

**LU THAI TEXTILE CO., LTD.
ANNUAL REPORT**

==2009==

Shandong · Zibo

19 Mar. 2010

Section I Important Notes and Content

Important Notes

The Board of Directors, Supervisory Committee as well as directors, supervisors and senior executives of Lu Thai Textile Co., Ltd (hereinafter referred to as “the Company”) warrant that this report does not contain any false or misleading statements or omit any material facts and all information set forth herein are authentic, accurate and complete.

All directors of the Company attended the Board Meeting.

Zhongrui Yuehua Certified Public Accountants issued standard unqualified Auditors’ Report for the Company.

Mr. Liu Shizhen, Chairman of the Board of the Company, Ms. Zhang Hongmei, Principal of accounting work and person in charge of accounting firm hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

Content

Section I Important Notes.....	2
Section II Company Profile.....	4
Section III Summary of Financial Data and Business Data.....	5
Section IV Changes in Share Capital and Particulars about Shareholders.....	8
Section V Directors, Supervisors Senior Executives and Employees.....	11
Section VI Corporate Governance Structure.....	15
Section VII Brief to Shareholders' General Meeting.....	17
Section VIII Report of the Board of Directors.....	18
Section IX Report of the Supervisory Committee.....	29
Section X Significant Events.....	30
Section XI Financial Report.....	34
(I) Audit Report.....	35
(II) Financial Statements.....	36
(III) Notes to Financial Statements.....	47
Section XII Documents Available for Reference.....	105

Section II Company Profile

I. Legal name of the Company

In Chinese: 鲁泰纺织股份有限公司

In English: LU THAI TEXTILE CO., LTD

II. Legal representative: Liu Shizhen

III. Contact methods of Secretary to the Board of Directors and Securities Affairs

Representative:

	Secretary to the Board of Directors	Securities Affairs Representative
Name	Qin Guiling	Zheng Weiyin
Address	No. 81, Songling East Road, Zichuan District, Zibo	No. 81, Songling East Road, Zichuan District, Zibo
Telephone	0533-5285166, 5418361	0533-5285166, 5418361
Fax	0533-5418833, 5282188	0533-5418833, 5282188
E-mail	qinguilin@lrtc.com.cn	wyzheng@lrtc.com.cn

IV. Registered Address: No. 11, Mingbo Road, High-tech Industry Development Zone,

Zibo, Shandong

Post Code: 255086

Office Address: No. 81, Songling East Road, Zichuan District, Zibo

No. 11, Mingbo Road, High-tech Industry Development Zone,
Zibo, Shandong

Post Code: 255100

E-mail: lrtc@public.zbptt.sd.cn

Internet Website: www.lrtc.com.cn

V. Newspapers Designated for Disclosing Information of the Company: Securities

Times, Shanghai Securities News and Ta Kung Pao

Internet Website Designated by CSRC for Publishing the Annual Report:

www.cninfo.com.cn

The Place Where the Annual Report is Prepared and Placed: Securities
Department of the Company

VI. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: LUTHAI A, LUTHAI B

Stock Code: 000726, 200726

VII. Other Relevant Information

The Changed Registration Date: 6 Jun. 2009

The Registered Institution with: Zibo Municipal Administration Bureau for
Industry and Commerce

Registered No. of Business License: 370300400002843

Registered No. of Taxation: 370302613281175

Organization Code: 61328117-5

Certified Public Accountants engaged by the Company:

Auditing Institution: Zhongrui Yuehua Certified Public Accountants

Office Address: 8/F, Tower A, International Corporation Mansion, 35 Finance
Street, Xicheng District, Beijing

Section III Summary of Financial Data and Business Data

I. Accounting data of this fiscal year

Unit: RMB Yuan

	2009	2008	Increase/decrease year-on-year (%)	2007
Operating income	4,036,219,837.13	3,921,837,350.82	2.92%	3,810,671,282.58
Total profit	680,099,801.43	608,620,277.89	11.74%	524,343,726.84
Net profit attributable to shareholders of listed company	570,218,343.41	512,944,678.08	11.17%	459,725,146.61
Net profit attributable to shareholders of listed company after deducting non-recurring gains and losses	585,124,040.82	492,350,002.83	18.84%	434,713,964.48
Net cash flow arising from operation activities	991,813,130.80	781,995,946.74	26.83%	495,126,608.03
	31 Dec. 2009	31 Dec. 2008	Increase/decrease year-on-year (%)	31 Dec. 2007
Total assets	6,303,066,959.60	7,091,853,104.80	-11.12%	5,869,633,008.49
Owners' equity attributable to shareholders of listed company	3,919,660,709.28	3,541,234,661.44	10.69%	2,266,024,205.19
Share capital	994,864,800.00	994,864,800.00	0.00%	844,864,800.00

II. Major financial index

	2009	2008	Increase/decrease year-on-year (%)	2007
Basic earnings per share (Yuan/share)	0.57	0.60	-5.00%	0.54
Diluted earnings per share (Yuan/share)	0.57	0.60	-5.00%	0.54
Basis earnings per share after deducting non-recurring gain and loss (Yuan/share)	0.59	0.58	1.72%	0.51
Weighted average return on equity (%)	15.30%	20.80%	-5.50%	21.71%
Weighted average return on equity after deducting non-recurring gain and loss (%)	15.70%	19.97%	-4.27%	19.18%
Net cash flow per share arising from operating activities (Yuan/share)	1.00	0.79	26.58%	0.59
	31 Dec. 2009	31 Dec. 2008	Increase/decrease year-on-year (%)	31 Dec. 2007
Net assets per share attributable to shareholders of listed company (Yuan/share)	3.94	3.56	10.67%	2.68

Items of non-recurring gains and losses

Unit: RMB Yuan

Items	Amount
Gains and losses from disposal of non-recurring asset	-1,549,036.94

Government subsidy recognized in current period, Government subsidies recorded into current gains and losses, excluding government subsidies with close relationship with the Company's business and rationed government grants in line with unified standard	20,687,797.51
Gains and losses from changes in fair value of transaction financial assets and transaction financial responsibilities, and investment income from disposal of transaction financial assets/responsibilities and financial assets available for sale, excluding valid hedging business relating to normal operation.	-34,237,290.00
Other non-operating income/expenses	8,645,177.56
Impact on income tax	-8,124,299.45
Impact on minority interest	-328,046.09
Total	-14,905,697.41

III. Difference between IFRS and PRC GAAP

Unit: RMB Yuan

	Net profit attributable to shareholders of listed Company		Owners' equity attributable to shareholders of listed company	
	Amount in current period	Amount in last period	Amount at the period-begin	Amount at the period-end
Data under IFRS	572,467,343.41	515,193,678.08	3,900,237,709.28	3,519,562,661.44
Data under PRC GAAP	570,218,343.41	512,944,678.08	3,919,660,709.28	3,541,234,661.44
Items and total adjusted under IFRS				
Impact on increment of fixed assets arising from translating the USD statements into RMB statements in 1996 not unrecognized under IFRSs	0.00	0.00	-3,230,000.00	-3,230,000.00
Impact of evaluation increment of assets of Luqun Textile in 2006 under IFRS on current period	531,000.00	531,000.00	-6,269,000.00	-6,800,000.00
Impact of tax deduction due to the domestically-manufactured equipment recognized as deferred income before 2006 under IFRS	1,718,000.00	1,718,000.00	-9,924,000.00	-11,642,000.00
Total of difference under IFRS and PRC GAAP	2,249,000.00	2,249,000.00	-19,423,000.00	-21,672,000.00
Explanation on difference between IFRS and PRC GAAP	<p>1. Impact of increment from exchange of foreign currency fixed assets Recording currency of the Company was changed from USD to RMB in 1996, and fixed assets appraised due to fluctuation of exchange rate. The increment was listed in original value and capital public reserves according to PRC GAAP but was not recognized under IFRS. According to regulations in IFRS, the Company will amortize the difference in accordance with use term of fixed assets, and then will adjust net profit and net assets.</p> <p>2. Impact of evaluation increment of assets The Company invested on Luqun Textile according to appraisal of fixed assets, and the increment of appraisal will record in capital public reserves under PRC GAAP but will not be recognized under IFRS. According to regulations in IFRS, the Company will amortize the difference in accordance with use term of fixed assets, and then will adjust net profit and net assets.</p> <p>3. Impact of tax deduction due to the domestically-manufactured equipment</p>			

	The Company enjoyed the right of purchase of domestically-manufactured equipment to deduct tax, and reduce income tax directly under PRC GAAP, but recognized as deferred income relating to assets under IFRS. According to regulations in IFRS, the Company will amortize the difference in accordance with use term of fixed assets, and then will adjust net profit and net assets.
--	---

IV. Statement on changes in owners' equity attributable to parent company during the report period

Items	Paid-up capital	Capital reserves	Surplus public reserve	Retained profits	Others	Minority equity	Total of owners' equity
I. Balance at the end of last year	994,864,800.00	1,128,135,713.77	330,662,535.20	1,090,990,313.22	-3,418,700.75	239,755,787.08	3,780,990,448.52
II. Balance at the beginning of this year	994,864,800.00	1,128,135,713.77	330,662,535.20	1,090,990,313.22	-3,418,700.75	239,755,787.08	3,780,990,448.52
III. Increase/ decrease of amount in this year		7,220,454.95	43,766,993.99	327,478,389.42	-39,790.52	28,221,275.37	406,647,323.21
(I) Net profit				570,218,343.41		33,517,914.55	603,736,257.96
(II) Other comprehensive income		7,215,239.04			-39,790.52		7,175,448.52
Subtotal of (I) and (II)		7,215,239.04		570,218,343.41	-39,790.52	33,517,914.55	610,911,706.48
(III) Input an reduced capital of owners		5,215.91				9,938,736.73	9,943,952.64
1. Capital input of owners						9,935,607.19	9,935,607.19
2. Others		5,215.91				3,129.54	8,345.45
(IV) Profit distribution			43,766,993.99	-242,739,953.99		-15,235,375.91	-214,208,335.91
1. Withdrawing surplus public reserve			43,766,993.99	-43,766,993.99			
2. Distribution to owners (or shareholders)				-198,972,960.00		-15,235,375.91	-214,208,335.91
IV. Balance at the end of this period	994,864,800.00	1,135,356,168.72	374,429,529.19	1,418,468,702.64	-3,458,491.27	267,977,062.45	4,187,637,771.73

Section IV Changes in Share Capital and Particulars about

Shareholders

I. Statement on changes in share capital

Unit: Share

	Before the change		Increase/decrease (+/-)					After the change	
	Amount	Proportion	Issuance of new share	Bonus shares	Capitalization of public reserve	Others	Subtotal	Amount	Proportion
I. Shares subject to	218,099,409	21.92%				-175,817	-175,817	217,923,592	21.90%

trading moratorium									
1. Shares held by state									
2. Shares held by state-owned corporation									
3. Shares held by domestic investors	98,358,000	9.89%						98,358,000	9.89%
Including: shares held by domestic non-state-owned corporation	98,358,000	9.89%						98,358,000	9.89%
Shares held by domestic natural person									
4. Shares held by foreign investors	118,232,400	11.88%						118,232,400	11.88%
Including: shares held by foreign corporation	118,232,400	11.88%						118,232,400	11.88%
Shares held by foreign natural person									
5. Shares held by senior executives	1,509,009	0.15%				-175,817	-175,817	1,333,192	0.13%
II. Shares not subject to trading moratorium	776,765,391	78.08%				175,817	175,817	776,941,208	78.10%
1. RMB ordinary shares	452,776,211	45.51%				175,817	175,817	452,952,028	45.53%
2. Domestically listed foreign shares	323,989,180	32.57%						323,989,180	32.57%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	994,864,800	100.00%				0	0	994,864,800	100.00%

Note: The changing number in the Others Column of present period in the chart means the amount of the thaw shares held by senior managers in present period and the summary amount of thaw shares held by new senior managers.

Changes in shares subject to trading moratorium

Name of shareholder	Shares subject to moratorium at the year-begin	Shares released in current year	Shares increased in current year	Shares subject to moratorium at the year-end	Reason	Date of release
Zibo Lucheng Textile Investment Co., Ltd	98,358,000	0	0	98,358,000	Commitment in share merger reform	12 Jun. 2011
Directors/supervisors/senior executives	1,509,009	175,817		1,333,192	25% of shares held were released from frozen according to regulations of Stock Exchange, and these shares are able to sell freely	25% of current shares released from froze

Total	99,867,009	175,817		99,691,192	-	-
-------	------------	---------	--	------------	---	---

Notes: number of shares subject to trading moratorium decreased in this year was shares released from frozen held by senior executives

II. Issuance and listing of shares

1. Issuance of shares in the last three years

During the report period, the Company executed plan on public offering 150 million A shares with price of RMB 6.49 Yuan/share. The Company totally raised capital RMB 973.5 million, and net raised capital was RMB 950,814,500 after deducting issuance expense. Share capital of the Company increased to 994,864,800 shares.

2. Changes in total capital of the Company and structure in the report period

There was no change in total shares and structure of share capital of the Company in the report period.

III. About shareholders and actual controllers at the end of report period

1. As at the end of the report period, the Company had 121,346 shareholders in total.

2. Particulars about shares held by the ten top shareholders of the Company

Name of shareholders	Nature	Proportion	Total shares held	Shares subject to trading moratorium held	Shares pledged or frozen
Zibo Lucheng Textile Investment Co., Ltd	Domestic non-state-owned corporation	12.40%	123,314,700	98,358,000	0
Tailun (Thailand) Textile Co., Ltd	Foreign corporation	11.88%	118,232,400	118,232,400	0
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	Foreign corporation	4.08%	40,616,252	0	0
Guotai Jinma Stable Return Securities Investment Fund	Domestic non-state-owned corporation	1.68%	16,716,800	0	0
Fullgoal Tianhe Stable Selected Stock Fund	Domestic non-state-owned corporation	0.76%	7,589,188	0	0
Changsheng Tongqing Separated Stock Securities Investment Fund	Domestic non-state-owned corporation	0.60%	5,999,838	0	0
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign corporation	0.50%	4,928,801	0	0
Fortune SGAM Advanced Growth Stock Securities Investment Fund	Domestic non-state-owned corporation	0.47%	4,700,000	0	0
Fullgoal Tianrui Strong Area Select Mixed Open-end Securities Investment Fund	Domestic non-state-owned corporation	0.41%	4,063,599	0	0
TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	Foreign corporation	0.35%	3,505,160	0	0

Notes: (1) Shares held by Zibo Lucheng Textile Investment Co., Ltd are tradable A

shares and B shares subject to trading moratorium, and changes in shares was because the Company participated in part subscription when executed public offering A share and increase to held tradable A shares in the secondary market; Tailun Co., Ltd is a foreign sponsor shareholder, and the shares held by it are foreign sponsor shares, which will circulate with B shares after application.

(2) Shares held by the third to the tenth shareholders are tradable A shares or tradable B shares, and changes of shares was caused by trading in the report period.

3. Brief introduction to the controlling shareholder or shareholders holding over 10% of the total shares

(1) Zibo Lucheng Textile Investment Co., Ltd

Zibo Lucheng Textile Investment Co., Ltd is the first principal shareholder as well as the actual controller of the Company.

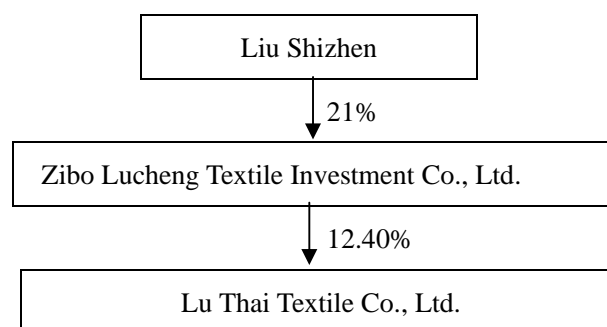
Legal representative: Liu Shizhen

Registered capital: RMB 63.26 million

Business scope: Zibo Lucheng Textile Investment Co., Ltd. (hereinafter referred to as Lucheng Investment) was engaged in investment textile, electric power and pharmacy; knitwear and the relevant import and export business; retail of lubricating oil, gas oil and diesel oil; Chinese meal and wholesale and retail of general merchandise and etc. The original name of Lucheng Investment is Zibo Lucheng Textile Co., Ltd., which was founded on 25 Sep. 1998 based on Zibo No. 7th Cotton Textile Plant, sponsor of the Company. It is a Limited Company whose shares held by natural persons. Mr. Liu Shizhen held 21% equity of Lucheng Investment, and is the first principal shareholder of Lucheng Investment as well as the actual controller of Lucheng Investment. Basic information of Liu Shizhen: Chinese nationality, he has not enjoy the residence permit in other countries or regions; he has been taking the post as Chairman of the Board of the Company since 1990.

