

Shenzhen SDG Information Co., Ltd.

Auditor's Report

TZY ZI [2022] No. 24136

Table of Contents

Auditor's Report	1
2021 Financial Statements	7
Notes to the 2021 Financial Statements	19

Audit Report

TZY ZI [2022] No. 24136

All shareholders of Shenzhen SDG Information Co., Ltd.,

I. Audit Opinions

We have audited the Financial Statements of Shenzhen SDG Information Co., Ltd. (hereinafter referred to as “SDG Information”), including Consolidated and Parent Company Balance Sheets as at December 31, 2021, Consolidated and Parent Company Profit Statements, Consolidated and Parent Company Cash Flow Statements, Consolidated and Parent Company Statements of Changes to Shareholders’ Equity, and Notes to the Financial Statements as of 2021.

We believe that the attached Financial Statements are prepared pursuant to the provisions of the Accounting Standards for Business Enterprises (ASBE) in all significant aspects, fairly reflecting the consolidated and parent company financial status of SDG Information as at December 31, 2021, and the consolidated and parent company operating results and cash flows of SDG Information as of 2021.

II. Foundations for the Formation of Audit Opinions

We have executed the audit work according to the provisions of the Auditing Standards for Chinese Certified Public Accountants (CPAs). The part “CPAs’ Responsibilities for the Audit of the Financial Statements” in the Audit Report further elaborates our responsibilities under these Standards. In accordance with the Code of Professional Ethics for Chinese Certified Public Accountants, we are independent from SDG Information and have performed other responsibilities on professional ethics. We hold that the audit evidence we acquired is sufficient and appropriate, providing foundations for the issuance of audit opinions.

III. Key Audit Matters

Key audit matters are the most important ones for the audit of the Financial Statements for the current period according to our professional judgment. The response to these matters is in the context of the audit of the Financial Statements as a whole and the formation of audit opinions. We do not separately issue opinions on these matters.

Audit Report (continued)

TZY ZI [2022] No. 24136

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Chinese CPA

Beijing · China

(Project partner): HAN Yanguang (signature)

April 28, 2022

Chinese CPA HAN Yanguang (sealed)

Baker Tilly China Certified Public
Accountants (sealed)

Chinese CPA

(Project partner): YANG Yong (signature)

Chinese CPA YANG Yong (sealed)

Shenzhen SDG Information Co., Ltd.
Shenzhen SDG Information Co., Ltd.(Seal)
Audit Report
T.Z.Y.Zi [2021] No. 23796

Contents

Audit Report	1
Financial Statements 2020	6
Notes to Financial Statements 2020	18

Audit Report

To all shareholders of Shenzhen SDG Information Co., Ltd.:

I. Audit opinion

We have audited the accompanying financial statements of Shenzhen SDG Information Co., Ltd. (hereinafter referred to as “SDG Information”), including the consolidated and parent company's balance sheets as of December 31, 2020, and the consolidated and parent company's profit statements, consolidated and parent company's cash flow statements, and consolidated and parent company's statements of changes in shareholders' equity, and notes to financial statements of the year 2020.

In our opinions, the financial statements attached below, in all material respects, were prepared in accordance with the Accounting Standards for Business Enterprises, and gave a fair view of the consolidated and parent company's financial conditions of SDG Information as of December 31, 2020, and of its consolidated and parent company's operating results and cash flows of the year 2020.

II. Basis of audit opinion

We have conducted our audit in accordance with the Chinese CPA Standards on Auditing. “Certified public accountants’ responsibilities for audit of financial statements” in the Audit Report further describes our responsibilities under these Standards. In accordance with the China Code of Ethics for Certified Public Accountants, we are independent of SDG Information, and we have fulfilled our other ethical responsibilities. We believe that the audit evidences we have obtained are sufficient and appropriate to provide a basis for our audit opinion.

III. Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters should be handled against the background of overall audit on the financial statements and the formation of audit opinions. We do not provide a separate opinion on these matters.

