

# Summary of 2018 Annual Report of Shenzhen Textile (Holdings) Co., Ltd.

## 1. Important notes

The summary is abstract from full-text of annual report, for more details information, investors should found in the full-text of annual report that published on website of Shenzhen Stock Exchange and other website appointed by CSRC.

Other directors attending the Meeting for annual report deliberation except for the followed:

Name of director absent	Title for absent director	Reasons for absent	Attorney
Zhu Jun	Chairman	Working reason	Zhu Meizhu

Non-standard auditor's opinion

☐ Applicable ☒ Not applicable

Preliminary plan for profit distribution to the common shareholders or turning the capital reserve into the share capital for the reporting period, which has been reviewed and approved at the board meeting

☐ Applicable ☒ Not applicable

The Company has no plan of cash dividends carried out, bonus issued and capitalizing of common reserves either.

Preliminary plan for profit distribution to the preference shareholders for the reporting period which has been reviewed and approved at the board meeting

☐ Applicable ☒ Not applicable

## II. Basic information about the company

### 1. Company profile

Stock abbreviation	Shen Textile A, Shen Textile B	Stock code	000045,200045
Stock exchange for listing	Shenzhen Stock Exchange		
Contact person and contact manner	Board secretary	Securities affairs Representative	
Name	Jiang Peng	Li Zhenyu	
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## II. Brief introduction to the main business or products in the reporting period

### 1. Main Business the Company

The company's main business covered such the high and new technology industry as represented by LCD

polarizer, its own property management business and the retained business of high-end textile and garment

In the report period, no significant change happened to the main business of the Company. On one hand, the Company focused on promotion of the polarizer operation capacity, wherein it took measures of optimizing production process and product structure, tightening quality control and highlighting technology research & development among others, and shifted its priority from sales to selling profits in a strategically market-oriented way; on the other hand, it completed the construction and optimization of the Line 6 Project as planned, to be specific, In June 2018, it completed the technical transformation and test run of TFT-LCD and OLED polarizer Line 6 Project that was transferred to fixed assets and embarked on a mass production stage. With regard to optimization and promotion of the Line 6 Project, the Company completed the comprehensive acceleration of the first three processes--pre-processing, extension and coating, introduced shape grinding machines in the rear section of the production line in the first half of year and realized regular mass production in the third quarter, filling the Company's gap in the shape polarizer processing; thirdly, the Company took the initiative to boost construction of the jumbo TV polarizer industrialization project (Line 7) and completed the project approval, feasibility study and examination and approval work. Adopted at the General Meeting of Shareholders in August 2018 through deliberation, the Line 7 Project duly embarked on its construction in September 2018 and passed the EIA in December 2018. The plant and equipment design was optimized in the Line 7 Project on the ground of a significant technical support given by Nitto Denko in terms of production technology, plant design, and AGV path optimization among others; fourthly, to enhance management service and increase benefit of property management enterprises, the Company further intensified all the management service ideas of property management enterprises, took the initiative to cope with all the adverse effects of such factors as economic downturn and market depression on property leasing and management and increased the rental income with effort; fifthly, confronted with the sluggish traditional textile industry, the Company took the initiative to overcome such unfavorable effects as a rise in the cost of raw materials and labor and gave priority to order production through optimization of customer and product structure to bring the money-losing textile business into the black; sixthly, the Company tightened safety and environmental protection work, safeguarded enterprise harmony and stability, and kept giving a priority to safe and environment-friendly production to take the initiative to discharge its social responsibility while pursuing a green, health and sustainable development.