As at the beginning of the report period, Lucheng Investment held 123.3147 million shares of the Company, taking up 12.40% of total share capital of the Company, of which 98.3580 million are tradable A shares subject to trading moratorium.

At the end of the report period, shares held by Lucheng Investment have not been frozen and pledged. The controlling relationship of the Company is as follows:



(2) Tailun (Thailand) Textile Co., Ltd

Legal representative: Xu Zhinan

Registered capital: 0.6 billion baht

Business scope: Yarn spinning

Date of foundation: 29 Jan. 1985

Registration place: No. 20, Wannahejiluo, Bangkok, Thailand

Tailun (Thailand) Textile Co., Ltd is the foreign sponsor of the Company as well as the second principal shareholder. At end of the report period, Tailun (Thailand) Textile Co., Ltd held 118.2324 million shares of the Company, taking up 11.88% of total share capital of the Company. The shares are foreign sponsor' shares as well as non-tradable B shares, which has not been pledged or frozen.

4. Particulars about shares held by the top ten shareholders of tradable share

Name of shareholders	Shares not subject to trading moratorium held	Type of shares
Zibo Lucheng Textile Investment Co., Ltd	24,956,700	RMB ordinary shares
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	40,616,252	Domestically listed foreign shares
Guotai Jinma Stable Return Securities Investment Fund	16,716,800	RMB ordinary shares
Fullgoal Tianhe Stable Selected Stock Fund	7,589,188	RMB ordinary shares
Changsheng Tongqing Separated Stock Securities Investment Fund	5,999,838	RMB ordinary shares
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	4,928,801	Domestically listed foreign shares
Fortune SGAM Advanced Growth Stock Securities Investment Fund	4,700,000	RMB ordinary shares
Fullgoal Tianrui Strong Area Select Mixed Open-end Securities Investment Fund	4,063,599	RMB ordinary shares
TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	3,505,160	Domestically listed foreign shares
Everbright Pramerica Dividend Stock Fund	3,299,979	RMB ordinary shares

Notes: It is unknown whether there is any associated relationship or acting-in-concert among the top ten shareholders of tradable share.

5. Trading moratorium of shares held by original shareholders of non-tradable shares in the top ten shareholders.

No.	Name of holder of shares subject to trading moratorium	Shares subject to trading moratorium held	Date of listing for trade	Additional shares available for list and trade	Trading moratorium
1	Zibo Lucheng Textile Investment Co., Ltd	98,358,000	12 Jun. 2011	0	No shares shall be traded through listing at the Stock Exchange within 60 months after accomplishment of share merger reform; after this, within 24 months, the price of the shares sold at the Stock Exchange shall not be lower than RMB 15 per share, and, when the Company capitalizes public reserves, distributes bonus shares, issues new shares or rationed shares or distributes dividends, etc, this price shall undergo ex right and ex dividend. If shareholders go against such commitments, then funds obtained would be transferred into the

					Company's account to all shareholders.
2	Tailun (Thailand) Textile Co., Ltd	118,232,400	--	0	Foreign sponsor's shares available for trade in B share market, but have not proposed application yet.

Section V Directors, Supervisors, Senior Executives and Employees

I. Basic information of directors, supervisor, senior executives and employees

Name	Title	Sex	Age	Starting date of office term	Ending date of office term	Shares held at the year-begin	Shares held at the year-end	Reason of change
Liu Shizhen	Chairman of the Board	Male	70	6 Jun. 2007	5 Jun. 2010	583,060	437,295	Decrease of shares released from frozen
Xu Zhinan	Vice Chairman of the Board	Male	80	6 Jun. 2007	5 Jun. 2010	0	0	
Liu Zibin	Director/General Manager	Male	45	6 Jun. 2007	5 Jun. 2010	100,987	78,290	Decrease of shares released from frozen
Tengyuan Yingli	Director/Senior Consultant	Male	70	6 Jun. 2007	5 Jun. 2010	0	0	
Chen Ruimou	Director	Male	66	6 Jun. 2007	5 Jun. 2010	0	0	
Zeng Facheng	Director	Male	59	6 Jun. 2007	5 Jun. 2010	0	0	
Wang Fangshui	Director/Chief engineer	Male	49	6 Jun. 2007	5 Jun. 2010	123,238	123,238	
Sun Zhigang	Director	Male	48	6 Jun. 2007	5 Jun. 2010	28,806	21,604	Decrease of shares released from frozen
Qin Guiling	Director/Secretary to the Board	Female	44	6 Jun. 2007	5 Jun. 2010	124,452	124,452	
Li Zhixian	Independent director	Male	54	6 Jun. 2009	5 Jun. 2010	0	0	
Zhou Zhiji	Independent director	Male	47	6 Jun. 2009	5 Jun. 2010	0	0	
Wang Lei	Independent director	Female	40	6 Jun. 2009	5 Jun. 2010	0	0	
Qi Haodong	Independent director	Male	50	6 Jun. 2008	5 Jun. 2010	0	0	
Bi Xiuli	Independent director	Female	43	6 Jun. 2008	5 Jun. 2010	0	0	
Hong Xiaobin	Independent director	Male	37	6 Jun. 2007	5 Jun. 2009	7,864	0	Release due to maturity of office term
Zhu Lingwen	Chairman of the Supervisory Committee	Male	56	6 Jun. 2007	5 Jun. 2010	91,438	91,438	
Liu Zilong	Supervisor	Male	42	6 Jun. 2007	5 Jun. 2010	0	0	
Dong Shibing	Supervisor	Male	41	6 Jun. 2007	5 Jun. 2010	5,000	5,000	
Li Tongmin	Deputy General Manager	Male	54	6 Jun. 2007	5 Jun. 2010	106,164	106,164	
Zhang Hongmei	Chief Accountant	Female	40	6 Jun. 2007	5 Jun. 2010	18,100	18,100	
Zhang	Manager of Financial	Male	42	6 Jun. 2007	5 Jun. 2010	17,800	17,800	

Keming	Dep.							
Wu Yanzhen	Manager of Human Resource Dep.	Male	43	6 Jun. 2007	5 Jun. 2010	10,000	10,000	
Qu Qingfeng	Chief Auditor of Audit Dep.	Male	47	6 Jun. 2007	5 Jun. 2010	136,300	136,300	
Zhang Jianxiang	Assistant to General Manager	Male	42	6 Jun. 2007	5 Jun. 2010	18,400	18,400	
Pan Pingli	Manager of International Business Dep.	Male	42	6 Jun. 2007	5 Jun. 2010	48,000	48,296	
Bai Nianyue	Manager of Basic Construction Dep.	Male	44	6 Jun. 2007	5 Jun. 2010	10,000	13,715	Increased from secondary market
Yu Shouzheng	Manager of Energy Business Dep.	Male	42	6 Jun. 2007	5 Jun. 2010	13,100	13,100	
Lv Yongchen	Deputy Manager of International Business Dep.	Male	42	6 Jun. 2007	5 Jun. 2010	17,900	17,900	
Zhang Shougang	Manager of Quality Control Dep.	Male	40	6 Jun. 2007	5 Jun. 2010	13,100	13,100	
Wang Jiabin	Deputy Manager of Production Dep.	Male	47	6 Jun. 2007	5 Jun. 2010	10,000	13,700	Increased from secondary market
Yu Yongbin	Manager of Finishing Dep.	Male	44	6 Jun. 2007	5 Jun. 2010	15,000	15,000	
Zhang Zhanqi	Deputy General Manager of Lufeng Textile and Dye	Male	38	6 Jun. 2007	5 Jun. 2010	10,300	10,300	
Total	-	-	-	-	-	1,509,009	1,333,192	-

II. Main working experience of directors, supervisors and senior executives, and their holding post and concurrent post in other companies except for Shareholding Company in last five years.

1. Mr. Liu Shizhen: Chairman of the Board. He was born in 1940, graduated from technical secondary school. From Oct. 1993 to Jun. 2007, he was Chairman of the Board and General Manager of the Company; since Jun. 2007, he is Chairman of the Board of the Company, and concurrently took the following positions: Chairman of the Board of Lucheng Company, General Manager of Beijing Luthai, Chairman of the Board of Lufeng Textile and Dye, Chairman of the Board of Luqun Textile, Chairman of the Board of Beijing Innovative, Chairman of the Board of Luthai Huanzhong, Director of Dongying Luxin, Chairman of the Board of Stanluian, Chairman of the Board of Xinjiang Luthai and Chairman of the Board of Taimei Tie Company.
2. Mr. Xu Zhinan: Vice Chairman of the Board of the Company. He was born in 1930, Thailand Nationality. Since 2004, He has been acting as director and Vice Chairman of the Board of the Company, and Chairman of the Board and General Manager of Tailun (Thailand) Textile Co., Ltd.
3. Mr. Liu Zibin: Director and concurrently General Manager of the Company. He was born in 1965, and is the holder of MBA degree of Cheung Kong Graduate School

of Business. From Oct. 2004 to Jun. 2007, he acted as Chairman of the Board of Zibo Lucheng Textile Investment Co., Ltd, now concurrently was director of Luqun Textile.

4. Mr. Tengyuan Yingli: Director of the Company. He was born in 1940, Japanese Nationality. Since 1998, he has been holding post of director and senior consultant of Luthai Company, and concurrently was director of Lufeng Textile and Dye and Director of Luqun Textile.

5. Mr. Chen Ruimou: Director of the Company. He was born in 1944, and holder of bachelor degree. From 1998 to now, he is director of the Company.

6. Mr. Zeng Facheng, director of the Company, was born in 1951, Thailand nationality. He acts as Chairman of the Board of OLD MINE GARMENT CO., LTD. and MANUFACTURING (THAILAND) CO., LTD.

7. Mr. Wang Fangshui: Director and Chief Engineer of the Company. He was born in 1961, holder of MBA degree. Since 1998, he has been director and Chief Engineer of the Company, and concurrently is director and General Manager of Lufeng Textile and Dye, director of Xinjiang Luthai and director of Luqun Textile.

8. Mr. Sun Zhigang: Director of the Company. He was born in 1962, MBA of Cheung Kong Graduate School of Business. From Jul. 1999 to now, he took the post as director of Beijing Luthai Shirt Co., Ltd.; from Jul. 2000 to now, he occupied the post as director of Beijing Innovative Garment Co., Ltd.; from May 2001 to now, he acted as director of Luthai Textile Co., Ltd. and concurrently director of Luqun Textile.

9. Ms. Qin Guiling: Director and Secretary to the Board of the Company. She was born in 1966, holder of MBA degree. Since 1998, she is director and Secretary to the Board of the Company, and concurrently director of Luthai Huanzhong, director of Beijing Luthai, supervisor of Xinjiang Luthai and director of Luqun Textile.

10. Li Zhixian, independent director of the Company, was born in 1956 and was postgraduate. From Jun. 1979 to Aug. 1989, he took the post as Chief of Supply & Marketing Section in Beijing Guanghua Dyeing & Weaving Mill.; from Sep. 1989 to Dec. 1993, he was cadre of System Reform Dep. Of China National Textile and Apparel Ministry; from Jan. 1994 to Aug. 1998, he was deputy chief of China National Textile Trade Commission; from Aug. 1998 to Dec. 1999, he was manager of Industry Department of Information Research Center in Guotai Securities Co., Ltd; since Jan. 2000, he has been acting as director and General Manager of Guotai Junan Securities Co., Ltd.

11. Zhou Zhiji, independent director of the Company, was born in 1963 and holder of bachelor degree of accounting. From Aug. 1986 to Jan. 1989, he acted as cadre of Shandong Provincial Department of Finance; from Jan. 1989 to Jan. 1999, he took the post as director of Shangdong Certified Public Accountants Co., Ltd; from Jan. 1999 to Jul. 2000, he was director accountant in Shangdong Zhengyuan Certified Public Accountants Co., Ltd; from Jul. 2000 to Jan. 2008, he was director and manager of Shandong Yingshida Enterprise Management Consulting Co., Ltd. Since Jan. 2008 to now, he was executive director and manager of Shangdong Jinheng Counsulting Co., Ltd.

12. Wang Lei, independent director of the Company, was born in 1970 and doctor

degree holder. From Jul. 1994 to Sep. 2001, he was an assistant to General Manager of Investment Bank Department in Tiantong Securities Co., Ltd; from Sep. 2001 to Nov. 2004, he took the post as General Manager of Liaocheng Business Department of Tiantong Securities; since Nov. 2004 up to now, he was General Manager of Beijing United Cooperation Center as well as Chaowai Street Operating Department in Qilun Securities Co., Ltd.

13. Mr. Qi Haodong: Independent Director of the Company. He was born in 1960 and is a holder of doctor degree. From 1983 to 1999, he successively served as teaching assistant, assistant professor, professor and Dean in Shangdong Agricultural University. From 2000 to present, he successively acted as professor, superintendent of Research Restitute, Dean and Vice President in Shangdong University of Finance.

14. Ms. Bi Xiuli, Independent Director of the Company, She was born in 1967 and master degree holder. From 1990 to 1996, she was judge of The Middling People's Court of Zibo from Shandong; from 2002 to 2003, she was lawyer of Beijing Jingwei Law firm; from 2004 to present, she was partner of Jun Ze Jun of Beijing law firm.

15. Mr. Li Tongmin, Supervisor and concurrently Manager of Production Dept. of the Company. He was born in 1956, graduated from technical secondary school. From Oct. 1993 to present, he concurrently held the post of Manager of the Company.

16. Mr. Zhu Lingwen: Supervisor and concurrently Manager of Layout Dept. of the Company. He was born in 1954, associate degree holder. From Oct. 1993 to Jan. 2002, he once acted as Manager of International Business Dept. in Luthai Textile Co., Ltd.

17. Mr. Liu Zilong: Supervisor of the Company. He was born in 1968. From 2002 to present, he was director of the Company Shenzhen Office and concurrently General Manager of Lu Thai (HongKong).

18. Mr. Dong Shibing: Supervisor of the Company. He was born in 1969, graduated from technical secondary school. He took the post of Deputy Director of the General Manager Office of the Company.

19. Ms. Zhang Hongmei: Chief Accountant. She was born in 1970, holder of MBA degree and accountant. From 2001 to Apr. 2006, she held the post of the Deputy Chief Accountant of the Company.

20. Mr. Zhang Keming: Manager of Financial Department of the Company. He was born in 1968, MBA. From 2002 to 2006, he held the post of Deputy Manager of Financial Department; from Apr. 2006 to present, he acts as General Manager of Financial Department.

21. Ms. Wu Yanzhen: Manager of Human Resources Department of the Company. She was born in 1967, MBA and an engineer. From 2002 to 2004, she held the posts as Manager Representative of the Company, Director of the Office of International Standards Management System and Director of General Manager office. From 2004 to 2006, she acted as Assistant of Manager, Manager Representative, Director of General Manager Office, Manager of Human Resource Department and director of the Office of International standards Management System. From 2006 to present, she acts as Manager Representative of the Company, Manager of Human Resource Department and Director of the Office of International Standards Management System.

22. Ms. Qu Qingfeng: Chief Auditor of the Auditing Department. She was born in 1963, an accountant. From 2006 to present, she acts as Chief Auditor of the Auditing Department.

23. Mr. Zhang Jiangxiang: Director of Technical Research & Development Center. He was born in 1968, and MBA degree holder. He once worked as Manager of Quality Management Department and Director of Fabric Finishing Plant.

24. Mr. Yu Shouzheng: Energy Business Manager of the Company. He was born in 1968, and MBA degree holder. He once worked as Director of Dynamic Department in the Company. From 2007 to present, he acts as Manager of Energy Business Department in the Company.

25. Mr. Pan Pingli: General Manager of International Business Department. He was born in 1968 and MBA degree holder. From 2002 to present, he acts as General Manager of International Business Department.

26. Mr. Lv Yongchen: Deputy Manager of International Business Department. He was born in 1968 and MBA degree holder. From 2002 to present, he acts as Deputy Manager of International Business Department in the Company.

27. Mr. Zhang Shougang: Manager of Quality Control Department of the Company. He was born in 1970, MBA, once was director of Weaving Factory of the Company. From 2005 to 2008, He worked as Manager of Weaving Business Department in company. From 2008 to present, he acts as Manager of Quality Controller Department in the Company.

28. Mr. Wang Jiabing: Deputy Manager of Production Department of the Company. He was born in 1963, MBA and once acted as Manager of Dyeing Business Department.