Key audit matters	How the matter was addressed in the audit
(I) Recognition of revenues	
In 2020, SDG Information achieved the operating revenues of 4,722,428,257.52 Yuan, of which the main business incomes were 4,579,221,292.85 Yuan, accounting for 96.97% of the operating revenues. SDG Information mainly provided communication equipment, communication optical cable and power cable products to communication equipment manufacturers, telecommunications operators and power grid enterprises. Because revenue was one of the key performance indicators of SDG Information, the accuracy of revenues recognized had a great impact on the profits of SDG Information. Therefore, we identified the recognition of revenues as a key audit matter of SDG Information. Refer to Note III. (XXX) and Note VI (XL) of the Financial Statements for relevant information disclosure in detail.	We mainly implemented the following audit procedures for recognition of operating revenues: (1) We understood and evaluated the design and operational effectiveness of the management's key internal controls related to recognition of revenues; (2) We checked the contracts of key customers, analyzed and evaluated whether the policy for recognition of revenues actually implemented was appropriate, and reviewed whether the specific accounting policy for recognition of revenues was consistently implemented; (3) We implemented analysis procedures for revenues and gross profit margin to determine the rationality of sales revenues and gross profit margin; (4) We selected samples from the transactions recorded this year and implemented detailed test on the samples, checked the supporting documents, such as contracts, dispatch lists, settlement bills or statements and, evaluated the accuracy of revenues recognized in combination with the confirmation of revenues and accounts receivable; (5) We selected samples from the revenue transactions recorded before and after the balance sheet date and implemented cutoff test on the samples. We checked all sales return records after the balance sheet date and evaluated the completeness of revenue recognition and whether it is included in the appropriate accounting period.

Audit Report (Continue)

Key audit matters	How the matter was addressed in the audit
<p>(II) Impairment of goodwill</p> <p>Ended December 31, 2020, the book balance of goodwill of SDG Information was 511,969,240.77 Yuan and the amount of provision for impairment of goodwill was 10,035,404.26 Yuan. The ending book value of goodwill accounted for 4.73% of the ending balance of total assets.</p> <p>The management shall conduct an impairment test on goodwill at the end of each year. The results of the goodwill impairment test shall be determined by the management on the basis of the valuation report prepared by the external appraiser appointed by the management. The goodwill impairment test is carried out on the basis of the future discounted cash flow forecast prepared by SDG Information to estimate the recoverable amount of the asset group. The preparation of discounted cash flow forecast involves in the application of significant judgment and estimate, especially in combination with the realization situations of the current business and the reasonable judgment of future market to predict the income growth rate of revenues, sustainable growth rate and cost increase, and the existing inherent uncertainty and possible effect of management preference when discount rate is adjusted according to the risks determined. Therefore, we identified impairment of goodwill as the key audit matter.</p> <p>Refer to Note III. (XXIV) and Note VI (XVI) of the Financial Statements for relevant information disclosure in detail.</p>	
	<p>We mainly implemented the following audit procedures for impairment of goodwill:</p> <p>(1) We understood and evaluated the design and operational effectiveness of the management's key internal controls related to the preparation of discounted cash flow forecast (the basis for estimating the recoverable amount of the asset group);</p> <p>(2) We evaluated the independence, objectivity, experience and qualifications of the external appraisal institution appointed by the management;</p> <p>(3) We evaluated the assumptions and methods used by the management to estimate the recoverable value of each asset group;</p> <p>(4) We evaluated the key assumptions and judgments used by the management in the preparation of discounted cash flow forecast by comparing the key values such as revenue growth rate, sustainable growth rate and cost increase with the past performance, management budget and forecast and industry report;</p> <p>(5) We evaluated the risk-adjusted discount rate used by the management in the preparation of discounted cash flow forecast by comparing the discount rate with that of the enterprises of the same industry;</p> <p>(6) We obtained the key assumptions and sensitivity analysis of the management, including the income growth rate and risk-adjusted discount rate used in the discounted cash flow forecast, evaluated the impact of changes in key assumptions on the conclusions issued by the management in its impairment evaluation report and whether there is any sign of management preference;</p> <p>(7) We conducted retrospective audit by comparing the forecast of the previous year with the performance of the current year and evaluated the reliability and historical accuracy of the management's forecasting process.</p>

IV. Other information

The management of SDG Information (hereinafter referred to as the management) is responsible for the other information. The other information includes the information covered in SDG Information's annual report of 2020 but excludes financial statements and our audit report.

Our audit opinion on the financial statements does not cover the other information and we do not and will not express y form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Audit Report (Continue)

V. Responsibilities of management and those charged with governance for financial statements

The management is responsible for: preparing and realizing fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises; and designing, implementing and maintaining necessary internal control to ensure that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing SDG Information's ability to continue as a going concern, disclosing matters related to going concern (where applicable) and using the going concern basis of accounting unless the management either intends to make liquidation, cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing SDG Information's financial reporting process.