As a type of upstream raw materials of LCD panels and one of essential and fundamental materials in the panel display industry, polarizers are widespread used in a variety of areas, LCD panels and OLED panels for smart phones, tablet PCs and TV sets, instruments, apparatuses, sunglasses, and light filters of camera equipment, to name a few. At the moment, the Company has 6 mass polarizer production lines for making products that cover such areas as TN, STN, TFT, OLED, 3D, dye films, and optical films for touch screens and are primarily used in TV, NB, navigators, Monitor, vehicle-mounted, industrial control, instruments, apparatuses, smart phones, wearable equipment, 3D glasses, sunglasses and other products, based on which, the Company has become a qualified supplier to China Star Optoelectronics Technology (CSOT), BOE, Inovision Optoelectronics (IVO), Shenchao Optoelectronic, LGD, Tianma and other major panel enterprises through constant extension of its marketing channels and building of its own brand.

The Company's main products made in each polarizer production line and their application are as follows:

Line	Place	Product breadth	Planned capacity	Main products
Line 1	Pingshan	500mm	600,000 m <sup>2</sup>	TN/STN/ dye film
Line 2	Longhua	500mm	1.2 million m <sup>2</sup>	TN/STN/CSTN
Line 3	Longhua	650mm	1 million m <sup>2</sup>	TN/STN/CSTN/TFT
Line 4	Pingshan	1490mm	6 million m <sup>2</sup>	TN/STN/CSTN/TFT
Line 5	Pingshan	650mm	2 million m <sup>2</sup>	TFT
Line 6	Pingshan	1490mm	10 million m <sup>2</sup>	TFT/OLED
Line 7 (Under construction)	Pingshan	2500mm	32 million m <sup>2</sup>	TFT/OLED

## (II) Company's business model

The priority of the polarizer industry is gradually shifting from the conventional research & development-production-sales business model to the customer-oriented business model of joint research & development and full service. The Company reduced production links and costs and created value for customers and a win-win situation through cooperation by understanding customers' needs, making high-quality products through joint research & development and high-standard production management and using advanced polarizer rolling and attaching equipment in conjunction with downstream panel manufacturers' production lines.

## (III) Major factors for driving the Company's performance

Refer to "III. Analysis on core competitiveness" in this section for details.

(IV) Development stage and periodic characteristics of the industry where the Company is involved and the Company's position in the industry

Refer to "IX. Company's outlook for future development" in Section IV for details.

In the future, the Company will deepen driving the mixed-ownership reform work and strengthen strategic cooperation based on more than 20 years of industrial operation experience and regional advantages. To be specific, the Company will further optimize its equity structure, invigorate its operation and promote its production technology and business management standards through integration of resources in the polarizer and optical film industries; meanwhile, the Company will spare no effort to push forward the construction of an ultra-wide polarizer production line to occupy the highly lucrative jumbo LCD TV polarizer product market; in addition to working on the polarizer industry, the Company will make a leaping development towards the optical film industry to make SAPO Photoelectric a bigger and stronger enterprise.

### 3. Major accounting data and financial indicators

#### (1) Major accounting data and financial indicators for the last three years

Indicate by tick mark whether there is any retrospectively restated datum in the table below.

☐ Yes ☒ No

In RMB

	2018	2017	Changed over last year ( % )	2016
Operating income (RMB)	1,272,356,771.34	1,475,545,719.72	-13.77%	1,198,200,216.42
Net profit attributable to the shareholders of the listed company	-22,980,624.93	52,776,101.46	-143.54%	-87,270,604.54

(RMB)				
Net profit after deducting of non-recurring gain/loss attributable to the shareholders of listed company (RMB)	-65,404,429.81	3,140,446.26	-2,182.65%	-102,767,648.41
Cash flow generated by business operation, net (RMB)	-460,494,321.15	-28,518,702.31	-1,514.71%	-55,264,465.84
Basic earning per share(RMB/Share)	-0.04	0.100	-140.00%	-0.17
Diluted gains per share(RMB/Share)(RMB/Share)	-0.04	0.100	-140.00%	-0.17
Weighted average ROE(%)	-0.96%	2.23%	-3.19%	-4.10%
	End of 2018	End of 2017	Changed over last year ( % )	End of 2016
Gross assets (RMB)	4,619,203,416.79	4,195,746,507.56	10.09%	4,119,586,266.47
Net assets attributable to shareholders of the listed company (RMB)	2,373,329,991.86	2,397,474,603.79	-1.01%	2,339,554,176.31