29. Mr. Bai Nianyue: Manager of Basic Construction Department. He was born in 1965, MBA degree holder and engineer. He once worked as Director of Chief Engineer Office and Deputy Manager of Basic Construction Department. From Sep. 2006 to present, he acts as Director of Chief Engineer Office and Manager of Basic Construction Department.

30. Mr. Yu Yongbin: Manager of Fabric Finishing Department of the Company. He was born in 1966, MBA, once worked as Director of the Spinning Plant of the Company and Manager of Yarn Business Department. From 2005 to present, he acts as Manager of Fabric Finishing Business Department in the Company.

31. Mr. Zhang Zhanqi: Deputy General Manager in Lufeng Textile and Dye. He was born in 1972, MBA, once worked as Director of Fabric Finishing Plant and Manager of Quality Control Department.

III. Particulars about annual remuneration received by directors, supervisors and senior executives

1. For directors, supervisors and senior executives, the Company determined their remuneration and bonus based on their office title, contribution and Plan on Invigoration and Obligation for Senior Executive of the Company, and checked by the Remuneration Committee and approved by the Board of Directors for implementation.

Remuneration drawn from the Company by directors, supervisors and senior executives in the report period

Name	Title	Payment in the report period (RMB'0000/year)	Name	Title	Payment in the report period (RMB'0000/year)
Tengyuan Yingli	Director, senior consultant	483.22	Liu Zilong	Supervisor	20.96
Liu Shizhen	Chairman of the Board	110.87	Li Tongmin	Deputy General Manager/ Manager of Production Dep.	50.26
Xu Zhinan	Vice Chairman of the Board	8.75	Zhang Hongmei	Chief Accountant	21.95
Liu Zibin	Director/General Manager	51.25	Zhang Keming	Manager of Financial Dep.	21.86
Chen Ruimou	Director	8.75	Wu Yanzhen	Manager of HR Dep.	22.08
Zeng Facheng	Director		Qu Qingfeng	Chief Auditor of Audit Dep.	21.60
Wang Fangshui	Director/Chief engineer	51.02	Zhang Jianxiang	Director of Technology Research & Development Center	23.34
Sun Zhigang	Director	33.53	Pan Pingli	Manager of International Business Dep.	24.30
Qin Guilin	Director/ Secretary to the Board	46.41	Bai Nianyue	Manager of Basic Construction Dep.	21.69
Qi Haodong	Independent director	4.80	Yu Shouzheng	Manager of Energy Business Dep.	23.76
Li Zhixian	Independent director	4.80	Lv Yongchen	Deputy Manager of International Business Dep.	24.97
Zhou Zhiji	Independent director	4.80	Zhang Shougang	Manager of Quality Control Dep.	23.21
Wang Lei	Independent director	4.80	Wang Jiabin	Deputy Manager of Production Dep.	23.15
Bi Xiuli	Independent director	4.80	Yu Yongbin	Manager of Finishing Dep.	24.07
Zhu Lingwen	Supervisor/Manager of Layout Department	46.41	Zhang Zhanqi	Deputy General Manager of Lufeng Textile and Dye	23.33
Dong Shibing	Supervisor	20.59			

Total payment drawn from the Company by directors, supervisor and senior executives was RMB 12,553,300 (before tax).

IV. Changes of directors, supervisor and senior executives

1. About changes of directors, supervisor and senior executives

The Company held the Annual Shareholders' General Meeting 2008 on 5 Jun. 2009,

at which elected Li Zhixian, Zhou Zhiji and Wang Lei as independent directors of the 5th Board of Directors. In accordance with regulations, former independent directors Wang Yongui, Hong Xiaobin and You Shisong acted no longer due to expiration of office term being six years; during the report period, the supervisors of the Company remained unchanged.

2. Changes of senior executives

During the report period, senior executives of the Company remained unchanged.

V. About employees

By the end of the report period, the Company had totally 16,400 employees at their posts. Of which 12,390 are production personnel, 541 are sales personnel, 3,062 are technicians, 74 are financial personnel and 333 are administration personnel. At present, the Company has 62 retirees, who have all joined the Social Insurance.

Section VI Corporate Governance Structure

I. Corporate governance of the Company

The Company continued to perfect corporate governance structure, set up modern enterprise system and standardized the Company's operation strictly according to Company Law, Securities Law and normative documents related to administration of listed companies. The Company formulated such normative documents as Articles of Association, Rules for Procedure of Shareholders' General Meeting and Rules for Procedure of the Board of Directors; established Management System of Guarantee, Management System of External Investment, Management System of Related Transactions, Management System of Raised Proceeds, Work System of Independent Directors and Management System on Relationship of Investors; constituted detailed work rules for nomination committee, auditing committee, remuneration committee and strategy committee of the Board, which made corporate governance of the Company be systemization and standardization. In the report period, the Company revised parts clauses of Articles of Association in accordance with regulations, regulated Internal Control System on Forward Foreign Exchange Trading Hedging, and further perfected establishment of internal control system and ensured the unification of relevant laws and regulations and normative documents of the Company.

In accordance with requirements of CSRC, the Company actively joined activity of "Recertification Year of Corporate Governance of Listed Companies", and revised and perfected Articles of Association and relevant systems. According to spirit of document No. [2009] 34 from CSRC and combined with actual status of preparation and disclosure of Annual Report, the Company is formulating Investigation System on Responsibility for Serious Error in Disclosure of Annual Report and Administrative System on Inner, which will be submitted to the Board Meeting for review and approval.

II. Duty performance of directors

1. Presence of directors at the Board Meeting

Name	Title	Times should be present at the Board meeting	Times of personal presence	Times present at the Board Meeting through communication
Liu Shizhen	Chairman of the Board	8	8	0
Xu Zhinan	Vice Chairman of the Board	8	4	4
Liu Zibin	Director/General Manager	8	8	0
Tengyuan Yingli	Director/Senior Consultant	8	8	0
Chen Ruimou	Director	8	2	6
Zeng Facheng	Director	8	4	4
Wang Fangshui	Director/Chief engineer	8	8	0
Sun Zhigang	Director	8	3	5
Qin Guilin	Director/Secretary to the Board	8	8	0
Wang Yonggui	Independent director	5	1	4
You Shisong	Independent director	5	1	4
Hong Xiaobin	Independent director	5	1	4
Li Zhixian	Independent director	3	0	3
Zhou Zhiji	Independent director	3	2	1
Wang Lei	Independent director	3	1	2
Qi Haodong	Independent director	8	2	6
Bi Xiuli	Independent director	8	2	6

During the report period, no directors and independent directors absent from the Board Meeting for successive two times.

2. Dissidence on relevant events put forward by independent directors

During the report period, no independent directors dissented proposals at the Board Meeting and proposals at other meetings in current year.

III. Independence in business, personnel, assets, organization, finance and so on from controlling shareholder

1. In aspect of business: the Company is completely independent from its controlling shareholder in business and has complete and independent production, supply and sales system and independent operating capability.

2. In aspect of personnel: the Company was independent from its controlling shareholders in human resources such as labor, personnel and wage and has independent and complete capability.

3. In aspect of assets: the Company has complete and independent corporate property right, has independent and integrated production system, accessory production system and fitting facilities and has independent ownership of industrial property, trademark and non-patent technology etc.

4. In the aspect of organization: organization of the Company is independent and perfect, and there is no such situation that the Company shares the same office with its controlling shareholder.

5. In aspect of financing: the Company has independent financial department,

standardized financial calculating system, financial management system and internal control system and individual bank account.

IV. Establishment and perfection of internal control system of the Company

During the report period, the Company revised part caused of Articles of Association, reviewed, approved and formulated Internal Control System on Hedging of Forward Foreign Exchange Trading at the 31st Meeting of the 5th Board of Directors, and further perfected establishment of internal control system.

During the report period, Zhongrui Yuehua Certified Public Accountants, audit institution of the Company, issued Verification Report on Internal Control with document No. ZRYHZZ Zi [2009] 0804 on Self-appraisal Report on Internal Control, which was published in www.cninfo.com.cn on 15 Apr. 2009.

During the report period, Zhongrui Yuehua Certified Public Accountants, audit institution of the Company, issued Verification Report on Internal Control with document No. ZRYHZZ Zi [2010] 0337 on Explanation on Events relating to Internal Control of 2009, which was published in www.cninfo.com.cn on 19 Mar. 2010.

Independent directors and the Supervisory Committee of the Company respectively issued independent opinion on Explanation on Events relating to Internal Control of 2009. For details please refer to www.cninfo.com.cn on 19 Mar. 2010.

V. Establishment and Execution on appraisal & incentive mechanism, related incentive system for senior executives

During the report period, Remuneration Committee of the Board of Directors appraised operating achievements of the Company for the year 2008 according to Incentive and Restricted Proposal for Senior Executives of Lu Thai Textile Co., Ltd, and drew up incentive proposal for senior executives, which will be executed after review and approval by the 29th Meeting of the 5th Board of Directors dated 13 Apr. 2009.

Section VII Brief to Shareholders' General Meeting

During the report period, the Company totally held three shareholders' general meetings, namely the Shareholders' Annual General Meeting 2008, the 1st Provisional Shareholders' General Meeting 2009 and the 2nd Provisional Shareholders' General Meeting 2009. The three meetings were witnessed by lawyer of Shandong Deheng Lawyer Firm, who issued legal opinions respectively. Brief to the meetings are as follows:

I. The 1st Provisional Shareholders' General Meeting 2009

The Board of Directors of the Company had proposed and convened this Shareholders' General Meeting, which was voted on the spot and network. The public notice on holding the meeting was published in Securities Times, Shanghai Securities News and Ta Kung Pao as well as website www.cninfo.com.cn designated by CSRC on 17 Feb. 2009; On 3 Mar. 2009, the Company published suggestive notice again on holding the meeting in Securities Times, Shanghai Securities News and Ta Kung Pao

as well as website www.cninfo.com.cn.

II. Shareholders' Annual General Meeting 2008

The Board of Directors of the Company had proposed and convened this Shareholders' General Meeting, and the public notice on holding the meeting was published in Securities Times, Shanghai Securities News and Ta Kung Pao as well as website www.cninfo.com.cn designated by CSRC on 15 May 2009.

The meeting was held in Banyang villa meeting room of the Company on 6 Mar. 2009, at which seven proposals on Annual Report 2008, Work Report on the Board of Directors 2008 were reviewed and approved. Public notice on resolutions of the Shareholders' Meeting was published in Securities Times, Shanghai Securities News and Ta Kung Pao as well as www.cninfo.com.cn on 6 Jun. 2009.

III. The 2nd Provisional Shareholders' General Meeting 2009

The Board of Directors of the Company had proposed and convened this Shareholders' General Meeting, which was voted on the spot and network. The public notice on holding the meeting was published in Securities Times, Shanghai Securities News and Ta Kung Pao as well as website www.cninfo.com.cn designated by CSRC on 19 Aug. 2009; On 1 Sep. 2009, the Company published suggestive notice again on holding the meeting in Securities Times, Shanghai Securities News and Ta Kung Pao as well as website www.cninfo.com.cn.

The meeting was held in Banyang villa meeting room of the Company on 4 Sep. 2009, at which Proposal on Continuing to Use Part Idle Raised Capital to Supplement Current Assets was reviewed and approved. Public notice on resolutions of the Shareholders' Meeting was published in Securities Times, Shanghai Securities News and Ta Kung Pao as well as www.cninfo.com.cn on 5 Sep. 2009.

Section VIII Report of the Board of Directors

I. Operation status in the reporting period

(I) Overall operation

In the report period, the Company realized operating income amounting to RMB 4,036.2198 million, export for foreign exchange amounting to USD 435.86 million, operating profit amounting to RMB 652.3159 million, and the net profit attributable to the ordinary shareholders totaled RMB 570.2183 million, respectively up by 2.92%, -5.04%, 16.66% and 11.17% year-on-year.

In the report period, the main businesses, source and composing of main profit remained unchanged.

In the report period, influenced by global financial crisis, sales price of products dropped. Export for foreign exchange decreased year-on-year. However, in view of rigorous international status, the Company adopted active countermeasures at the year-begin, called on all staff to affront crisis, be active and ambitious, set up sprit of unity, and roundly developed activities of tapping potential and cost reduction, which reduced comprehensive production cost and ensured successful realization of annual

operating goal.

In the report period, the Company built Lu Thai Textile & Clothing Engineering Research Institute based on original technical research & development center, and roundly implemented innovation of science & technology. The Company continuously enlarged science & technology input, and the self innovation ability was enhanced and achievements of scientific research was outstanding. In 2009, the Company accomplished over 100 projects involving various kinds of new product development in 2009; won the 3rd prize of Shandong Provincial scientific and technological progress for the year 2009, 2nd and 3rd prize of scientific and technological progress of China National Textile and Apparel Council; the Company declared 18 patents, including one for PCT invention, one for Japanese invention, 5 ones for domestic invention and 6 patents for utility model; “Technology on Manufacturing Shirts without suture” and “Technology of Development on Bem-co Dyed Fabric” were approved probation of science & technical achievements organized by Shandong. Of which “Technology on Manufacturing Shirts without suture” was recognized as international leading level, “Technology of Development on Bem-co Dyed Fabric” and “Research on NG-XLA Stretch Iron-free Dyed Fabric” were recognized as international advanced level respectively. At present, the Company is undertaking one support plan on national science & technology and three national science & technology.

Up to now, the Company accumulatively declared 78 patents, including 31 patents for invention. 41 patents were authorized, of which 6 were for invention. The Company formed products system with natural fiber fabric as main line, multi-functional fiber fabric as leading, super wash-and-wear technology as core and with development on function and health as target. The Company shaped 82 series of dyed fabric and hundreds and thousands of designs & colors and varieties, which satisfied diversified market demand.

In the report period, the Company pushed brand development strategy, strengthened influence of brand, actively explored marketing business on network when enlarged material marketing networks, and carried on effective test and experience accumulation. At present, the Company set 26 exclusive stores (or counter) in top grade emporium in domestic major and medium-sized cities. In future brand generalization, the Company will implement various brand development strategy, localize clearly, extend multiple brands and stand out quality and brand, and present brand idea of “fit, satisfaction and consensus”.

(II) Main business and operation status

1. Business scope: The Company is a textile enterprise that has integrated spinning, bleaching and dyeing, weaving, after-finishing and clothes making as one comprehensive production. The leading products are the shirt-use colored woven cloth and shirts. Over 80 percent of the products produced by the parent company are for export, and their markets covering more than thirty countries and districts, including Japan, South Korea, America, Britain, Italy, etc. It is the largest production base of colored woven cloth in the world.

2. Operation classified according to products

Unit: RMB'0000 Yuan

Product	Operating income		Operating cost		Operating gross profit	
	2009	2008	2009	2008	2009	2008
Shirt cloth	250,474.19	256,711.85	173,051.18	190,281.56	77,423.01	66,430.28
Shirt	107,381.71	101,867.30	72,873.90	74,594.56	34,507.81	27,272.74
Ginned cotton	7,254.99	3,562.37	6,011.02	3,229.29	1,243.97	333.08
Chinese patented medicines	1,725.89	1,799.11	1,577.94	1,465.05	147.95	334.06
Power and steam	8,655.52	4,575.10	8,076.27	6,269.71	579.25	-1,694.61
Others	28,129.68	23,668.01	18,598.78	15,947.46	9,530.90	7,720.56
Total	403,621.98	392,183.74	280,189.09	291,787.63	123,432.89	100,396.11

3. Market distribution of products

Unit: RMB'0000 Yuan

Area	2009	Proportion (%)	2008	Proportion (%)
Japan and South Korea	41,792.95	10.35	49,817.89	12.70
Hong Kong	33,219.41	8.23	41,784.56	10.65
Southeast Asia	92,817.08	23.00	81,455.46	20.77
Europe and America	105,195.58	26.06	95,544.75	24.36
Other	13,906.88	3.45	46,330.16	11.81
Domestic	116,690.08	28.91	77,250.92	19.70
Total	403,621.98	100.00	392,183.74	100.00

4. Principal suppliers and clients

During the report period, purchasing amount the top five suppliers totaled RMB 521.2295 million, taking up 20.62% of total purchase amount of the year.

During the report period, sales amount of the top five clients totaled RMB 1,278.0262 million, taking up 31.66% of total sales amount of the year.