VI. Certified public accountants' responsibility for audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the audit standards, we exercise professional judgment and maintain professional skepticism throughout the audit. Meanwhile, we also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, omissions, misrepresentations, or the override of internal control.
- (2) Understand internal control related to the audit in order to design appropriate audit procedures,
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of using the going concern assumption by the management, and conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SDG Information's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements; if such disclosures are inadequate, we should give a modified opinion. Our conclusions are based on the information available as of the date of the audit report. However, future events or conditions may cause SDG Information to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and contents of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Audit Report (Continue)

(6) According to the financial information of the entity or business activities of SDG Information, obtain audit evidence that is sufficient and appropriate to express audit opinions on financial statements. We are responsible for guiding, supervising and implementing group audit, and we shall bear full responsibility for the audit opinions.

We communicate with those charged with governance regarding, among other matters, the planned audit scope, time arrangement and significant audit matters, including internal control defect of concern that we identify during our audit.

We also provided those charged with governance with a statement that we had complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards (where applicable).

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and were therefore the key audit matters. We described these matters in our auditor report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit Report (Continue)

[No text below]

*Baker Tilly China Certified Public Accountants
(Seal)*

Beijing, China

Apr. 23, 2021

Chinese CPA: *HAN Yanguang (Signature and
Seal)*

(Project Partner)

Chinese CPA: *YANG Yong (Signature and
Seal)*

Shenzhen SDG Information Co., Ltd.

Auditor's Report

TZYZi, [2020] No.22412

Contents

Auditor's Report	1
2019 Financial Statements	6
Notes to 2019 Financial Statements.....	18

Auditor's Report

TZYZi, [2020] No.22412

To all shareholders of Shenzhen SDG Information Co., Ltd.,

I. Audit opinion

We have audited the financial statements of Shenzhen SDG Information Co., Ltd. ("SDG Information"), including consolidated and parent company's balance sheet as of December 31, 2019, consolidated and the parent company's income statement, consolidated and parent company's statement of cash flows, consolidated and parent company's statement of changes in shareholders' equity and the notes to these financial statements for the year 2019.

In our opinion, the attached financial statements have been prepared according to the provisions of the Accounting Standards for Business Enterprises in all materials respects and fairly reflect the consolidated of SDG Information and the parent company's financial status as of December 31, 2019, consolidated and the parent company's operating results and cash flows of year 2019.

II. Basis for our opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. "The Certified Public Accountants' Responsibility for Auditing Financial Statements" section of the auditor's report further elaborated our responsibilities under these standards. In accordance with China Code of Ethics for Certified Public Accountants, we are independent of SDG Information, and performed other ethical responsibilities. We believe that we have obtained sufficient and appropriate audit evidences to provide a basis for our audit opinion.

III. Key audit matters

Key audit matters are the matters that we believe are most important for the audit of the current financial statements based on our professional judgment. These matters are responsive to carry out an overall audit on financial statements and to constitute auditor's opinions, and we will not express opinions on these matters separately.

Key audit matters	How was the matter dealt with in the audit?
(1) Revenue recognition <p>In the year of 2019, SDG Information realized the operating revenue of 4,655,911,057.79 yuan, of which the main business revenue was 4,502,729,181.77 yuan, accounting for 96.71% of the total operating revenue. SDG Information sells communication equipment, communication cables and electric cables mainly to communication equipment manufacturers, telecommunication operators and power grid companies. Since revenue is one of SDG Information's key performance indicators, accuracy and completeness revenue recognition has a great impact on SDG Information's profit. Therefore, we will take revenue recognition as a key audit matter of SDG Information.</p> <p>For disclosure of more relevant information, please refer to Note III, (28) and Note VI, (40) of the Financial Statements.</p>	<p>For the recognition of operating revenue, the main audit procedures we have implemented include:</p> <ol style="list-style-type: none"> (1) We got to know and evaluate the design and operational effectiveness of key internal controls related to management's revenue recognition; (2) We checked the contract terms related to major customers, analyzed and evaluated the revenue recognition policies that are actually implemented are appropriate, and reviewed whether specific revenue recognition accounting policies are used consistently; (3) We executed analysis program for the revenue and gross margin to determine whether the sales revenue and gross interest rate are reasonable; (4) We selected some samples from transactions recorded this year for tests on substantive details, by examining contracts, invoices, final statements or statements of account and other supporting documents, combined with revenue and accounts receivable confirmations, to evaluate revenue recognition accuracy; (5) We selected samples from transaction revenue recorded before and after the balance sheet date for cut-off test, to evaluate revenue recognition integrity and whether it is recorded in the appropriate accounting period.