## (2) Main Financial Index by Quarters

In RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	221,307,388.08	252,955,020.49	433,011,400.70	365,082,962.07
Net profit attributable to the shareholders of the listed company	5,616,717.00	4,030,259.15	2,621,782.96	-35,249,384.04
Net profit after deducting of non-recurring gain/loss attributable to the shareholders of listed company	-4,641,384.38	-6,175,930.54	-7,620,712.88	-46,966,402.01
Net Cash flow generated by business operation	-35,263,573.85	-93,587,315.59	-269,937,851.60	-61,705,580.11

Whether significant variances exist between the above financial index or the index with its sum and the financial index of the quarterly report as well as semi-annual report index disclosed by the Company.

√ Yes □ No

Operating income	First quarter	Second quarter	Third quarter	1-3 quarter in total
Disclosure amount	221,307,388.08	316,980,662.53	533,270,021.4	1,071,558,072.01
Audited Confirmed Amount	221,307,388.08	252,955,020.49	433,011,400.7	907,273,809.27
discrepancy	0	-64,025,642.04	-100,258,620.70	-164,284,262.74

### 4.Share capital and shareholders

(1) Number of holders of ordinary shares and preference shares with restored voting right and Top 10 shareholders

In shares

Total number of common shareholders at the end of the reporting period	36,891	Total shareholders at the end of the month from the date of disclosing the annual report	35,264	The total number of preferred shareholders voting rights restored at period-end(if any)(See Notes 8)	0	Total preferred shareholders at the end of the month from the date of disclosing the annual report(if any)(See Notes 8)	0
Shareholdings of top 10 shareholders							
Shareholders	Nature of	Proportion of	Number of	Amount of restricted shares held	Number of share		

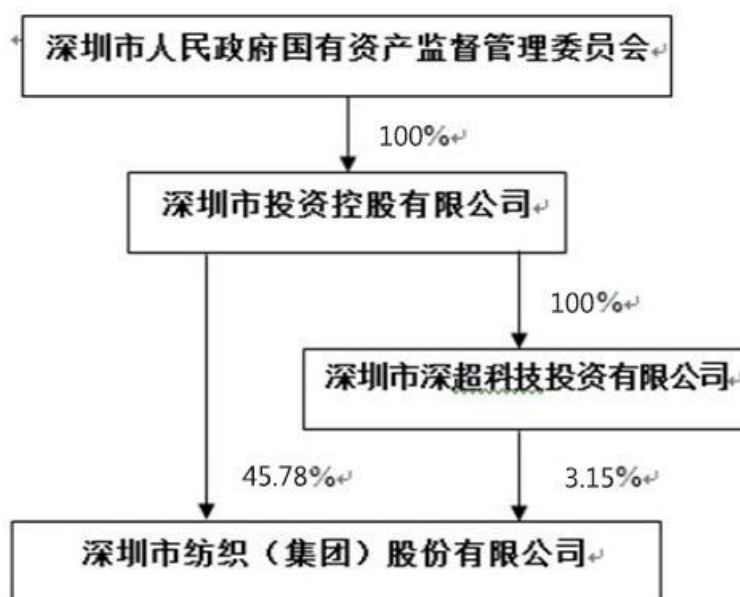
	shareholder	shares held(%)	shares held at period -end		pledged/frozen	
					State of share	Amount
Shenzhen Investment Holdings Co., Ltd.	State-owned legal person	45.78%	234,069,436	0		
Shenzhen Shenchao Technology Investment Co., Ltd.	State-owned Legal person	3.15%	16,129,032	0		
Fujian Bairui Jiayuan, Asset Management Co., Ltd. — Bairui Jiayuan Growth I Fund	Other	0.77%	3,934,035	0		
Sun Huiming	Domestic Nature person	0.62%	3,192,767	0		
Li Songqiang	Domestic Nature person	0.56%	2,873,078	0		
Zheng Junsheng	Domestic Nature person	0.36%	1,830,000	0		
Kuang Guowei	Domestic Nature person	0.28%	1,457,000	0		
Zhu Ye	Domestic Nature person	0.22%	1,131,945	0		
Li Zengmao	Domestic Nature person	0.20%	1,038,800	0		
Hong Fan	Domestic Nature person	0.20%	1,028,900	0		
Related or acting-in-concert parties among shareholders above	Shenzhen Shenchao Technology Investment Co., Ltd. is a wholly-owned subsidiary of Shenzhen Investment Holding Co., Ltd. and a person taking concerted action. Except this, the Company did not whether there is relationship between the top ten shareholders holding non-restricted negotiable shares and between the top ten shareholders holding non-restricted negotiable shares and the top 10 shareholders or whether they are persons taking concerted action defined in Regulations on Disclosure of Information about Shareholding of Shareholders of Listed Companies.					
Explanation on shareholders participating in the margin trading business(if any )	The Company Shareholder Fujian Bairui Jiayuan, Asset Management Co., Ltd. — Bairui Jiayuan Growth I Fund holds 3,954,735 shares of the Company through stock account with credit transaction; The Company Shareholder Li Songqiang holds 2,872,653 shares of the Company through stock account with credit transaction ; The Company Shareholder Zhu Ye holds 1,031,945 shares of the Company through stock account with credit transaction.					

