclosures pursuant to section 289 paragraph 2 (possibly.: 4 and 5) HGB are complete and suitable.

Furthermore, we refer to our statements on the legal representatives' assessment of the company's position in section B.

The report of the board of directors concerning relations to affiliated companies (dependent company report) according to section 312 AktG is referred to and the final declaration was included in the management report.

## II. Overall view presented by the annual financial statements

### 1. Clients business

The corporate purpose of PFAFF AG is the manufacture and the sale of industrial systems and machines, particularly of industrial sewing and welding machines. Among the PFAFF AG customers are renown textile manufacturers who mainly have their products manufactured in emerging markets.

Beyond that we refer to the facts stated in section B II.

### 2. Statement on the overall view presented by the annual financial statements

In our opinion, based on the findings of our audit, the annual financial statements for the financial year ended December 31, 2012 comprising balance sheet, profit and loss account and notes to the annual financial statements as on the whole provide a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting.

### 3. Valuation principles and transactions with a significant impact

The internally generated intangible assets were capitalized at the cost of production resp. development in the amount of T€ 370 and are depreciated over 5 resp. 8 years. The management uses the existence of feasibility studies that staff members who work on a development have to submit at a certain stage in order to receive approval for a valid development project as effective date for the capitalization. The hours rendered by the developers are capitalized at an hourly rate of € 48,37. Additionally the material cost from project accounting that are incurred in conjunction with the projects are capitalized. 10% materials surcharge are applied to the material. The projects are assessed at 85% of the value that was determined that way to create a contingency reserve.

The net asset position, financial status and profit situation is influenced by numerous business ties to affiliated persons and companies. The resulting effects are presented in the annex listed as Appendix 3 in section „Information regarding transactions with related parties“.

Investments grants in the amount of T€ 48 (previous year: T€ 186) were booked as income.

For further description of the recognition and measurement principles (and the transactions which do not appear on the face of the balance sheet) we refer to the notes to the annual financial statements in Appendix 3.

The company has retained the recognition and measurement methods for the item of the annual financial statements used in the previous year. Therefore, in continuity to the previous year, recognition and measurement options have been applied consistently.

## 4. Supplemental comments to certain items of the annual financial statement

### 4.1 Financial position

The following overview depicts the combined balance sheet numbers as of December 31, 2012 in the order of their maturity and the economic condition and compared to the numbers of the previous year.

| | Dec. 31, 2012 | | Dec. 31, 2011 | | Variance | |
|---|---|---|---|---|---|---|
| **ASSETS** | T€ | % | T€ | % | T€ | % |
| Intangible assets | 4,022 | 20.7 | 4,829 | 22.0 | -807 | -16.7 |
| Property, plant and equipment | 2,449 | 12.6 | 2,886 | 13.2 | -437 | -15.1 |
| Financial assets | 1,244 | 6.4 | 1,599 | 7.3 | -355 | -22.2 |
| **Long-term assets** | 7,715 | 39.8 | 9,314 | 42.5 | -1,599 | -17.2 |
| Inventories | 8,740 | 45.0 | 8,251 | 37.7 | 489 | 5.9 |
| Trade receivables | 1,552 | 8.0 | 3,214 | 14.7 | -1,662 | -51.7 |
| Receivables from affiliated companies | 891 | 4.6 | 0 | 0.0 | 891 | - |
| Other assets | 197 | 1.0 | 685 | 3.1 | -488 | -71.2 |
| Cash/cash equivalents | 99 | 0.5 | 196 | 0.9 | -97 | -49.5 |
| Prepaid expenses | 211 | 1.1 | 248 | 1.1 | -37 | -14.9 |
| **short and medium-term assets** | 11,690 | 60.2 | 12,594 | 57.5 | -904 | -7.2 |
| **Total assets** | 19,405 | 100.0 | 21,908 | 100.0 | -2,503 | -11.4 |

Appendix A

| | Dec. 31, 2012 | | Dec. 31, 2011 | | Variance | |
|---|---|---|---|---|---|---|
| **Equity and liabilities** | T€ | % | T€ | % | T€ | % |
| Equity | -7,000 | -36.1 | -1,936 | -8.8 | -5,064 | 261.6 |
| Bank liabilities (long term) | 1,052 | 5.4 | 1,676 | 7.7 | -624 | -37.2 |
| **Long-term financing** | -5,948 | -30.7 | -260 | -1.2 | -5,688 | 2,187.7 |
| Bank liabilities (medium term) | 3,180 | 16.4 | 3,207 | 14.6 | -27 | -0.8 |
| **Medium-term financing** | 3,180 | 16.4 | 3,207 | 14.6 | -27 | -0.8 |
| other accruals | 602 | 3.1 | 589 | 2.7 | 13 | 2.2 |
| Bank liabilities (short term) | 15,567 | 80.2 | 14,499 | 66.2 | 1,068 | 7.4 |
| Payments received on account of orders | 651 | 3.4 | 453 | 2.1 | 198 | 43.7 |
| Trade payables | 2,950 | 15.2 | 2,083 | 9.5 | 867 | 41.6 |
| Other payables | 1,434 | 7.4 | 1,337 | 6.1 | 97 | 7.3 |
| Deferred tax liabilities | 969 | 5.0 | 0 | 0.0 | 969 | - |
| **Short-term financing** | 22,173 | 114.3 | 18,961 | 86.5 | 3,212 | 16.9 |
| **Total Equity and liabilities** | 19,405 | 100.0 | 21,908 | 100.0 | -2,503 | -11.4 |