Auditor's Report (Continued)

TZYZi, [2020] No.22412

Key audit matters	How was the matter dealt with in the audit?
<p>(2) Goodwill impairment</p> <p>As of December 31, 2019, the SDG Information had book value of goodwill of 509,989,240.77 yuan, the provision for impairment of goodwill is 8,304,489.10 yuan, and the book value of goodwill at the end of the period accounts for 6.58% of the total assets at the end of the period.</p> <p>Management will test the goodwill impairment at the end of each year. Goodwill impairment test results are determined by management using the valuation report prepared by an external valuer that is appointed by management. Goodwill impairment test is the estimated recoverable amount of group assets based on the future discounted cash flow forecast prepared by SDG Information. While preparing the future discounted cash flow forecast, significant judgment and estimate are involved, particularly prediction on revenue growth rate, sustainable growth rate, cost increase, by combining with the current business situations and reasonable assessment of the future market, and confirm that the risk-adjusted discount rate applied has inherent uncertainties and may be subject to influence of management preferences. Therefore, we consider goodwill impairment as a key audit matter.</p> <p>For disclosure of more relevant information, please refer to Note III, (23) and Note VI, (27) of the Financial Statements.</p>	<p>For goodwill impairment, the main audit procedures we have implemented include:</p> <ol style="list-style-type: none"> (1) We got to know and evaluate the design and operational effectiveness of management's key internal control related to the preparation of discounted cash flow forecast (the basis of estimating recoverable amount of group assets); (2) We evaluated the independence, objectivity, experience and qualifications of external evaluation agencies hired by management; (3) We assessed the assumptions and methods adopted by management to estimate the recoverable amount of each group asset; (4) We evaluated management's key assumptions and judgment in preparation of discounted cash flow forecast by comparing key value such as growth rate, sustainable growth rate and cost increase with history price, management budget and forecast and industry reports; (5) We assessed the risk-adjusted discounted cash flow rate in the discounted cash flow forecast used by management, by comparing the discount rate with that of similar enterprises in the same industry; (6) We obtained sensitivity analysis of management's key assumption, including the revenue growth rate and risk-adjusted discount rate used for discounted cash flow forecast, to assess the impact of key assumption changes on management's conclusions published in its impairment assessment, and whether there exists any sign of management's preference; (7) We evaluated whether the management's forecast process is reliable and accurate in history, by comparing the forecast results of the previous year and business performance this year as retrospective audit.
<p>(3) Relocation of Taike Building</p> <p>In the year of 2019, due to the relocation of Taike Building, SDG Information confirmed the asset disposal income of 210,889,582.66 yuan, accounting for 65.26% of the current net profit attributable to the shareholders of the parent company. Taike Building has been demolished in 2019. In order to determine the disposal profit and loss of Taike Building, SDG Information hired an independent appraiser to evaluate the fair value of Taike Building, and recognized the difference between the fair value determined in the appraisal report and the book value as the asset disposal income. As the event has a significant impact on the net profit in 2019, we will take asset relocation of Taike Building as a key audit matter of SDG Information.</p> <p>For disclosure of more relevant information, please refer to Note VI, (20) and Note VI, (51) of the Financial Statements.</p>	<p>For the asset relocation of Taike Building, the main audit procedures we have implemented include:</p> <ol style="list-style-type: none"> (1) We got to know and evaluated the internal control and operation effectiveness of the management on the asset disposal of Taike Building, checked the relevant documents of the asset disposal, and evaluated the rationality of its accounting treatment; (2) We have evaluated the independence, objectivity, experience and qualification of the external evaluation agency hired by the management; (3) We have reviewed the appraisal method, selected comparable entities and the accuracy of the calculation process of the appraisal report; (4) We have assessed the adequacy of the disclosure of the relocation of Taike Building in the financial report.

Auditor's Report (Continued)

TZYZi, [2020] No.22412

IV. Other information

The management of SDG Information (hereinafter referred to as "Management") is responsible for the other information. The other information comprises all of the information included in the 2019 annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of management and the governance for the financial statements

The management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises and design, implement and maintain of necessary internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing SDG Information's ability to continue as a going concern, disclosing, if applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate SDG Information or to cease operations, or has no realistic alternative but to do so.