## 2. Number of the preference shareholders and the shareholdings of the top 10 of them

☐ Applicable ☒ Not applicable

No preference shareholders in the reporting period

### 3.Relationship between the Company and its actual controller in the form of diagram



### 5. Corporation bonds

Corporate Bonds Indicate by tick market whether the Company has any corporate bonds publicly offered and listed on the stock exchange, which were undue before the date of this Report's approval or were due but could not be redeemed in full.

No

## III. Discussion and Analysis of the Management

### 1. Business Operation summary in the reporting period

Whether the company needs to comply with the disclosure requirements of the particular industry

No

In 2018, the economic environment change was intensified, and the Company was affected by unfavorable factors such as Sino-US trade friction, large exchange rate fluctuations, intensified market competition, high production unit consumption, poor product structure optimization, and the overall increase in production factors prices. The business situation of polarizer production and operation was not up to expectations.

In 2018, the Company realized the operating income of RMB 1,272.3568 million, a decrease of 13.77% over the same period of the previous year; the total profit recorded a loss of RMB 53.4231million, a decrease of 162.89% over the same period of the previous year; the net profit attributable to owners of the parent company recorded a loss of RMB 22.9806 million, a YOY decline of 143.54%. The main reasons for the Company's losses were: first, due to the adverse impact of the decline in the price of the display terminal during the reporting period, the sales price of polarizer for TV products of the Company declined; secondly, the project of Line 6 was still in the climbing stage after the project was put into production, resulting in a fixed cost of the product unit was relatively high, third, in the reporting period, due to the decline of the exchange rate of RMB against the Japanese yen, the purchase cost of imported raw materials increased, and the exchange loss increased; fourth, due to the decline in the selling price of the products during the reporting period, the provision for inventory falling price increased.

Facing the increasingly severe overall operation situation of polarizer and the weakening global economic situation under the trade protectionism, the Company faced up to the difficulties, overcame the difficulties, gave full play to its internal advantages, deepened and promoted the mixed-ownership reform work, and laid a solid foundation for further transformation and development of the Company. It optimized the product structure of traditional textile business to turn loss into profit; strengthened the management services of property-kind enterprises and improved the efficiency.