(III) Assets composing of the Company

Unit: RMB'0000 Yuan

Items	Amount of current period	Proportion in total assets	Amount of the same period in last year	Proportion in total assets
Accounts receivable	15,406.93	2.44%	13,427.26	1.89%
Inventories	122,949.49	19.51%	137,005.81	19.32%
Fixed assets	362,029.81	57.44%	372,866.24	52.58%
Projects in construction	7,304.54	1.16%	16,179.84	2.28%

Short-term borrowings	103,254.1 8	16.38%	197,433.39	27.84%
Long-term borrowings	9,261.22	1.47%	29,851.06	4.21%

(1) Proportion of fixed assets decreased by 4.86%, mainly because the Company repaid bank loan and the liabilities decreased.

(2) Proportion of short-term borrowings decreased by 11.46%, which was mainly because the Company used the residual raised capital to return the bank loan.

(3) Proportion of long-term borrowings decreased by 2.74%, which was mainly due to decrease of long-term borrowings from bank.

(IV) Sales expense, administrative expense and financial expense of the Company in the report period

Unit: RMB'0000 Yuan

Items	Amount of this period	Amount of the same period in last year	Increase/decrease
Sales expense	13,751.69	12,365.46	11.21%
Administrative expense	33,971.92	23,154.94	46.72%
Financial expense	6,093.97	3,910.51	55.84%

(1) Sales expense of the report period increased by 6.87% year-on-year, which was mainly because expenses for domestic exclusive stores and development on network marketing.

(2) Administrative expense in the report period increased by 46.72% year-on-year, main because expense for research & development increased.

(3) Financial expense of the report period increased 55.84% year-on-year, which was mainly because of decrease of exchange income.

(V) Analysis on relevant data in cash flow statement

Unit: RMB'0000 Yuan

Items	Amount of this period	Amount of the same period in last year	Increase/decrease
Net cash flow arising from operating activities	99,181.31	78,199.59	26.83%
Net cash flow arising from investing activities	-16,299.61	-41,597.32	60.82%
Net cash flow arising from financing activities	-139,856.27	31,595.99	-542.64%

(1) Net cash flow arising from operating activities in the report period increased by 26.83% year-on-year, which was mainly because cash from purchase of goods and payment for labor service decreased.

(2) Net cash flow arising from investing activities in the report period increased by 60.82% year-on-year, mainly because purchase of fixed assets and expense for

intangible assets decreased.

(3) Net cash flow arising from financing activities in the report period decreased by 542.64% year-on-year, mainly because the Company issued A share to finance and borrowings decreased.

(VI) Discussion and analysis on important information relating to operation of the Company

In the report period, the utilization rate of the equipments and installations reached 100 percent, with part of the products commissioned for third party processing. The main products like the colored woven cloth and shirts were produced according to the orders. Main technicians were stable, and there wasn't any loss of main technicians. Although production orders are saturated, price of some orders dropped, quantity decreased, and batches increased and delivery date shortened, which was obvious characteristic in the reporting period.

In the report period, financial crisis caused changes of trading environment. Since set-up of the Company, products mainly sold in international market. From 2007 to 2009, export income took up over 80% in sales income. Since 1 Jan. 2009, textile export quota of China to main countries had been canceled, but influenced by financial crisis at the second half year of 2008, trade protectionism rose and trade friction increased. In the three quarters of 2009, nineteen countries and regions promoted 88 investigations on Chinese products for trade remedy, and related amount was about USD 10.2 billion, with an increase of 125% year-on-year, of which many cases involved in textile. Future trade friction is able to be restriction in quality, intellectual property, technical barrier, anti-dumping, anti-subsidy and human rights protection for labor from developed countries to Chinese textile. The Company is the largest high-ended dyed cloth manufacturer in the world, and established long-term and stable cooperation with international trade partner; participates in international competition with diversified products with high quality, ensured stability of clients and enough orders, and effective confronted influence of financial crisis on changes in trading environment.

(VII) Operation and achievement of the controlling companies and shareholding companies

Unit: RMB'0000 Yuan

Name	Business nature	Product or service	Registered capital	Total assets	Net profit	Proportion of equity held
Beijing Luthai Shirt Co., Ltd	Production enterprise	Shirt	560	1,150.16	-131.66	60%
Beijing Sichuang Adornments Co., Ltd	Production and sales	Clothes, finery	3500	9,420.61	81.17	60%
Xinjiang Luthai Harvest Cotton Co., Ltd	Production and sales	Ginned cotton	11863	68,449.49	3,705.42	57.41%
Luthai (Hong Kong) Co., Ltd	Import and export trade	Market service	HKD 6 million	3,144.65	516.93	100%
Shandong Luthai Huanzhong	Production and sales	Chinese patented	10700	6,818.82	-868.24	100%

Pharmaceutical Co., Ltd		medicines				
Lufeng Weaving & Dyeing Co., Ltd	Production and sales	Piece-dyed cloth	48616	77,200.59	7,376.04	75%
Zibo Luqun Textile Co., Ltd	Production and sales	Spinning, twining	16822	61,741.14	4,356.09	100%
Zibo Xinsheng Thermal Power Co., Ltd	Production and sales	Power, stream	16243.56	24,753.73	1,627.26	100%

Note: During the reporting period, deficit of Luthai Huanzhong was because of the higher production cost;

II. Future development of the Company

(I) Development trend of the industry where the Company is engaged

Engaged in the cotton textile industry, the Company mainly produces and sells the yarn dyed fabric used for shirts and shirt products, with the sales of the yarn dyed fabric taking up 80% of the Company's total sales. Currently, the yarn dyed fabric falls into three categories, i.e. the top, the high-end, and the middle and low end, which have formed a triangular structure. To be specific, the top-grade yarn dyed fabric is mainly produced by the few manufacturers in Italy, France, Germany, Japan, etc., with the combined production capacity not exceeding 50 million meters per year. And it mainly targets at the fashion and top-brand shirt market. The high-end yarn dyed fabric was characterized of high-density and high-counts, and delicateness after-finishing. Though inferior to the top-grade yarn dyed fabric in terms of the pattern design and fashion, it requires an advanced manufacturing technology and a high product quality, which does not differ much from the former.

At present, the global production capacity of high-ended dyed fabric is about 0.7 billion meters, with the Company taking up approximately 40%, which was the largest production base of dyed fabric. The cotton dyed fabric has characters of dyed fastness, clear striped weave, abundant varieties and comfort, which will be the paramount selection for clothing day by day and the consumption is trending to upswing. According to data from customs in China, export of cotton dyed fabric increased to USD 2.21 billion of 2008 from USD 1.774 billion of 2005. Influenced by global financial crisis, from Jan. to Dec. 2009, export of pure cotton dyed fabric accumulatively totaled 1.0043 billion meters, down by 13.21% year-on-year, and export amount accumulatively totaled USD 1.88953 billion, with a decrease of 14.46% year-on-year. Owing to strong demand of dyed fabric and high added value of quality, design and color, export price of pure cotton dyed fabric is more downward rigidity compared with homogenous products. In domestic demand, supply of low-ended dyed fabric in China exceeded demand when demand of high-ended dyed fabric exceeded supply, and the state need to import 280 million meters high-ended dyed fabric every year. So the market was till potential.

In the short term, capacity of medium and low-ended dyed fabric will be relative surplus in China, and it is uncertain whether the export price and gross profit ration of the whole industry will rise again before the outward demand recovers. High-ended dyed fabric is still in status of demand exceeding supply. In the long term, along with stable economy, people's life and consumption in our country will be continue to

promote, and the consumption demand on high-ended dyed fabric will also increase.

(II) Opportunities and challenges in future development

In order to promote competitive power of textile industry in China and support textile enterprises in difficulty, the state successively raised export tax rebates rate of textile and clothing for four times and directly brought actual interest for textile industry; issued Adjustment and Promotion Plan on Textile Industry, which posed to stabilize domestic and foreign market, promote self innovation ability, accelerate implementation of technical innovation, wash out behindhand capacity, optimize region distribution, perfect self-owned brand establishment, promote competitive power of enterprises and supply policy support on structure adjustment and development direction of the future textile industry.

China's textile industry enjoys outstanding advantages in the world. Currently, due to the impact of the global financial crisis, some small and medium-sized enterprises are forced to diminish or stop their production, or even shut down the plants, which leads to a reduced production of yarn dyed fabrics in China. However, the comprehensive advantage of China's textile industry remains unchanged. As a large textile enterprise with a complete industrial chain integrating the cotton planting, spinning, blanching and dyeing, weaving, after-finishing and clothes making, the Company focused on research & development input and accumulation of technology, and the Company has advantages in long-term and stable customer sources, stable technical and management teams, which was in accordance with requirements of basic task to promote industry proposed by Adjustment and Promotion Plan on Textile Industry. All these advantages helped the Company through the economic difficulties. Operating performance exceeded predicts at the year-begin, and realized operating task of the Company. At present, global economy turned to stable and revival, which will supply new chance for excellent enterprises in the industry.

(III) Capital needs, sources and use plans

The Company executed refinancing project in Dec. 2008, and issued 150 million A shares. Net financing amount was RMB 950.814500 million, which was invested in the Production Project for 150 Thousand Ingot Top-grade Fine Combed Yarns, the Production Line Project for 50 Thousand Ingot Top-grade Ply Yarns, the Production Line Project for 10-million-meter Top-grade Jacquard Fabrics for Women's Wear, and the Project of Brand and Marketing Network Promotion), as well as to supplement current capital. Of which Production Project for 150 Thousand Ingot Top-grade Fine Combed Yarns and the Production Line Project for 50 Thousand Ingot Top-grade Ply Yarns had been put into production successfully, the Production Line Project for 10-million-meter Top-grade Jacquard Fabrics for Women's Wear is in process and will be put into production in the second quarter of 2010, and the Project of Brand and Marketing Network Promotion is in process.

(IV) Risks to the realization of development strategies and operating objectives, as well as the countermeasures

Change of exchange rate: at present and in the future for a long time, products of the Company mainly export to international market, and sales income mainly settled with USD; meanwhile, major equipments used in the Company was imported, part foreign exchange paid for import was not USD expense. Our country executed directional system on fluctuated exchange rate, so the exchange rate fluctuated with changes of domestic and foreign policy and environment; operating performance of the Company will be influenced when the exchange rate fluctuated sharply. During exchange rate reform dated 21 Jul. 2005 to 31 Dec. 2009, exchange rate of RMB to USD accumulatively appreciated 21.21%, which caused certain negative influence on exchange of export income to RMB. In order to reduce adverse influence of exchange rate fluctuation, the Company adopted the following measures: first, the Company formulated Internal Control System on Hedging of Forward Foreign Exchange Trading, strengthened financial administration and personnel training, collected information of foreign exchange in time, actively developed research and judgment on trend of exchange rate to promote ability to reply to exchange rate fluctuation. Based on judgment on in fluctuation trend of exchange rate, the Company adopted hedging foreign exchange, forward foreign exchange settlement, reasonable arrangement on settlement day and currency structure and signature of agreement on fixed foreign exchange rate to keep sales profit and effectively reduced influence of exchange rate fluctuation. Second, the Company actively adjusted liabilities structure, repaid RMB borrowings and keep foreign currency borrowings with large amount, which reduced risks from appreciation of RMB to some extent. Up to 31 Dec. 2009, borrowings of parent company were foreign currency. Third, the Company properly increased import proportion of supplementary of raw material, machines, equipment and fittings and accessories, and offset influence of appreciation of RMB on company.

Fluctuation on price of raw material: raw material of the Company was mainly long stapled cotton, and supply and price of long stapled cotton mainly influenced by market demand, climate, cotton reserves, and changes in exchange rate of RMB and import quota management of cotton in the state. From 2007 to 2009, price of long stapled cotton fluctuated sharply. In order to reduce influence of long stapled cotton, the Company adopted the following measures, first, the Company planted through Xinjiang Luthai Harvest Cotton Co., Ltd, and cotton yield at present can meet 30% of demand of the Company; second, the Company founded domestic and overseas specialized team, traced changes of cotton market, held regular meeting on cotton purchase every week, accurately learned change of cotton market, and reasonably increase or reduce cotton reserves; third, the Company signed long-term orders and frame agreement with principal suppliers to establish long-term stable relationship of supply and demand; fourth, the Company actively acquired import quota of cotton, and had the initiative of allocation of purchase proportion of domestic and overseas long stapled cotton. The Company avoided price fluctuation of raw material feasibly and effectively through a series of measures, and assured that fluctuation range of raw material in the Company was lower than that of market.

III. Investment in the report period

1. Use of raised capital in the report period

In the report period, the Company continued to use raised capital of RMB 973.50 million through the public listing of additional 150 million A-shares. And the actual net amount of the raised capital after deducting all the issuance expenses stood at RMB 950,814,500, of which the use in the report period was detailed as follows:

(1) About the Production Project for 150-thousand Ingot Top-grade Fine Combed Yarns: Up to 31 Dec. 2009, the original planned investment amount was RMB 334,609,300 by the raised capital and was later adjusted to RMB 264,609,300. At present, investment accumulatively amounted to RMB 259,823,900, accomplishing 91.96% of the investment. The project put into production in Aug. 2008.

(2) About the Two-for-one Twisting Production Line Project: Up to 31 Dec. 2009, the original planned investment amount was RMB 142,518,700 by the raised capital and was later adjusted to RMB 40,868,300. At present, investment accumulatively amounted to RMB 38,179,700, accomplishing 93.42% of the investment. The project put into production in Jan. 2009.

(3) About the Project for Brand and Marketing Network Development: Up to 31 Dec. 2009, the Company planned to invest raised capital of RMB 200 million. Input in the report period accumulatively amounted to RMB 11,772,700, accomplishing 5.89% of planned investment. At present, the Company set 26 exclusive stores in Beijing, Shanghai, Chengdu, Kunming and Jinan.

(4) About the Production Line Project for 10-million-meter Top-grade Jacquard Fabrics for Women's Wear: RMB 145,336,900 was originally planned to be put into the project. In the report period, the Company invested RMB 28,348,200 and accumulative investment was RMB 28,348,200, accomplishing 29.51% of planned investment. Influenced by financial crisis, the Company slowed down the establishment of the project, and planned to put into production in the second quarter of 2010.

(5) About the Project for Supplementing the Working Capital: After the arrival of the raised capital in Dec. 2008, RMB 300,000,000 was used for supplementing the working capital.

2. Investment with non-raised capital in the report period

In the report period, the 50-million-meter Yarn Dyed Fabrics Project invested with owned capital has been accomplished, which ran in good condition.

. Routine work of Board of Directors

() Meetings held and the resolutions made in the reporting period

During the reporting period, the Company's Board of Directors convened 8 meetings, which were detailed as follows:

1. The 27th Meeting of the 5th Board of Directors was convened on 11 Jan. 2009, at which directors reviewed and approved the proposal on replacing the self-collected funds of RMB 264,861,646.97 put into raised funds projects in advance with raised funds and the proposal on providing a maximum-amount joint liability guarantee for

the application of the controlling subsidiary Lufeng Weaving & Dyeing Co., Ltd. to the sub-branch of China Agricultural Bank in Zichuan District, Zibo City for a line of credit for working capital of RMB 120 million. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 13 Jan. 2009.

2. The 28th Meeting of the 5th Board of Directors was convened on 16 Feb. 2009, at which three proposals including the Proposal on Temporarily Supplementing Working Capital with Some Idle Raised Funds were reviewed and approved. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 17 Feb. 2009.

3. The 29th Meeting of the 5th Board of Directors was convened on 13 Apr. 2009, at which 11 proposals including the 2008 Annual Work Report of Board of Directors were reviewed and approved. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 15 Apr. 2009.

4. The 30th Meeting of the 5th Board of Directors was convened on 23 Apr. 2009, at which 3 proposals including the First Quarterly Report 2009 of Lu Thai Textile Co., Ltd. were reviewed and approved. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 25 Apr. 2009.

5. The 31st Meeting of the 5th Board of Directors was convened on 14 May 2009, at which 3 proposals including the Proposal on Convening 2008 Annual Shareholders' General Meeting were reviewed and approved. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 15 May 2009.

6. The 32nd Meeting of the 5th Board of Directors was convened on 5 Jun. 2009, at which 6 proposals including the proposal on electing Li Zhixian and Zhou Zhiji as members of the Nomination Committee under the Board and Zhou Zhiji as Chairman of the Nomination Committee were reviewed and approved. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 6 Jun. 2009.

7. The 33rd Meeting of the 5th Board of Directors was convened on 18 Aug. 2009, at which 4 proposals including the 2009 Semi-annual Report were reviewed and approved. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 19 Aug. 2009.

8. The 34th Meeting of the 5th Board of Directors was convened on 26 Oct. 2009, at which 6 proposals including the Third Quarterly Report 2009 were reviewed and approved. And the resolutions of the meeting were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 27 Oct. 2009.