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

VI. CPA's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also carry out the following work:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's Report (Continued)

TZYZi, [2020] No.22412

- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SDG Information's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by audit standards to remind the user to pay attention to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause SDG Information to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within SDG Information to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Auditor's Report (Continued)

TZYZi, [2020] No.22412

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Baker Tilly China Certified Public Accountants
(Special General Partnership)
(stamp)

Beijing, China
April 27, 2020

Chinese CPA (Project Partner): Qu Xianfu (signature and signet)

Chinese CPA: Fu Jiaoliang (signature and signet)

Chinese CPA: Duan Shan (signature and signet)

Shenzhen SDG Information Co., Ltd. Auditor's Report

TZYZi, [2019] No. 15321

Shenzhen SDG Information Co., Ltd.
(stamp)

Contents

Auditor's Report	1
2018 Financial Statements	6
Notes to 2018 Financial Statements.....	18

Auditor's Report

TZYZi, [2019] No. 15321

To all shareholders of Shenzhen SDG Information Co., Ltd.,

I. Audit opinion

We have audited the financial statements of Shenzhen SDG Information Co., Ltd. ("SDG Information"), including consolidated and parent company's balance sheet as of December 31, 2018, consolidated and the parent company's income statement, consolidated and parent company's statement of cash flows, consolidated and parent company's statement of changes in shareholders' equity and the notes to these financial statements for the year 2018.

In our opinion, the attached financial statements have been prepared according to the provisions of the *Accounting Standards for Business Enterprises* in all materials respects and fairly reflect the consolidated of SDG Information and the parent company's financial status as of December 31, 2018, consolidated and the parent company's operating results and cash flows of year 2018.

II. Basis for our opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. The Certified Public Accountants' Responsibility for Auditing Financial Statements section of the auditor's report further elaborated our responsibilities under these standards. In accordance with China Code of Ethics for Certified Public Accountants, we are independent of SDG Information, and performed other ethical responsibilities. We believe that we have obtained sufficient and appropriate audit evidences to provide a basis for our audit opinion.

III. Key audit matters

Key audit matters are the matters that we believe are most important for the audit of the current financial statements based on our professional judgment. These matters are responsive to carry out an overall audit on financial statements and to constitute auditor's opinions, and we will not express opinions on these matters separately.

Key audit matters	How was the matter dealt with in the audit?
(1) Inventory impairment	
As of December 31, 2018, the SDG Information had book balance of inventory of 1,817,906,773.37 yuan, and the amount of inventory impairment was 99,839,418.36 yuan, of which the book value accounts for 22.75% of the total closing balance. On the date of balance sheet, the SDG Information management compared the cost and net realizable value of the inventory project, and the inventory impairment is accrued in accordance with the difference between the cost and net realizable value of inventory, in which cost is more than net realizable value. The net realizable value of inventory is determined by the estimated selling price of inventory minus the estimated cost by the time of completion (if relevant), estimated selling expenses and related taxes. Management in determining the estimated selling price need to use significant judgment and take the selling price history and future market trends into consideration. As the project involves a significant amount and requires management to make significant judgments, we take the inventory impairment as a key audit matter. For disclosure of more relevant information, please refer to Note III (XII) and Note VI (VI) of the financial statements.	For the inventory impairment, the main procedures we have implemented include: (1) We got to know and evaluate management's internal control over inventory, and tested the effectiveness of the implementation of key controls; (2) We supervised the inventory of SDG Information, and checking the quantity and status of the inventory; (3) For products that can get the public market selling price, we independently searched for its public market price, and compared it to the estimated selling price; (4) For products that cannot obtain the public market selling price, we selected samples and compared the estimated selling price of the product with the actual selling price in the most recent period or after the period; (5) We selected samples and compared the cost to be incurred of the same raw materials by the time of completion in the same year, to evaluate whether the SDG Information's estimated cost to be incurred by the time of completion is reasonable or not.