Review of the company's key works carried out in 2018 as follows:

(I) Polarizer's operating capability has been improved

In 2018, based on market-oriented, the Company optimized the product structure, expanded the panel product to high-value-added orders such as large-size and thin-form product, and shifted the emphasis from sales volume to sales profit, sped up the introduction and start-up of new projects. Meanwhile, it had comprehensively carried out high-profit machine verification work; second, focusing on technology research and development and the overall strategic deployment, it increased the research and development efforts in new products, new materials, production processes, etc.; third, optimized the production processes, improved the quality control, and controlled the inventory quantity by reducing product quality abnormality and improving the inventory turnover; fourth, actively strived for scientific research policy support funds. In 2018, a total of 50.84 million yuan of policy funding subsidies was attained.

Furthermore, the Company increased research & development of independent intellectual property rights. Throughout the year, the Company applied for 10 patents (including 4 invention patents and 6 utility model patents) and imported 1 PCT patent (utility model patent) into South Korea and Japan respectively. Till December 31, 2018, the Company applied for 91 patents in total (66 licensed), including 23 national invention patents (8 licensed), 61 national utility model patents (54 licensed), 1 international invention patent (0 licensed) and 6 international utility model patents (4 licensed). The Company studied and formulated 4 national standards and 2 industrial standards which have been adopted and put into practice. The Company has two technical platforms--"Shenzhen Polarizing Materials and Technology Engineering Lab" and "Municipal Research and Development Center" where focus is given to research & development and industrialization of key LCD polarizer production techniques, research & development and industrialization of new OLED polarizer products and research on localization of polarizer production materials. The Company raised its research & development standard in all respects by taking measures of introducing all types of precision testing equipment, improving methods of preliminary and pilot tests and research & development incentive system and building an "industry-university-research" integrated innovation platform among others.

(II) Enhancement of management services of property management and textile enterprises for the sake of benefit increase

In 2018, the Company further reinforced all the management service ideas of property management enterprises, handled all the adverse effects caused by economic downturn and market depression to property leasing and management in a scientific way, faced up to difficulty with courage, made great efforts in leasing operation to promote services and stabilize customers, carried out standardized management, enhanced correction of potential safety threats, elaborated management process, lowered disbursement and enhanced efficiency to increase the rental income.

Confronted the depression in the traditional textile industry, the Company took the initiative to overcome effects of such unfavorable factors as a rise in the cost of raw materials and labor and gave priority to order production through optimization of customer and product structure to bring the money-losing textile business into the black.

(III) Completion of construction and optimization of Line 6 Project as scheduled

In view of a certain decline in the price of 32-inch products at the polarizer market at the end of 2017, the Company optimized and promoted the main equipment in the Line 6 at the end of 2017, wherein the full acceleration of the first three processes stood out, filling the gap of the Company in shape polarizer processing. In June 2018, the Company completed the optimization, promotion and test run of the Line 6 Project that was transferred to fixed assets and embarked on a mass production stage in the third quarter.

(IV) Facilitated construction of jumbo TV polarizer industrialization project with effort

In 2018, the Company took the initiative to boost construction of the jumbo TV polarizer industrialization project (Line 7). In the first place, project approval, feasibility study and examination and approval were completed. Adopted at the General Meeting of Shareholders in August 2018 through deliberation, the Line 7 Project duly embarked on its construction in September 2018 and passed the EIA in December 2018. Secondly, the plant and equipment design was optimized in the Line 7 Project on the ground of a significant technical support given by Nitto Denko in terms of production technology, plant design, and AGV path optimization among others. Thirdly, a business unit was set up for the Line 7 Project where independent accounting and business management were implemented to push forward project construction with all the efforts.