() Execution of resolutions made at Shareholders' General Meeting by the Board of Directors

In the reporting period, according to the Company Law and the Articles of Association of the Company, the Board faithfully performed its rights and duties endowed by Shareholders' General Meeting, and effectively executed the resolutions made at the Shareholders' General Meeting. And it carried out the 2008 profit distribution plan.

() Duty fulfillment of Audit Committee under the Board

1. Work of Audit Committee under the Board

In strict accordance with the Specific Rules for Audit Committee, the Audit Committee conscientiously performed their responsibilities, which mainly included conducting communication, supervision and checks in the Company's internal and external auditing. According to the Document ZJGS Zi 【2007】No. 235, the Rules for Audit Committee Concerning Annual Reports was examined and approved at the 12th Meeting of the 5th Board of Directors. In strict compliance with the approved Rules, the Audit Committee performed its duty of supervision in the annual report preparation and maintained the audit independence in the process of auditing the 2009 financial report. And the work of the Audit Committee in the preparation of the 2009 Annual Report was mainly detailed as follows:

(1) The Audit Committee held an on-site meeting on 28 Dec. 2009, where the Committee and the Project Manager of the Company's 2009 financial audit from Zhongrui Yuehua Certified Public Accountants Co., Ltd., through consultation, decided the overall plan for the Company's 2009 financial audit. And Chief Accountant and Chief Auditor of the Audit Department of the Company sat in on the meeting.

(2) The Committee reviewed the Company's 2009 financial statements prepared by the Company's Financial Department, and issued a written opinion.

(3) In the audit process, the Committee kept in contact with the project manager from Zhongrui Yuehua Certified Public Accountants Co., Ltd. by phone, email, etc., and urged the manager to submit the auditor's report within the set time.

(4) The 2nd Meeting on 2009 Annual Audit was held by the Committee on 11 Jan. 2010, where the Committee reviewed the Company's financial statements to be submitted to Zhongrui Yuehua Certified Public Accountants Co., Ltd. for audit and issued a written opinion.

(5) The 3rd Meeting on 2009 Annual Audit, as well as the 2009 Annual Work Conference, were convened by the Committee on 16 Mar. 2010, where the following proposals were approved as resolutions, namely, the audited 2009 Financial Report of the Company, the Summary Report on the Audit Conducted by Zhongrui Yuehua Certified Public Accountants Co., Ltd. on the Company's 2009 Financial Report, and the Proposal on Renewing Employment of Zhongrui Yuehua Certified Public Accountants Co., Ltd. as the Company's audit agency for 2010.

2. Written opinions, summary report of the annual audit, and resolutions of 2009 Work Conference on Annual Report by Audit Committee

(1) Audit Committee's written opinion on the 2009 financial and accounting

statements prepared by the Company's Financial Department before the presence of the registered accountants for the annual audit:

According to the Rules for Audit Committee of the Board Concerning Annual Reports of Lu Thai Textile Co., Ltd., the Audit Committee shall perform its duties of conducting supervision and checks in the Company's preparation and disclosure of its annual reports. The Committee reviewed the 2009 financial and accounting statements prepared by the Company's Financial Department before the presence of the registered accountants for the annual audit, and expressed its opinion as follows:

The financial and accounting statements were prepared in accordance with the Company's accounting policy with proper application of the accounting policy and reasonable accounting estimates, which were in line with the New Accounting Standards for Business Enterprises, the Accounting System for Business Enterprises, and the relevant regulations issued by the Ministry of Finance of PRC;

The subsidiary statements included in the Company's consolidated statements were complete in terms of contents, providing an accurate basis for the statement combination;

The Company's financial statements were found objective, factual and accurate with no major misstatements or information omission.

Since there is still a certain period of time from this review of the financial statements to the formal issuance of the auditor's report and the financial statements, the Company's Financial Department is advised to pay close attention to and carefully handle the matters after the balance sheet date, so as to ensure the fairness, factuality and completeness of the financial statements. The Audit Committee is of the opinion that the financial and accounting statements are ready to be submitted to the registered accountants for audit.

Audit Committee of the Board of Directors

11 Jan. 2010

(2) Audit Committee's written opinion on the Company's financial statements after the preliminary audit opinion was issued by Zhongrui Yuehua Certified Public Accountants Co., Ltd.:

According to the Rules for Audit Committee of the Board Concerning Annual Reports of Lu Thai Textile Co., Ltd., the Audit Committee shall perform its duties of conducting supervision and checks in the Company's preparation and disclosure of its annual reports. We effectively communicated with the said CPA firm at the beginning of the audit. And we once again reviewed the Company's 2009 financial and accounting statements following the preliminary audit opinion issued by the CPA firm, and expressed our opinions as follows:

In accordance with the New Accounting Standards for Business Enterprises and the Company's relevant financial rules, the financial statements were prepared in a rational and standardized way, which fairly, factually, accurately and completely presented the Company's assets, liabilities, shareholders' equity and operation results by 31 Dec. 2009.

The Audit Committee is of the opinion that the Company's 2009 financial and

accounting statements preliminarily audited by Zhongrui Yuehua Certified Public Accountants Co., Ltd. are ready to be submitted to the Audit Committee for review and approval.

Audit Committee of the Board of Directors
16 Mar. 2010

(3) Resolutions made at 2009 Annual Work Conference of Audit Committee of the Board

The Audit Committee of the Board of Lu Thai Textile Co., Ltd. held its 2009 Annual Work Conference at Banyang Villa Meeting Room of the Company on 16 Mar. 2010. Three persons were supposed to attend the meeting, and all three of them were in fact present at the meeting. Mr. Qi Haodong, Chairman of the Audit Committee, presided over the meeting, and Chief Accountant and Chief Auditor of the Audit Department sat in on the meeting. The meeting was convened in accordance with the Company Law and the Articles of Association of the Company. And the following proposals were passed by vote at the meeting:

With 3 favorable votes, 0 negative votes and no abstentions, the 2009 Annual Financial Report of the Company Audited by CPA Firm was passed;

With 3 favorable votes, 0 negative votes and no abstentions, the Summary Report on the Audit Conducted by Zhongrui Yuehua Certified Public Accountants Co., Ltd. on the Company's 2009 Financial Report was passed;

With 3 favorable votes, 0 negative votes and no abstentions, the Proposal on Renewing Employment of Zhongrui Yuehua Certified Public Accountants Co., Ltd. as the Company's audit agency for 2010 was passed with a valid term of 1 year.

The Committee agrees to submit the above-mentioned proposals to the Board of Directors for examination.

Audit Committee of the Board of Directors
16 Mar. 2010

() Duty fulfillment of Remuneration Committee subordinate to the Board

1. On 12 Apr. 2009, the Remuneration Committee convened the 1st meeting in the year 2009, where the Proposal on 2008 Appraisal Results of Senior Management Personnel of Lu Thai Textile Co., Ltd. was put forward according to the Incentive and Disciplinary Mechanism for Senior Management Personnel of Lu Thai Textile Co., Ltd.. And the proposal was submitted to and passed by the 29th meeting of the 5th Board on 13 Apr. 2009.

(2) On 8 May 2009, according to the Incentive and Disciplinary Mechanism for Senior Management Personnel of Lu Thai Textile Co., Ltd., as well as the resolution of the 29th meeting of the 5th Board, the Remuneration Committee convened its 2nd meeting in the year 2009, where the Resolution on Withdrawing Risk Funds in 2008 was made.

() Duty fulfillment of Nomination Committee subordinate to the Board

On 14 May 2009, the Nomination Committee submitted the proposal on re-electing

independent directors: According to relevant laws and regulations, independent directors of a listed company shall serve no more than six consecutive years. Independent directors of the 5th Board of the Company Mr. You Shisong, Mr. Hong Xiaobin and Mr. Wang Yonggui had taken their post since May 2003 and it had been six years by May 2009. After its examination on jobs, education backgrounds, titles, detailed work experiences, part-time jobs, etc. of Mr. Zhou Zhiji, Mr. Li Zhixian and Ms. Wang Lei, the Nomination Committee is of the opinion that all three of them are qualified for the post of independent director, and that they are not related to Lu Thai Textile Co., Ltd. in a way that may affect the independency of the nominees. All three of them have obtained the certificates upon completion of the training course for independent director credentials, which is in line with relevant laws and regulations. This nomination has been reviewed and approved at the 31st Meeting of the 5th Board of Directors and will be submitted to the 2008 Annual Shareholders' General Meeting for review and approval.

At the 2008 Annual Shareholders' General Meeting of the Company, the proposal on electing Li Zhixian, Zhou Zhiji and Wang Lei as independent directors for the 5th Board was reviewed and approved. On 5 Jun. 2009, the Nomination Committee under the 5th Board proposed to adjust members of the specialized committees under the Board as follows:

The original members of the Nomination Committee are Liu Shizhen, Qi Haodong and Bi Xiuli. And Zhou Zhiji and Li Zhixian are hereby nominated as candidate members for the Nomination Committee, and Zhou Zhiji as the chairman candidate.

The original members of the Remuneration Committee are Liu Shizhen, Liu Zibin, Hong Xiaobin, Qi Haodong and Bi Xiuli, with Hong Xiaobin as Chairman. Upon the expiration of the term of Hong Xiaobin, Zhou Zhiji and Li Zhixian are hereby nominated as candidate members for the Remuneration Committee, with Li Zhixian as the chairman candidate.

The original members of the Audit Committee are Qi Haodong, Qin Guilin and Wang Yonggui, with Qi Haodong as Chairman. Upon the expiration of the term of Wang Yonggui, Zhou Zhiji is hereby nominated as a candidate member for the Audit Committee.

The original members of the Strategic Decision Committee are Liu Shizhen, Xu Zhinan, Chen Ruimo, Tengyuan Yingli, Liu Zibin, Wang Fangshui, Sun Zhigang, Qin Guilin, Qi Haodong, Bi Xiuli, Wang Yonggui, Hong Xiaobin, You Shisong and Zeng Facheng, with Liu Shizhen as Chairman. Upon the expiration of the term of Wang Yonggui, Hong Xiaobin and You Shisong, Zhou Zhiji, Li Zhixian and Wang Lei are hereby nominated as candidate members for the Strategic Decision Committee.

The said proposal has been reviewed and approved at the 32nd Meeting of the 5th Board of Directors.

VI. Profit Distribution Preplan and Preplan of turning Capital Reserve into Share Capital

1. Profit distribution for the report period

The profit distribution preplan 2009 was approved at the 36th meeting of the 5th Board

of Directors: Based on total share capital of 994,864,800 shares as at 31 Dec. 2009, the cash dividend of RMB 2.50 (tax included) will be distributed for every 10 shares. In total, RMB 248,716,200.00 will be distributed as dividends. The remaining profit available for distribution amounting to RMB 929,477,542.66 shall be transferred to the next accounting year for distribution. Of which, the cash dividend to shareholders of B share shall be converted into HK dollars by the middle price between RMB and HKD declared by the People's Bank of China on the first working day after adopting resolution of the Shareholders' General Meeting (Dividends to individual shareholders will be free of tax pursuant to the Document GSF (1993) No.45, and as for non-resident enterprise shareholders, enterprise income tax will be collected by 10% on the dividends distributed to them pursuant to the Enterprise Income Tax Law of PRC and other stipulations.) The aforesaid profit distribution proposal shall be implemented after being reviewed and approved by the Shareholders' General Meeting 2009.

2. Cash dividends distributed in the past three years

Unit: (RMB) Yuan

	Cash dividend (tax included)	Net profit in consolidated statements attributable to owners of parent company	Ratio to Net profit in consolidated statements attributable to owners of parent company
2008	198,972,960.00	512,944,678.08	38.79%
2007	187,754,304.50	459,725,146.61	40.84%
2006	157,060,366.32	340,019,432.40	46.19%

VII. Other events that should be disclosed

The newspapers for information disclosure designated by the Company are Securities Times, Shanghai Securities News and Ta Kung Pao.

SECTION IX REPORT OF SUPERVISORY COMMITTEE

I. The work of the Supervisory Committee in the reporting period

In the report period, the Supervisory Committee held one meeting and sat in on some of the eight board meetings of the Company.

The 7th Meeting of the 5th Supervisory Committee was convened on 13 Apr. 2009, at which five proposals were reviewed and approved, including the 2008 Work Report of Supervisory Committee and the 2008 Annual Report & Summary of the Company. Resolutions made at the said meeting were disclosed on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 15 Apr. 2009.

On 23 Apr. 2009, three supervisors sat in on the 30th Meeting of the 5th Board of Directors, reviewing the 1st Quarterly Report 2009 of the Company and issuing a written opinion.

On 18 Aug. 2009, three supervisors sat in on the 33rd Meeting of the 5th Board of Directors, reviewing the Semi-annual Report 2009 of the Company and issuing a written opinion.

On 26 Oct. 2009, three supervisors sat in on the 34th Meeting of the 5th Board of

Directors, reviewing the 3rd Quarterly Report 2009 of the Company and issuing a written opinion.

II. Independent Opinions Expressed by the Supervisory Committee

1. Particulars about Operation According to the Laws

In the reporting period, the Supervisory Committee of the Company got to know and conducted overall and careful examination on the decision-making procedure of the Company, implementation of internal control system as well as duty performance of Directors and Senior Executives. It believed that the internal control system of the Company was sound and the decision-making procedure was normative, and that no breach of the laws, regulations and the Articles of Association was found, neither were the behaviors damaging the interest of the Company.

2. Inspection of the Company's finance

The Supervisory Committee carefully checked the Auditors' Reports produced for the Company, and agreed that the financial report had authentically and accurately reflected the Company's financial status and business achievement.

3. The Company's latest raised proceeds were RMB 973,500,000 raised by the additional issuance of 150,000,000 A shares in Dec. 2008. After deduction of issue expense, the net amount of raised proceeds was RMB 950,814,500. The use of raised proceeds was in accordance with relevant provisions and rules for raised proceeds management.

4. Whether the transaction price of purchasing and selling assets of the Company was reasonable or not

In the reporting period, no purchase or sale of the Company's assets occurred.

5. Whether the affiliated transactions were fair or not; whether they did harm to the interests of the listed Company or not

In opinion of the Supervisory Committee, the affiliated transactions of the Company occurred in the reporting period were in compliance with the relevant regulations and the principle of "Fair, Just and Open", and did no harm to the interests of the listed Company.

6. The Company didn't make profit forecast. Zhongrui Yuehua Certified Public Accountants issued the standard unqualified Auditors' Report for the Company in this year.

SECTION X. SIGNIFICANT EVENTS

I. .During the reporting period, the Company had no significant lawsuits and arbitrations.

II. During the reporting period, the Company had no relevant event about bankruptcy and reorganization.

III. During the reporting period, the Company had no such investment behavior as holding equity of other listed companies, or involving in equity participation in financial enterprises like commercial banks, securities companies, insurance companies, trust companies and futures companies etc..

IV. In the report period, there existed no asset purchase, asset sale or enterprise merger in the Company.

V. The Company had not formulated and implemented any share incentive plan.

VI. Significant Affiliated Transaction Events of the Company in the Reporting Period

1. Affiliated Transactions Related to Daily Operation Activities

For details, please refer to Notes to Financial Statement “ . Relationship of affiliated parties and their transactions” enclosed in the Annual Report.

2. In the reporting period, the Company had no such affiliated transaction as assets and equity transfer.

3. In the reporting period, the Company had no such affiliated transaction as external investment jointly with affiliated parties.

4. Particulars about Creditor’s Right, Debt and Guarantees between the Company and affiliated parties

In the report period, the Company only provided guarantees for loans and letters of credit for its controlling subsidiaries. The total guarantee amount stood at RMB 174 million in the report period with a closing balance of RMB 10 million, which accounted for 0.26% of shareholders’ equity of parent company. For more details about the guarantees, please refer to Notes to Financial Statement “ . Contingencies”.

5. Other Significant Affiliated Transactions

In the reporting period, the Company leased land, houses and gas station from the big shareholder Zibo Lucheng Co., Ltd, with the leasing charge aggregating RMB 4,681,200. Meanwhile, the wholly-owned subsidiary Luqun Textile leased equipments and places from the big shareholder Zibo Lucheng Co. Ltd, with the leasing charge aggregating RMB 4,355,000 and the Company leased cotton storage location from Luqun Land Co., Ltd, with the leasing charge aggregating RMB 475,200.

VII. Significant Contracts of the Company and Their Implementation

1. Trusteeship, Contract and Lease of Other Companies’ Assets in the Reporting Period

In the reporting period, the Company leased land, houses and gas station from the big shareholder Zibo Lucheng Co., Ltd, with the leasing charge aggregating RMB 4,681,200. Meanwhile, the wholly-owned subsidiary Luqun Textile leased equipments and places from the big shareholder Zibo Lucheng Co. Ltd, with the leasing charge aggregating RMB 4,355,000 and the Company leased cotton storage location from Luqun Land Co., Ltd, with the leasing charge aggregating RMB 475,200.