Auditor's Report (Continued)

TZYZi, [2019] No. 15321

Key audit matters	How was the matter dealt with in the audit?
<p>(2) Goodwill impairment</p> <p>As of December 31, 2018, the SDG Information had book value of goodwill of 456,945,796.46 yuan, accounting for 6.05% of the total closing assets.</p> <p>Management will test the goodwill impairment at the end of each year. Goodwill impairment test results are determined by management using the valuation report prepared by an external valuer that is appointed by management. Goodwill impairment test is the estimated recoverable amount of group assets based on the future discounted cash flow forecast prepared by SDG Information. While preparing the future discounted cash flow forecast, significant judgment and estimate are involved, particularly prediction on revenue growth rate, sustainable growth rate, cost increase, by combining with the current business situations and reasonable assessment of the future market, and confirm that the risk-adjusted discount rate applied has inherent uncertainties and may be subject to influence of management preferences. Therefore, we consider goodwill impairment as a key audit matter. For disclosure of more relevant information, please refer to Note III (XX) and Note VI (XIV) of the Financial Statements.</p>	<p>For goodwill impairment, the main audit procedures we have implemented include:</p> <ol style="list-style-type: none"> (1) We got to know and evaluate the design and operational effectiveness of management's key internal control related to the preparation of discounted cash flow forecast (the basis of estimating recoverable amount of group assets); (2) We evaluated the independence, objectivity, experience and qualifications of external evaluation agencies hired by management; (3) We assessed the assumptions and methods adopted by management to estimate the recoverable amount of each group asset; (4) We evaluated management's key assumptions and judgment in preparation of discounted cash flow forecast by comparing key value such as growth rate, sustainable growth rate and cost increase with history price, management budget and forecast and industry reports; (5) We assessed the risk-adjusted discounted cash flow rate in the discounted cash flow forecast used by management, by comparing the discount rate with that of similar enterprises in the same industry; (6) We obtained sensitivity analysis of management's key assumption, including the revenue growth rate and risk-adjusted discount rate used for discounted cash flow forecast, to assess the impact of key assumption changes on management's conclusions published in its impairment assessment, and whether there exists any sign of management's preference; (7) We evaluated whether the management's forecast process is reliable and accurate in history, by comparing the forecast results of the previous year and business performance this year as retrospective audit.
<p>(3) Revenue recognition</p> <p>In the year of 2018, SDG Information realized the operating revenue of 5,706,001,088.58 yuan, of which the main business revenue was 5,578,818,565.01 yuan, accounting for 97.77% of the total operating revenue. SDG Information sells communication equipment, communication cables and electric cables mainly to communication equipment manufacturers, telecommunication operators and power grid companies. Since revenue is one of SDG Information's key performance indicators, accuracy and completeness revenue recognition has a great impact on SDG Information's profit. Therefore, we will take revenue recognition as a key audit matter of SDG Information. For disclosure of more relevant information, please refer to Note III (XXV) and Note VI (XXXVI) of the Financial Statements.</p>	<p>For the recognition of operating revenue, the main audit procedures we have implemented include:</p> <ol style="list-style-type: none"> (1) We got to know and evaluate the design and operational effectiveness of key internal controls related to management's revenue recognition; (2) We checked the contract terms related to major customers, analyzed and evaluated the revenue recognition policies that are actually implemented are appropriate, and reviewed whether specific revenue recognition accounting policies are used consistently; (3) We executed analysis program for the revenue and gross margin to determine whether the sales revenue and gross interest rate are reasonable; (4) We selected some samples from transactions recorded this year for tests on substantive details, by examining contracts, invoices, final statements or statements of account and other supporting documents, combined with revenue and accounts receivable confirmations, to evaluate revenue recognition accuracy; (5) We selected samples from transaction revenue recorded before and after the balance sheet date for cut-off test, to evaluate revenue recognition integrity and whether it is recorded in the appropriate accounting period.

Auditor's Report (Continued)

TZYZi, [2019] No. 15321

IV. Other information

The management of SDG Information (hereinafter referred to as "Management") is responsible for the other information. The other information comprises all of the information included in the 2018 annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of management and the governance for the financial statements

The management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises and design, implement and maintain of necessary internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing SDG Information's ability to continue as a going concern, disclosing, if applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate SDG Information or to cease operations, or has no realistic alternative but to do so.

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

VI. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also carry out the following work:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's Report (Continued)

TZYZi, [2019] No. 15321

- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SDG Information's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by audit standards to remind the user to pay attention to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause SDG Information to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within SDG Information to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Baker Tilly China Certified Public Accountants
(Special General Partnership)
(stamp)

Beijing, China
April 12, 2019

Chinese CPA (Project Partner): Qu Xianfu (signature and signet)

Chinese CPA: Fu Jiaoliang (signature and signet)

Chinese CPA: Duan Shan (signature and signet)