(V) Tightened safety and environmental protection and safeguarding of enterprise harmony and stability

In 2018, the Company kept giving a priority to safe and environment-friendly production by adhering to the philosophy of safety overriding anything else. As always, the Company highlighted the safety and environmental protection work. Throughout the year, the Company invested RMB 18.71 million in adding and maintaining safe

and environment-friendly equipment, predominantly completed upgrading and transformation the waste water processing system and updating the RTO waste gas processing equipment in the Line 6 and updating and eliminating high liquor ratio dyeing equipment for Beauty Century among other work, and fulfilled 100% up-to-standard waste water and gas emission, 0 more-than-average environmental pollution accident and 0 environmental protection irregularity to practically perform its social responsibility.

(VI) Constant reinforcement of foundation and strengthening of primary Party building work

On the ground of implementing and putting into practice the spirit of the 19<sup>th</sup> National Congress of the Communist Party of China, the Company thoroughly carried out the Party's new deployment and demand for seeing Party self-governance exercised fully and with rigor, carefully fulfilled the entity responsibility of the Party Committee and supervision responsibility of the Disciplinary Inspection Commission, reinforced the system of "one post taking a dual responsibility", and implemented the *Party Building Responsibility Statement* to guarantee that the Party building work was put into practice; it pushed forward Party building system building and raised the standard of the normalization of the Party building work step by step; it took the initiative to explore and drive the Party building work in enterprises involved in mixed-ownership reform and guided corporate business development by Party building work.

## 2. Material change in principal activities during the reporting period

☐ Yes ☒ No

## 3. Products accounting for over 10% of revenue or profit from principal activities of the Company

☒ Applicable ☐ Not applicable

In RMB						
Name	Turnover	Operation cost	Gross profit rate(%)	Increase/decrease of revenue in the same period of the previous year(%)	Increase/decrease of business cost over the same period of previous year (%)	Increase/decrease of gross profit rate over the same period of the previous year (%)
Lease and Management of Property	98,327,018.46	42,185,793.46	73.72%	4.85%	15.84%	2.05%
Textile	47,188,632.17	687,575.76	12.92%	14.33%	140.62%	3.24%
Polarizer sheet	832,221,198.11	-113,277,631.27	4.07%	-2.27%	-522.35%	-5.29%
Trade	288,744,806.35	15,542,225.95	5.97%	-38.13%	103.04%	4.25%

## 4. Seasonal or cyclical operations requiring special attention

☐ Yes ☒ No

## 5. Significant YoY changes in the operating revenues, operating costs and net profits attributable to the common shareholders or their composition

☒ Applicable ☐ Not applicable

During the reporting period, the total net profit attributable to ordinary shareholders of the listed company is RMB-22,980,624.93, which was mainly due to the following factors: 1. The end sales of displayer shrank and the sales price fell, resulting in the Company's polarizer products' sales decline; 2. The Phase II of Line 6 project of TFT-LCD was still in the climbing stage after the project was put into production, resulting in a higher fixed cost of the product unit; 3. during the reporting period, the RMB exchange rate fell, and the purchase cost of imported raw materials increased, resulting in an increase in the variable cost of the product unit, and the exchange loss increased; 4. during the reporting period, it's expected that the decline in product prices may continue, and the provision for inventory falling price was increased due to the principle of prudence.



**6. Suspension in trading or delisting**

☐ Applicable    ☒ Not applicable

**7. Events relating to the financial report**

**(1) Particulars about the changes in aspect of accounting policy, estimates and calculation method compared with the financial report of last year**

☐ Applicable    ☒ Not applicable

There Company has no accounting policy, estimates and calculation method changed in the period

**(2) Major accounting errors within reporting period that needs retrospective restatement**

☐ Applicable    ☒ Not applicable

No major accounting errors within reporting period that needs retrospective restatement for the Company in the period

**(3) Compare with last year's financial report; explain changes in consolidation statement's scope**

☐ Applicable    ☒ Not applicable

No changes in consolidation statement scope in the reporting period

The Director of Board of Shenzhen Textile (Holdings) Co., Ltd.

April 27, 2019