2. Significant Guarantee

In the report period, the Company only provided guarantees for loans and letters of credit for its controlling subsidiaries. The total guarantee amount stood at RMB 174 million in the report period with a closing balance of RMB 10 million, which accounted for 0.26% of shareholders’ equity of parent company.

The Company did not provide guarantees for its shareholders, actual controller or related parties.

In the report period, the Company provided a guarantee of RMB 100 million to its

controlling subsidiary Xinjiang Lu Thai, and the guaranteed loan was already paid off on 27 Nov. 2009.

3. The Company did not entrust others to take charge of cash assets management in the reporting period or the previous periods.

4. Other Significant Contracts

As of Dec. 31, 2009, details about significant contracts on capital expenditure which have been signed yet not implemented by the Company are as follows:

Projects	Contract amount (RMB'0,000)
Expansion project of "one power generation set supplied by two boilers" of Xinsheng Power	125
Xinsheng Desulfurization Project	295
10-million-meter top-grade women's wear fabrics project	6,533
Luqun garment workshop project	693
Total	7,646

VIII. Fulfillment of Commitment made by the Company or Shareholders with more than 5% shares

1. Fulfillment of Commitment Made by the Company

The Profit Distribution Plan for 2008 promised by the Company in this year has been fulfilled in Jun. 2009; the project on additional A-share offering has been moving forward as scheduled.

2. Fulfillment of Commitment Made by Shareholders with more than 5% Shares

(1) The Commitments Made by the Shareholders Holding Originally Non-Tradable Shares during the Share Merger Reform and their Implementation

Name of shareholders	Commitment	Fulfillment of commitments	Remarks
Zibo Lucheng Textile Investment Co., Ltd.	Zibo Lucheng will not reduce its shareholding within 60 months after share merger reform and, within 24 months after that, the price of selling holding shares shall not be lower than RMB 15 per share (if the share capital changes, ex-rights will be conducted); it proposed and voted for a cash distribution not lower than 50% of the profit available for distribution in the year at the 2006 Shareholders' General Meeting and 2007 Shareholders' General Meeting; it will increase the LUTHAI A shares held by it through trading at the secondary market with the dividends received in 2005 and 2006, and the increase of the LUTHAI A shares held shall be accomplished within 12 months after the dividend is transferred to its account. In 2008, the total profit increased by not less than 30% compared with that in 2005.	In progress	The increase of shares with dividends in 2005 and 2006 has been finished. And the total profit in 2008 has increased 58.06% compared with that in 2005.

(2) The Quantity of Shares not Subject to Moratorium, Held by Shareholders of Originally Non-Tradable Shares, who Held more than 5% of Total Shares at the End of the Reporting Period

Name of shareholders	Amount of circulating shares not subject to moratorium held on the date when shares subject to moratorium were listed (share unit: 0,000)	Amount of Increase/decrease (share unit: 0,000)	Reason for change	Amount of shares not subject to moratorium held at the end of the reporting period (share unit: 0,000)
Zibo Lucheng Textile Investment Co., Ltd.	2,495.67	0	--	2,495.67

IX. Particulars about Appointment and Dismissal of Certified Public Accountants by the Company

In the report period, the Company reappointed Zhongrui Yuehua Certified Public Accountants as the Company's financial auditor and the annual audit fee was RMB 850,000.

X. In the report period, the Company, the Board of Directors and directors of the Company did not receive any investigations, administrative punishments, circulating notices of criticism from CSRC, or any public condemnation from the stock exchange.

. Researches, interviews and visits received in the report period

Time	Place	Way of reception	Visitor	Main discussion and materials provided by the Company
13 Jan. 2009	Reception room of the Company	Field research	Zhang Dongyi from the R&D Department of GF Fund Management Co., Ltd.	Basic information of the Company; an on-site visit to the Company
3 Feb. 2009	Reception room of the Company	Field research	Cheng Zhou and Li Jie, Fund Manager and Vice Director of the Research Department of Guotai AMC	Basic information of the Company; an on-site visit to the Company
10 Feb. 2009	Reception room of the Company	Field research	Wang Yan and Wang Jialing, researchers from the Research Department of Bosera Funds	Basic information of the Company; an on-site visit to the Company
10 Feb. 2009	Reception room of the Company	Field research	Xia Chun, Research Director & Fund Manager, and Sun Zhanjun, Fund Manager, both from Bosera Funds	Basic information of the Company; an on-site visit to the Company
11 Feb. 2009	Reception room of the Company	Field research	Wang Wei, Researcher from China Merchants Securities and Wang Liang, Researcher from Shanxi Securities	Basic information of the Company; an on-site visit to the Company
11 Feb. 2009	Reception room of the Company	Field research	Wang Ran, Researcher from Yimin Asset Management and Li Mei, Researcher from Tianhong Asset Management	Basic information of the Company; an on-site visit to the Company
11 Feb. 2009	Reception room of the Company	Field research	Zhu Yu, Researcher from Genertec Investment Managers Ltd.	Basic information of the Company; an on-site visit to the Company
17 Feb. 2009	Reception room of the Company	Field research	Xu Yun, China Research Chief of Changfeng (China) Research Co., Ltd.	Basic information of the Company; an on-site visit to the Company
17 Feb. 2009	Reception room of the Company	Field research	Liang Qingxin from Shenyin Wanguo (H.K.) Limited	Basic information of the Company; an on-site visit to the Company
19 Feb. 2009	Reception room of	Field	Wang Xuesong, Researcher from Changsheng Fund	Basic information of the Company;

	the Company	research	Management, and Zhang Xinhong, Researcher from Yongyuan Securities	an on-site visit to the Company
5 Mar. 2009	Reception room of the Company	Field research	Liu Xinyu, Senior Manager from the Self Operation Department of CITIC Securities and Li Junsong from China Securities	Basic information of the Company; an on-site visit to the Company
6 Mar. 2009	Reception room of the Company	Field research	Zhang Qi, Researcher from Southwest Securities	Basic information of the Company; an on-site visit to the Company
6 Apr. 2009	Office of the Company	By telephone	He Minji, Senior Fund Manager and Zhang Qilian, Investment Analyst, both from Value Partners Limited	Basic information of the Company
15 Apr. 2009	Reception room of the Company	Field research	Chen Yuan, Researcher from HuaAn Funds	Basic information of the Company; an on-site visit to the Company
16 Apr. 2009	Reception room of the Company	Field research	Tan Li, Researcher from Harvest Fund Management and Fan Fanghua, Researcher from New China Asset Management	Basic information of the Company; an on-site visit to the Company
16 Apr. 2009	Reception room of the Company	Field research	Yin Cui, Chief Assistant and Xu Xiaoyan, Researcher, both from Qilu Securities Research Institute	Basic information of the Company; an on-site visit to the Company
21 Apr. 2009	Reception room of the Company	Field research	Zhu Libin, Chief Assistant from the Research Department of China International Fund Management and Xiu Shiyu from ICBC Credit Suisse Asset Management	Basic information of the Company; an on-site visit to the Company
21 Apr. 2009	Reception room of the Company	Field research	Xu Xionghui, Assistant Researcher from Dacheng Fund Management and Cao Lu, Researcher from PICC Asset Management	Basic information of the Company; an on-site visit to the Company
21 Apr. 2009	Reception room of the Company	Field research	Yan Lei from Yaxin Investment, Xiao Haiyan from Trust Bridge Partners and Situ Fanghua from Daiwa Securities	Basic information of the Company; an on-site visit to the Company
21 Apr. 2009	Reception room of the Company	Field research	Huang Fang, Sun Bo, Luo Wenwen, Guo Haiyan and Xue Jianmin from CICC	Basic information of the Company; an on-site visit to the Company
23 Apr. 2009	Reception room of the Company	Field research	Fang Junping, Researcher and Lu Yiqiao, Bank Fund Researcher, both from Guosen Securities	Basic information of the Company; an on-site visit to the Company
28 Apr. 2009	Reception room of the Company	Field research	Wang Jing, Researcher from China AMC and Ma Li, Researcher from China Galaxy Securities	Basic information of the Company; an on-site visit to the Company
28 Apr. 2009	Reception room of the Company	Field research	Wei Wenfeng, Researcher from Huashang Fund Management	Basic information of the Company; an on-site visit to the Company
13 May 2009	Reception room of the Company	Field research	Li Zhixian and Zhangwei, both researchers from Guotai Junan Securities Research Institute	Basic information of the Company; an on-site visit to the Company
13 May 2009	Reception room of the Company	Field research	Jiang Zheng, Fund Manager and Tong Dongchai, Researcher from Fortis Haitong Investment Management	Basic information of the Company; an on-site visit to the Company
13 May 2009	Reception room of the Company	Field research	Chen Le, Researcher from China Southern Fund, Chang Zhen from CCB Principal Asset Management and Yu Jiangyong from Fullgoal Fund Management	Basic information of the Company; an on-site visit to the Company
18 May 2009	Reception room of the Company	Field research	Wang Wei, Analyst from China Merchants Securities and Liu Lili, Researcher from Fullgoal Fund Management	Basic information of the Company; an on-site visit to the Company
18 May 2009	Reception room of the Company	Field research	Zhu Xiaoliang, Analyst from China Universal Asset Management	Basic information of the Company; an on-site visit to the Company
25 May 2009	Reception room of	Field	Huang Yanyan from the Asset Management Department of	Basic information of the Company;

	the Company	research	Guosen Securities; Wang Fuxiao and Gao Guo from Huatai Securities	an on-site visit to the Company
5 Jun. 2009	Reception room of the Company	Field research	Lin Hai, Fund Manager and Li Jie, Vice Research Director, both from Guotai AMC	Basic information of the Company; an on-site visit to the Company
11 Jun. 2009	Reception room of the Company	Field research	Wang Liping, Researcher from Shenyin Wanguo and Bao Lihua, Researcher from Industrial Securities	Basic information of the Company; an on-site visit to the Company
13 Jul. 2009	Reception room of the Company	Field research	Zhong Wenxue and Zhao Ruoqiong from Minsheng Securities	Basic information of the Company
13 Jul. 2009	Reception room of the Company	Field research	Gao Fei from Shanghai Chaos Daoran Asset Management Co., Ltd. and Hua Jindong from Northeast Securities	Basic information of the Company
20 Nov. 2009	Reception room of the Company	Field research	Zheng Zhiguo, Vice Chief and Wang Zheng, Vice Sales Chief from Shenyin Wanguo Securities Research Institute	Basic information of the Company; an on-site visit to the Company
20 Nov. 2009	Reception room of the Company	Field research	Song Lei, GM of the Development Department and Wang Guangcheng, Shen Xuefeng, funds managers, all from HuaAn Funds	Basic information of the Company; an on-site visit to the Company
2 Dec. 2009	Reception room of the Company	Field research	Zhang Weiwen, Manager of the Institutional Investment Department of China AMC and Wang Jing from Minsheng Royal Fund Management	Basic information of the Company; an on-site visit to the Company
2 Dec. 2009	Reception room of the Company	Field research	Zhang Wei from Guotai Junan Securities and Ju Xinghai from CITIC Securities	Basic information of the Company; an on-site visit to the Company
2 Dec. 2009	Reception room of the Company	Field research	Huang Ruiqing, Vice Chief of the Investment Department and Chen Xinyu of the R&D Department, both from Changsheng Fund Management	Basic information of the Company; an on-site visit to the Company

XII. Derivatives investment in the report period

In the report period, the Company conducted the forward settlement hedging business, which was detailed as follows:

() Position of derivatives investments as at the end of the report period

As at the end of the report period, the contract amount of undue forward settlement stood at USD 413,500,000.

() Delivery and earnings of derivatives investments in the report period

In the report period, the due forward settlement of the Company totaled USD 413,000,000, among which USD 301,000,000 was delivered as scheduled, generating an income of RMB 7,310,500, and USD 112,000,000 was extended, reducing loss by RMB 1,265,100 after the extension.

() Analysis on risks and control measures concerning derivatives investments

The Company conducted forward settlements in order for hedging. And the forward settlement hedging was operated by installments, with the relevant amount not more than the planned earnings from exchanges. And all hedging business was zero-deposit. Meanwhile, the Company had a complete risk control system for sufficient analysis and prevention of possible risks such as risk of laws and regulations, credit risk, operation risk and market risk.

1. Risk of laws and regulations

When conducting hedging business, the Company must abide by relevant laws,

regulations and rules of the stock exchange, and the rights and obligations between the Company and the bank must be specified.

Precautionary measures: The Company carefully studied and mastered relevant laws, regulations and market rules, formulated internal control rules for the forward settlement hedging business, strengthened supervision, and strictly abided by relevant laws, regulations and the Company's internal management rules.

2. Credit risk and liquidity risk

Hedging business developed by the Company was carried out on the basis of contract of forward settlement of exchange signed between the Company and bank, the delivery on schedule or extension is recognized based on one of the contract price and exchange tendency after such contract of forward settlement of exchange falls due, no default risk exists in the Company so as to ensure delivery on schedule or extension.

Precaution measure: the Company formulated the internal control management system for hedging of forward settlement of exchange, in which the appropriate authorization system shall be set out, and amount for hedging shall be confirmed by installments in accordance with the production and operation scale and exchange revenue progress, and ensure no credit risk and liquidity risk occurred by means of extension at the specified date.

3. Operation risk

Faulty internal progress, employees, as well as system and external matters resulted in risk as well in the course of hedging, including employee risk, process risk, system risk and external risk.

Precaution measure: the Company set up stringent authorization and approval system, stipulated organization, business operating process and examination and approval process, and perfect regulation can reduce the operation risk effectively.

4. Market risk

In the operation of hedging of forward settlement and surrender exchange, if the RMB is devalued by a large margin on the basis of the current situation before the contract is due, so then, the larger losses shall incur in the contract on forward settlement of exchange signed by the Company.

Risk analysis and precaution measure: at present, in face of the appreciation pressure on Renminbi, there was no risk on large devaluation of the RMB before the contract is due signed by the Company. According to price quoted from each bank, the RMB shows appreciation tendency within a narrow range within 1 year, thus, gain on change in fair value shall occur in the forward contract signed by the Company.

. Significant Events listed in Article 62 of Securities Law and Article 17 of Implementation Measures on Information Disclosure of the Companies Publicly Issuing Shares which occurred in the Company during the Reporting Period
In the reporting period, the Company had no significant events as listed in the above regulations.

Section XI. Financial Report

(I) AUDITOR'S REPORT

Auditor's Report

ZRYHS Zi [2010] No. 1047

TO THE SHAREHOLDERS OF LU THAI TEXTILE CO., LTD.

We have audited the accompanying financial statements of Lu Thai Textile Company Limited (the "Company") which comprise the balance sheet and the consolidated balance sheet as at 31 December 2009, the income statement and the consolidated income statement, the statement of changes in owners' equity and the consolidated statement of changes in owners' equity, the cash flow statement and the consolidated cash flow statement for the year then ended, as well as the notes to the financial statements.

. Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

. Opinion

In our opinion, the accompanying financial statements has been prepared according to the Enterprise Accounting Standards and give a true and fair view of the financial position and consolidated financial position of the Company as at 31 December 2009, and of its financial performance and consolidated financial performance, its cash flows and consolidated cash flows for the year then ended in all material aspects.

Zhongrui Yuehua Certified Public Accountants Co., Ltd.