## 4.2 Financial situation

The cash flow statement indicates the Cash flows from operating activities, from investment activities and from financing activities as well as the resulting changes in the cash and cash equivalents.

| **Cash Flow Statement** | 2012<br>T€ | 2011<br>T€ |
|---|---|---|
| Net result before extraordinary items | -4,122 | -3,234 |
| Amortization, depreciation and write-downs | 1,417 | 1,242 |
| Losses on disposals of fixed assets | 135 | 0 |
| Increase (+)/decrease (-) of accruals and provisions | 13 | -572 |
| Increase (-)/decrease (+) of inventories, trade receivables and other assets | 808 | 4,191 |
| Increase (+)/decrease (-) of trade payables and other liabilities | 2,131 | -53 |
| Cash flows from operating activities | -943 | 186 |
| **Cash flows from operating activities** | **-561** | **1,760** |
| Purchase of intangible assets | -162 | -1,006 |
| Purchase of property, plant and equipment | -145 | -261 |
| Acquisition of non-current financial assets | 354 | -1,599 |
| **Cash flows from investing activities** | **47** | **-2,866** |
| Cash proceeds from loans | 1,041 | 1,530 |
| Cash repayments of loans | -624 | -662 |
| **Cash flows from financing activities** | **417** | **868** |
| Change in cash funds | -97 | -238 |
| Cash funds at the beginning of  period | 196 | 434 |
| **Cash funds at the end of period** | **99** | **196** |

## 4.3 Profit situation

The table below indicates the Company's result situation for the 2012 financial year. Differing from the profit and loss statement, we combined the income and expenses items based on business aspects. The operating result includes expenses and income from operations. All other expenses and income are summarized in the neutral result.

| | 2012 | | 2011 | | Variance | |
|---|---|---|---|---|---|---|
| | T€ | % | T€ | % | T€ | % |
| Sales | 24,254 | 100.0 | 25,464 | 100.0 | -1,210 | -4.8 |
| Increase or decrease in finished goods and work in process | 101 | 0.4 | -320 | -1.3 | 421 | -131.6 |
| Own work capitalized | 370 | 1.5 | 999 | 3.9 | -629 | -63.0 |
| Other operating income | 1,045 | 4.3 | 474 | 1.9 | 571 | 120.5 |
| Cost of raw materials, consumables and supplies and of purchased merchandise | -10,277 | -42.4 | -11,448 | -45.0 | 1,171 | -10.2 |
| Cost of purchased services | -410 | -1.7 | -453 | -1.8 | 43 | -9.5 |
| **Gross profit** | **15,083** | **62.1** | **14,716** | **57.8** | **367** | **2.5** |
| Personnel expenses | -11,267 | -46.5 | -12,018 | -47.2 | 751 | -6.2 |
| Amortization, depreciation and write-downs | -1,417 | -5.8 | -1,242 | -4.9 | -175 | 14.1 |
| Other operating expenses | -3,954 | -16.3 | -3,251 | -12.8 | -703 | 21.6 |
| **Operating expenses** | **-16,638** | **-68.6** | **-16,511** | **-64.8** | **-127** | **0.8** |
| **Result from operating activities** | **-1,555** | **-6.4** | **-1,795** | **-7.0** | **240** | **-13.4** |
| **Finance result** | **-1,394** | **-5.7** | **-1,408** | **-5.5** | **14** | **-1.0** |
| extraordinary result | -943 | -3.9 | 186 | 0.7 | -1,129 | -607.0 |
| neutral result | -201 | -0.8 | -100 | -0.4 | -101 | 101.0 |
| **Result before tax** | **-4,093** | **-17.0** | **-3,117** | **-12.2** | **-976** | **31.3** |
| taxes on income | -970 | -4.0 | 72 | 0.3 | -1,042 | -1,447.2 |
| other taxes | -2 | 0.0 | -3 | 0.0 | 1 | -33.3 |
| **Net loss** | **-5,065** | **-20.9** | **-3,048** | **-12.0** | **-2,017** | **66.2** |

The composition of the neutral result can be found in the following table:

| | 2012<br>T€ | 2011<br>T€ |
|---|---|---|
| **neutral revenues** | | |
| exchange rate differences | 44 | 125 |
| reduction of allowances | 32 | 3 |
| subsidy | 1 | 25 |
| insurance indemnification | 4 | 3 |
| revenues relating to prior years | 21 | 7 |
| | 102 | 163 |
| **neutral expenditures** | | |
| exchange rate differences | 50 | 123 |
| donations | 0 | 1 |
| expenditures for insured claims | 2 | 2 |
| expenditures relating to prior years | 251 | 137 |
| | 303 | 263 |
| **neutral result** | **-201** | **-100** |

## E. REPETITION OF THE AUDITOR'S OPINION

We refer to our letter dated March 16, 2013 regarding the announcement of our Auditors´ opinion.