Certified Public Accountant of China He Feng

China · Beijing

Certified Public Accountant of China Wei Qianting

17 March 2010

Consolidated Balance Sheet

As at 31 Dec. 2009

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Assets	Notes	Closing amount		Opening amount	
		Consolidation	Parent company	Consolidation	Parent company
Current Assets:					
Monetary funds	VII.1	569,968,526.84	324,783,025.04	1,141,056,407.10	884,493,526.89
Tradable financial assets		-	-	-	-
Notes receivable	VII.2	141,412,742.46	120,774,297.57	115,766,743.82	88,437,756.14
Account receivable	VII.3	154,069,325.62	167,091,056.87	134,272,568.99	137,704,448.03
Account paid in advance	VII.4	160,759,295.40	435,828,408.63	86,680,244.30	442,840,255.08
Interest receivable		-	-	-	-
Dividend receivable		-	-	-	552,121.45
Other account receivable	VII.5	49,697,710.62	14,017,123.91	66,112,475.26	57,153,026.22
Inventory	VII.6	1,229,494,890.25	801,504,131.77	1,370,058,113.59	966,434,830.65
Non-current assets due within 1 year		-	-	-	-
Other current assets		-	-	-	-
Total current assets		2,305,402,491.19	1,863,998,043.79	2,913,946,553.06	2,577,615,964.46
Non-current assets:					
Financial assets available for sales		-	-	-	-
Held to maturity investments		-	-	-	-
Long-term account receivable		-	-	-	-
Long-term equity investment	VII.7	160,000.00	897,482,752.85	-	840,477,933.96
Fixed asset	VII.8	3,620,298,059.46	2,141,043,636.81	3,728,662,446.22	2,137,168,614.91
Construction in progress	VII.9	73,045,428.62	53,545,369.31	161,798,386.96	152,673,189.70
Engineering material	VII.10	11,712,153.66	11,712,153.66	5,976,824.75	5,976,824.75
Fixed asset disposal		-	-	-	-
Intangible assets	VII.11	228,956,536.92	116,170,958.25	227,300,618.82	120,808,081.41
Development expense		-	-	-	-
Goodwill	VII.12	20,563,803.29	-	20,563,803.29	-
Long-term expense to be apportioned		-	-	-	-
Deferred income tax assets	VII.13	42,928,486.46	25,551,960.18	33,604,471.70	9,343,313.86
Other non-current assets		-	-	-	-
Total of non-current assets		3,997,664,468.41	3,245,506,831.06	4,177,906,551.74	3,266,447,958.59
Total assets		6,303,066,959.60	5,109,504,874.85	7,091,853,104.80	5,844,063,923.05

Consolidated Balance Sheet (Continued)

As at 31 Dec. 2009

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Liabilities and shareholders' equity	Notes	Closing amount		Opening amount	
		Consolidation	Parent company	Consolidation	Parent company
Current liabilities:					
Short-term borrowings	VII.16	1,032,541,840.01	356,415,782.53	1,974,333,875.02	924,333,875.02
Tradable financial liabilities	VII.17	61,408,150.00	50,861,900.00	19,175,600.00	5,840,400.00
Notes payable	VII.18	100,969,783.06	385,837,761.77	326,906,148.43	764,122,919.05
Account payable	VII.19	275,876,805.53	149,446,372.99	309,404,705.97	177,966,339.10
Account collected in advance	VII.20	41,441,458.66	24,231,017.36	31,742,845.89	14,267,650.87
Employee's compensation payable	VII.21	220,359,174.53	186,391,924.39	225,950,673.18	193,302,167.29
Tax payable	VII.22	28,682,631.04	18,959,689.49	-26,278,169.38	-37,631,581.33
Interest payable	VII.23	490,102.22	490,102.22	84,631.63	84,631.63
Dividend payable	VII.24	442,538.04	442,538.04	442,844.04	442,844.04
Other account payable	VII.25	90,408,797.00	13,425,412.94	85,589,116.91	16,327,454.16
Non-current liabilities due within 1 year	VII.26	157,379,900.00	157,379,900.00	52,183,370.00	52,183,370.00
Other current liabilities		-	-	-	-
Total current liabilities		2,010,001,180.09	1,343,882,401.73	2,999,535,641.69	2,111,240,069.83
Non-current liabilities:					
Long-term borrowings	VII.27	92,612,200.00	92,612,200.00	298,510,560.00	298,510,560.00
Bonds payable		-	-	-	-
Long-term payables	VII.28	9,735,560.00	-	9,735,560.00	-
Specific purpose account payables		-	-	-	-
Projected financial statement		-	-	-	-
Deferred income tax liabilities	VII.13	406,802.45	-	407,449.26	-
Other non-current liabilities		2,673,445.33	-	2,673,445.33	-
Total non-current liabilities		105,428,007.78	92,612,200.00	311,327,014.59	298,510,560.00
Total liabilities		2,115,429,187.87	1,436,494,601.73	3,310,862,656.28	2,409,750,629.83
Shareholders' equity					
Paid-in capital (or share capital)	VII.29	994,864,800.00	994,864,800.00	994,864,800.00	994,864,800.00
Capital reserve	VII.30	1,135,356,168.72	1,125,522,201.27	1,128,135,713.77	1,125,522,201.27
Less: Treasury Stock		-	-	-	-
Specific-purpose reserve		-	-	-	-
Surplus reserve	VII.31	374,429,529.19	374,429,529.19	330,662,535.20	330,662,535.20
General risk provision		-	-	-	-
Retained earnings	VII.32	1,418,468,702.64	1,178,193,742.66	1,090,990,313.22	983,263,756.75
Foreign exchange difference		-3,458,491.27	-	-3,418,700.75	-
Total owners' equity attributable to holding company		3,919,660,709.28	3,673,010,273.12	3,541,234,661.44	3,434,313,293.22
Minority interest		267,977,062.45	-	239,755,787.08	-
Total owner's equity		4,187,637,771.73	3,673,010,273.12	3,780,990,448.52	3,434,313,293.22

Total liabilities and owner's equity		6,303,066,959.60	5,109,504,874.85	7,091,853,104.80	5,844,063,923.05
--------------------------------------	--	------------------	------------------	------------------	------------------

Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

Consolidated Income Statement

As of the year 2009

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	Notes	2009		2008	
		Consolidation	Parent company	Consolidation	Parent company
I. Total operating revenues		4,036,219,837.13	3,235,585,224.10	3,921,837,350.82	3,274,317,195.87
Of which: Operating income	VII.33	4,036,219,837.13	3,235,585,224.10	3,921,837,350.82	3,274,317,195.87
II. Total cost of sales		3,349,666,683.83	2,742,094,342.75	3,341,199,703.30	2,729,723,994.77
Of which: Operating cost	VII.33	2,801,890,945.71	2,416,180,001.33	2,917,876,267.49	2,533,676,587.86
Sales tax and extra charges	VII.34	3,196,722.69	-	3,579,036.64	-
Selling cost	VII.35	137,516,891.23	49,086,016.67	123,654,578.28	39,460,211.19
Administrative expense	VII.36	339,719,215.46	245,072,815.67	231,549,384.65	154,916,635.09
Financial expenses	VII.37	60,939,681.31	31,543,314.48	39,105,097.09	-2,363,428.25
Loss on assets impairment	VII.38	6,403,227.43	212,194.60	25,435,339.15	4,033,988.88
Add: Gains of change in fair value ("-" means loss)	VII.39	-42,232,550.00	-45,021,500.00	-25,871,562.74	-5,840,400.00
Investment income ("-" means loss)	VII.40	7,995,260.00	38,933,349.21	4,698,732.84	552,121.45
Of which: income form investment on affiliated enterprise and joint ventures		-	-	-	-
III. Operating profit ("-" means loss)		652,315,863.30	487,402,730.56	559,464,817.62	539,304,922.55
Add: Non-operating income	VII.41	37,007,258.11	8,929,847.02	59,101,864.46	32,999,079.61
Less: Non-operating expense	VII.42	9,223,319.98	4,182,806.91	9,946,404.19	5,755,764.81
Of which: Loss on non-current asset disposal		3,101,963.68	835,786.17	4,774,678.31	3,602,526.06
IV. Total profit ("-" means loss)		680,099,801.43	492,149,770.67	608,620,277.89	566,548,237.35
Less: Income tax expense	VII.43	76,363,543.47	54,479,830.77	93,805,694.64	76,395,526.09
V. Net profit ("-" means loss)		603,736,257.96	437,669,939.90	514,814,583.25	490,152,711.26
Of which: net profit achieved by consolidated parties before consolidation		-	-	-	-
Net profit attributable to owners of parent company		570,218,343.41	437,669,939.90	512,944,678.08	490,152,711.26
Minority interest		33,517,914.55	-	1,869,905.17	
VI. Earnings per share					
(I) EPS-basis	VII.44	0.57		0.60	
(II) EPS-diluted	VII.44	0.57		0.60	
Other comprehensive income		7,175,448.52	-	-794,922.22	
Total comprehensive income		610,911,706.48	437,669,939.90	514,019,661.03	490,152,711.26
Attributable to owners of parent company		577,393,791.93	437,669,939.90	512,149,755.86	490,152,711.26

Attributable to minority shareholders		33,517,914.55		1,869,905.17
Legal representative: Liu Shizhen	Chief Financial Officer: Zhang Hongmei		Financial principal: Zhang Hongmei	

3. Other	-	504.89	-	-	-	-	-	-	-	504.89
(IV) Profit distribution	-	-	-	-	49,015,271.13	-	-236,769,575.63	-	-911,817.11	-188,666,121.61
1. Appropriating surplus reserve	-	-	-	-	49,015,271.13	-	-49,015,271.13	-	-	-
2. Appropriating general	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners	-	-	-	-	-	-	-187,754,304.50	-	-911,817.11	-188,666,121.61
4. Other	-	-	-	-	-	-	-	-	-	-
(V) Internal carry-over of owner's equity	-	-	-	-	-	-	-	-	-	-
1. Transferring capital	-	-	-	-	-	-	-	-	-	-
2. Transferring surplus	-	-	-	-	-	-	-	-	-	-
3. Making up losses with	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-
() Specific-purpose reserve	-	-	-	-	-	-	-	-	-	-
1. Amount withdrawn for this	-	-	-	-	-	-	-	-	-	-
2. Amount used for this period	-	-	-	-	-	-	-	-	-	-
IV. Balance as at 31 Dec. 2008	994,864,800.00	1,128,135,713.77	-	-	330,662,535.20	-	1,090,990,313.22	-3,418,700.75	239,755,787.08	3,780,990,448.52

Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

Statement of Changes in Owners' Equity
As of the year 2009

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	2009						Total owners' equity
	Paid-in capital	Capital reserve	Less: treasury stock	Specific-purpose reserve	Surplus reserve	Retained profit	
I. Balance as at 31 Dec. 2008	994,864,800.00	1,125,522,201.27	-	-	330,662,535.20	983,263,756.75	3,434,313,293.22
Add: Change in accounting policy	-	-	-	-	-	-	-
Correction of previous accounting errors	-	-	-	-	-	-	-
II. Balance as at 1 Jan. 2009	994,864,800.00	1,125,522,201.27	-	-	330,662,535.20	983,263,756.75	3,434,313,293.22
II. Increase/decrease in 2009 ("-" means loss)	-	-	-	-	43,766,993.99	194,929,985.91	238,696,979.90
(I) Net profit	-	-	-	-	-	437,669,939.90	437,669,939.90

() Gain/loss directly recorded into owners' equity	-	-	-	-	-	-	-
Subtotal of (I) and (II)	-	-	-	-	-	437,669,939.90	437,669,939.90
(III) Input and reduced capital of owners	-	-	-	-	-	-	-
1. Capital input by owners	-	-	-	-	-	-	-
2. Amount of shares-based payment recorded in owner's equity	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-
(IV) Specific-purpose reserve	-	-	-	-	-	-	-
1. Amount withdrawn for 2009	-	-	-	-	-	-	-
2. Amount used for 2009	-	-	-	-	-	-	-
(V) Profit distribution	-	-	-	-	43,766,993.99	-242,739,953.99	-198,972,960.00
1. Appropriating surplus reserve	-	-	-	-	43,766,993.99	-43,766,993.99	-
2. Distribution to shareholders	-	-	-	-	-	-198,972,960.00	-198,972,960.00
3. Others	-	-	-	-	-	-	-
() Internal carry-over of owner's equity	-	-	-	-	-	-	-
1. Transferring capital reserve into capital (share capital)	-	-	-	-	-	-	-
2. Transferring surplus reserve into capital (share capital)	-	-	-	-	-	-	-
3. Making up losses with surplus reserve	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
IV. Balance as at 31 Dec. 2009	994,864,800.00	1,125,522,201.27	-	-	374,429,529.19	1,178,193,742.66	3,673,010,273.12

Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

Statement of Changes in Owners' Equity
As of the year 2009

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	2008					Retained profit	Total owners' equity
	Paid-in capital	Capital reserve	Less: treasury stock	Specific-purpose reserve	Surplus reserve		
I. Balance as at 31 Dec. 2007	844,864,800.00	324,707,196.38	-	-	281,647,264.07	729,880,621.12	2,181,099,881.57

Add: Change in accounting policy	-	-	-	-	-	-	-
Correction of previous accounting errors	-	-	-	-	-	-	-
II. Balance as at 1 Jan. 2008	844,864,800.00	324,707,196.38	-	-	281,647,264.07	729,880,621.12	2,181,099,881.57
II. Increase/decrease in 2008 (“-” means loss)	150,000,000.00	800,815,004.89	-	-	49,015,271.13	253,383,135.63	1,253,213,411.65
(I) Net profit	-	-	-	-	-	490,152,711.26	490,152,711.26
() Gain/loss directly recorded into owners’ equity	-	-	-	-	-	-	-
Subtotal of (I) and (II)	-	-	-	-	-	490,152,711.26	490,152,711.26
(III) Input and reduced capital of owners	150,000,000.00	800,815,004.89	-	-	-	-	950,815,004.89
1. Capital input by owners	150,000,000.00	800,814,500.00	-	-	-	-	950,814,500.00
2. Amount of shares-based payment recorded in	-	-	-	-	-	-	-
3. Other	-	504.89	-	-	-	-	504.89
(IV) Specific-purpose reserve	-	-	-	-	-	-	-
1. Amount withdrawn for 2008	-	-	-	-	-	-	-
2. Amount used for 2008	-	-	-	-	-	-	-
(V) Profit distribution	-	-	-	-	49,015,271.13	-236,769,575.63	-187,754,304.50
1. Appropriating surplus reserve	-	-	-	-	49,015,271.13	-49,015,271.13	-
2. Distribution to shareholders	-	-	-	-	-	-187,754,304.50	-187,754,304.50
3. Others	-	-	-	-	-	-	-
() Internal carry-over of owner’s equity	-	-	-	-	-	-	-
1. Transferring capital reserve into capital (share	-	-	-	-	-	-	-
2. Transferring surplus reserve into capital (share	-	-	-	-	-	-	-
3. Making up losses with surplus reserve	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
IV. Balance as at 31 Dec. 2008	994,864,800.00	1,125,522,201.27	-	-	330,662,535.20	983,263,756.75	3,434,313,293.22

Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

Consolidated Cash Flow Statement

As of the year 2009

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	Notes	2009		2008	
		Consolidation	Parent company	Consolidation	Parent company
I. Cash flows for operating activities:					
Cash received from sales of goods or rendering of services		4,034,555,172.12	3,170,265,045.75	4,358,790,079.03	3,366,845,209.47
Refund of tax and fare received		131,900,854.32	97,890,191.14	80,834,274.58	56,620,291.03
Other cash received relating to operating activities	VII.46	50,441,405.38	44,662,066.16	98,856,496.46	27,745,534.23
Sub-total of cash inflows		4,216,897,431.82	3,312,817,303.05	4,538,480,850.07	3,451,211,034.73
Cash paid for goods and services		2,304,686,049.12	2,100,452,745.03	2,833,679,384.39	2,106,255,670.32
Cash paid to and on behalf of employees		611,880,426.34	484,708,793.27	564,801,682.70	440,656,075.87
Tax and fare paid		135,640,880.05	46,607,912.69	195,174,534.98	121,792,931.73
Other cash paid relating to operating activities	VII.46	172,876,945.51	107,668,925.21	162,829,301.26	20,489,928.48
Sub-total of cash outflows		3,225,084,301.02	2,739,438,376.20	3,756,484,903.33	2,689,194,606.40
Net cash flows from operating activities		991,813,130.80	573,378,926.85	781,995,946.74	762,016,428.33
.Cash flows from Investment activities					
Cash received from return of investments				2,286,635.84	-
Cash received from absorbing investment			552,121.45		-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,311,218.45	2,393,421.33	299,578.56	297,578.56
Proceeds from sale of subsidiaries and other operating units					-
Other cash received relating to investment activities	VII.46	12,821,315.01	20,032,181.58	10,519,649.27	3,791,697.46
Sub-total of cash inflows		15,132,533.46	22,977,724.36	13,105,863.67	4,089,276.02
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		177,968,633.99	98,842,799.69	429,079,023.47	215,751,764.09
Cash paid for investments		160,000.00	44,104,374.21		100,000,000.00
Net cash used in acquiring subsidiaries and other operating units					-
Other cash paid relating to investment activities					9,000,000.00
Sub-total of cash outflows		178,128,633.99	142,947,173.90	429,079,023.47	324,751,764.09
Net cash flow from investing activities		-162,996,100.53	-119,969,449.54	-415,973,159.80	-320,662,488.07
III. Cash Flows from Financing Activities:					
Cash received from absorbing investment		14,071,746.36		951,790,000.00	951,790,000.00
Including: Cash received by subsidiaries from increase in minority interest		14,071,746.36			
Cash received from borrowings		1,305,260,011.61	410,133,954.13	3,495,923,666.81	2,196,485,266.81
Cash received from issuing bonds					
Other proceeds relating to financing activities	VII.46	17,000,000.00		1,750,000.00	50,000,000.00
Sub-total of cash inflows		1,336,331,757.97	410,133,954.13	4,449,463,666.81	3,198,275,266.81
Cash paid for settling debt		2,477,312,338.13	1,208,312,338.13	3,810,236,743.21	2,770,498,933.21
Cash paid for distribution of dividends or profit or reimbursing interest		250,582,170.83	214,619,614.83	323,267,027.52	277,446,420.34
Including: dividends or profit paid by subsidiaries to minority shareholders		12,074,650.49		911,817.11	
Other cash payments relating to financing activities	VII.46	7,000,000.00			-
Sub-total of cash outflows		2,734,894,508.96	1,422,931,952.96	4,133,503,770.73	3,047,945,353.55
Net cash flow from financing activities		-1,398,562,750.99	-1,012,797,998.83	315,959,896.08	150,329,913.26
IV. Effect of foreign exchange rate changes		-1,342,159.54	-321,980.33	128,307,580.12	115,474,741.71
V. Increase in cash and cash equivalents		-571,087,880.26	-559,710,501.85	810,290,263.14	707,158,595.23
Add: Opening balance of cash and cash equivalents		1,141,056,407.10	884,493,526.89	330,766,143.96	177,334,931.66
VI. Closing balance of cash and cash equivalents		569,968,526.84	324,783,025.04	1,141,056,407.10	884,493,526.89

Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

Lu Thai Textile Co., Ltd.
Notes to Financial Statement
As of the year 2009

(The following amount is expressed in RMB unless otherwise special explanation)

I. Company Profile

Lu Thai Textile Co., Ltd. (hereinafter referred to as the Company) is a joint venture invested by Zibo Lucheng Textile Investment Co., Ltd (originally named Zibo Lucheng Textile Co., Ltd, hereinafter referred to as Lucheng Textile) and Thailand Tailun Textile Co., Ltd. On Feb. 3, 1993, the Company is approved by the former Ministry of Foreign Trade and Economy of the State (1993) in WJMZEHZ No. 59 to convert into a joint-stock enterprise. Zibo Administration for Industry and Commerce issued the Company corporate business license with the registration No. of QGLZZZ No. 000066. In July 1997, the Company is approved by the Securities Committee of the Department of the State in the ZWF (1997) No. 47 to issue 80 million shares of domestically listed foreign share(B-shares) at the price of RMB 1.00 per share. Upon approved by Shenzhen Stock Exchange with No. (1997) 296 Listing Notice, the Company is listed on the Shenzhen Stock Exchange on August 19, 1997 with B-shares stock code of 200726. On November 24, 2000, approved by ZJGSZ [2000] No.199 by CSRC, the Company increased publication of 50 million shares of general share (A-shares) at the book value of RMB 1.00, which are listed on the Shenzhen Stock Exchange on December 25, 2000 with A-shares stock code of 000726 through approval by Shenzhen Stock Exchange with No. (2000) 162 Listing Notice. As approved by 2000 Shareholders' General Meeting in May, 2001, the Company carried out the distribution plan that 10 shares of capital public reserve are converted to 3 more shares for each 10 shares. As approved by Resolutions of 2001 Shareholders' General Meeting in June 2002, the Company implemented the distribution plan that 10 shares of capital public reserve are converted 3 more shares for each 10 shares again. As approved by 2002 Shareholders' General Meeting in May 2003, the Company implemented the distribution plan that 10 shares of capital public reserve are 2 more shares for each 10 shares, and inner employees' shared increased to 40.56 million shares. As examined and approved by ZJGSZ No. [2000] 199 of CSRC, the inner employees' shares will start circulation 3 years later since listing on the A-share market. On Dec. 25, 2003, the inner employees' shares reach 3 years since listing on the A-share stock market, and they set out circulation on Dec.26, 2003. As approved by the Shareholders' General Meeting 2006 held in June 2007, the Company implemented the plan on converting 10 shares to all its shareholders with capital reserves for every 10 shares. After capitalization, the registered capital of the Company was RMB 844.8648 million. The Company, in accordance with the official reply on approving Lu Thai Textile Co., Ltd. to issue additional shares (ZJXK [2008] No. 890 document) from CSRC, issued the Renminbi common shares (A shares) amounting to 150 million shares on 8 Dec. 2008. As at 31 December 2009, the Company's registered capital was RMB 994.8648 million.

The Company's registered address: No. 11, Mingbo Road, Hi-tech Development Zone, Zibo, Shandong

The Company's legal representative: Liu Shizhen

The Company's business scope includes production and sales of cotton yarn, yarn dyed fabrics, shirts, fashion accessories, health underwear and other textile products and their supporting series products.

The Company's financial statement has been approved by the Board of Directors of the Company on 17 March 2010.

II. Preparation basis of financial statement

With going-concern assumption as the basis, the Company prepares its financial statement in light of the actual transactions and matters, as well as the accounting standard for business enterprise-basic standard promulgated

by the Ministry of Finance of PRC in Feb. 2006, and 38 accounting standards, application guide, interpretation and other relevant regulations (hereinafter referred to as “Accounting Standard for Business Enterprise”).

III. Statement for complying with the accounting standard for business enterprise

The financial statements for year 2009 prepared by the Company are in compliance with the requirements of the accounting standard for business enterprise, and have reflected the Company’s financial status, operating results and cash flows in an accurate and complete way. Furthermore, these financial statements, in all material respects, were also in line with disclosure requirements of relevant financial statement and its notes stipulated in Compilation Rules for Information Disclosures by Companies That Offer Securities to the Public No.15 - General Provisions for Financial Reports amended by China Securities Regulatory Commission (hereinafter referred to as “CSRC”) in 2009.

IV. Major accounting policies and accounting estimates

1. Fiscal period

The Company’s accounting periods are divided into annual periods (yearly) and interim periods. The interim period is a reporting period which is shorter than a full fiscal year. Gregorian calendar is adopted for fiscal year of the Company, namely from 1 Jan. to 31 Dec. every year.

2. Bookkeeping base currency

The Company adopts Renminbi as a bookkeeping base currency. But Lu Thai (Hong Kong) Co., Ltd. (hereinafter referred to as “Lu Thai Hong Kong”), a subsidiary company of the Company, adopts Hong Kong dollars as a bookkeeping base currency. Such HKD shall be translated into Renminbi according to accounting policies related to foreign currency translation when consolidating financial statement.

3. Accounting process of business combinations

Business combinations are divided into business combination under the same control and not under the same control.

1) Business combinations under the same control:

The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital shall be adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted. The direct cost for the business combination of the combining party shall be recorded into the profits and losses at the current period.

2) Business combinations not under the same control

As for business combinations not under the same control, the combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree, and all relevant direct costs incurred for the business combination. For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer shall record the said amount into the combination costs. In business combinations not under the same control, the acquirer shall, on the acquisition date, measured the identifiable assets given, the liabilities and contingent liabilities incurred by the acquiree in light of the fair values.

The positive balance between the combination costs and the fair value of the identifiable net assets the acquirer obtains from the acquiree is recognized as business reputation. The acquirer shall, pursuant to the following provisions, treat the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree: a. it shall reexamine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination costs; b. if, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, it shall record the balance into the profits and losses of the current period.

4. Preparation methods for consolidated financial statements

(1) The scope of consolidated financial statements shall be confirmed based on the control. Control means the Company can decide the financial and manage policy of investee entity and have authority to earn the benefit from the investee entity. The Company having more than half of total assets with voting rights (excluding 50%) of investee entities, or having less than half of total assets with voting rights but having actual control rights, then these investee entities shall be included into the consolidated scope.

(2) Preparation methods for consolidated financial statements

Consolidated financial statement shall be prepared by parent enterprise based on the financial statements of parent enterprise and subsidiaries, accounting with other relevant materials, as adjusted long-term equity investment by equity method, which is offset the equity capital investment of parent enterprise and share of owner's equity of subsidiaries enjoyed by parent company and major transaction and internal current between the company and its subsidiaries or among the subsidiaries. "Minority shareholders' equity" belongs to the owner's equity in the consolidated balance sheet; "Minority shareholders' profit and loss" is under the net profit of the consolidated financial statement. As parent enterprise prepares financial statement, the accounting policy and accounting period of subsidiaries are different from which of parent enterprise, which shall be adjusted as parent enterprise; or subsidiaries shall prepared financial statement again required by parent company.

In the reporting period, for the added subsidiary companies controlled by the same enterprise, while preparing the consolidated balance sheet, its opening amount shall be adjusted. For the added subsidiary companies not controlled by the same enterprise, while preparing the consolidated balance sheet, its opening amount shall not be adjusted. In the reporting period, for the parent company settling the subsidiaries, while preparing the consolidated balance sheet, its opening amount shall not be adjusted.

In the reporting period, for the added subsidiaries controlled by the same enterprise, the incomes, expenses and profits of the combining party incurred from the beginning of the current period to the combining date shall be involved into consolidated profit statement. For the added subsidiaries not controlled by the same enterprise, the incomes, expenses and profits of the combining party incurred from the acquisition date to the end of reporting period shall be involved into the consolidated profit statement.

During the reporting period, for the added subsidiaries controlled by the same enterprise, the consolidated cash flow statement shall include the cash flow of the parties to the combination from the beginning of the current period to the reporting period. For the added subsidiaries not controlled by the same enterprise, the consolidated cash flow statement shall include the cash flow from the acquisition date to the end to reporting period. During the settling the subsidiaries, the consolidated cash flow statement shall included the cash flow form the beginning of the current period to the settlement date.

5. Recognition standard for cash and cash equivalents

The term "cash" refers to cash on hand and deposits that are available for payment at any time. The term "cash equivalents" refers to short-term (within 3 months from the purchase date) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

6. Business of foreign currencies and the transaction of foreign currency statements

(1) Translation methods of foreign currency transaction

At the time of initial recognition of a foreign currency transaction, the Company shall convert the amount in a foreign currency into amount in its Renminbi at the spot exchange rate (generally refer to the middle price of market exchange rate published by the People's Bank of China, the same below) on the day the transaction is occurred. Of which, as for such transactions as foreign exchange or involving in foreign exchange, the Company shall converted into amount in the Renminbi at actual exchange rate the transaction is occurred.

(2) Treatment method for the foreign currency monetary items and foreign currency non-monetary items:

On the balance sheet date, the foreign currency monetary items shall be translated at the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior tot the balance sheet date shall be recorded into the profits and losses at the current period except that the balance of exchange arising from foreign currency borrowings for the purchase and construction or production of qualified assets shall be capitalized in the light of the provisions of the Accounting Standards for Business Enterprises No. 17 – Borrowing Costs. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed.

The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate on the fair value confirming date, from which the exchange difference shall be treated as change in fair value (including change in exchange rate) and recorded in the profit and loss of the current period.

(3) Translation for foreign currency financial statements

The Company shall, on the basis of the following provisions, translate its foreign currency financial statements into RMB financial statements.

The asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except the ones as "retained profits", others shall be translated at the spot exchange rate at the time when they are incurred.

The income and expense items in the profits statements shall be translated at the average exchange rate of the current period on transaction date. When disposing an overseas business, the Company shall shift the balance, which arisen form the translation of foreign currency financial statements related to this oversea business, into the disposal profits and losses of the current period. If the overseas business is disposed of partially, the Company shall calculate based on the disposal rate.

The balance arisen from the translation of foreign currency financial statements in compliance with the aforesaid methods shall be presented separately under the owner's equity item of the balance sheets.

Cash flow statement expressed at foreign currency shall be translated at the average exchange rate of current period on the cash flow date. The influence on cash due to change of exchange rate shall be presented separately under the cash flow statement.

7. Financial instruments

(1) Recognition thereunder of financial instruments

Recognition thereunder of financial instruments: When the Company becomes a party to a financial instrument.

(2) Classification of financial instruments

Financial assets held by the Company shall be classified into the following four categories based on investment objective and economic entity: the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, including transactional financial assets and the financial assets which are measured at their fair values and of which the variation is included in the current profits and losses; held-to-maturity investments; loans and the account receivables; and financial assets

available for sale.

Financial liabilities burden by the Company shall be classified into the following two categories based on economic entity: the financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses, including transactional financial liabilities and the designated financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses; and other financial liabilities.

(3) Measurement of financial instruments

For financial assets and financial liabilities measured at their fair values and of which the variation is recorded into the profits and losses of the current period

The initial amount of the financial assets and financial liabilities shall be recognized at fair value (excluding cash dividends that have been declared but not yet distributed or bond interests that have matured but not yet received) when they are acquired. The transaction expense thereof shall be directly recorded into the profits and losses of the current period. The interests or cash dividends acquired, during the holding period, shall be recognized as investment income, and at the end of reporting period, the change in the fair value shall be recorded into the profits and losses of the current period. When financial assets and financial liabilities are disposed, the balance between fair value and initial amount shall be recognized as investment income, at the same time, the profits and losses arising from the change in the fair value of financial assets and financial liabilities shall be adjusted.

Held-to-maturity investments

When held-to-maturity investments are acquired, its initial amount shall be recognized the sum between the fair value (excluding bond interests that have matured but not yet received) and the transaction expense thereof. The interest on bonds in payment, of which the mature interest is not drawn, shall be solely recognized as the receivables.

During the holding period, interest income is recognized as investment income based on amortized cost and actual interest rate (where there is very small gap between actual interest rate and nominal rate of which interests income shall be measured at the nominal rate). The actual interest rate is determined upon acquisition and remains unchanged during the expected holding period or a shorter period for applicable.

When held-to-maturity investments are disposed, the difference between the acquired price and investment book value shall be recorded into the investment income.

Accounts receivable

The creditor's rights arising from selling goods or providing service by the Company and other creditor's rights to other enterprises held by the company that are not quoted in an active market, including accounts receivable, notes receivable, other receivables, long-term receivables, etc., the contract or agreement price should be taken as the initial recognition amount. If it has the nature of financing, it shall be recognized by present value.

Difference between the amount received and book value of the receivables shall be included into the profit or loss of the current period upon collection or disposal.

Available-for-sale financial assets

When available-for-sale financial assets are acquired, its initial amount shall be recognized at the fair value (excluding cash dividends that have been declared but not yet distributed or bond interests that have matured but not yet received) plus transaction expense thereof. The interests or cash dividends acquired, during the holding period, shall be recognized as investment income. At the end of reporting period, it shall be measured at the fair value and the change in fair value thereof shall be recorded into the capital reserves (Other Capital Reserves).

Difference between the amount received and the book value of the financial assets shall be recognized as investment gain or loss upon disposal. Meanwhile, the accumulated changes in fair value previously recognized in the owners' equity are transferred into investment gain or loss.

Other financial liabilities

Other financial liabilities shall be initially recognized at fair value plus transaction costs. The subsequent measurement shall be made by adopting amortized costs, with the exception of those under the following circumstances:

A. For the derivative financial liabilities, which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by delivering the equity instrument, they shall be measured on the basis of their costs.

B. For the financial guarantee contracts which are not designated as a financial liability measured at its fair value and the variation thereof is recorded into the profits and losses of the current period, and for the commitments to grant loans which are not designated to be measured at the fair value and of which the variation is recorded into the profits and losses of the current period and which will enjoy an interest rate lower than that of the market, a subsequent measurement shall be made after they are initially recognized according to the higher one of the following:

a. the amount as determined according to the Accounting Standard for Business Enterprise No. 13 – contingencies; or

b. the surplus after accumulative amortization as determined according to the principles of the Accounting Standard for Business Enterprises No. 14 – Revenues is subtracted from the initially recognized amount.

(4) Recognition and measurement of transfer of financial assets

Where an enterprise has transferred nearly all of the risks and rewards relating to the ownership of the financial asset to the transferee, it shall stop recognizing the financial asset. If it retains nearly all of the risks and rewards relating to the ownership of the financial asset, it shall not stop recognizing the financial asset.

Substance over form philosophy should be adopted to determine whether the transfer of a financial asset can satisfy the conditions as described in these Standards for de-recognition of a financial asset. An enterprise shall differentiate the transfer of a financial asset into the entire transfer and the partial transfer of financial assets.

If the transfer of an entire financial asset satisfies the conditions for stop recognition, the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the current period:

i) The carrying amount of the transferred financial asset;

ii) The aggregate consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equities (in the event that the financial asset involved in the transfer is a financial asset available for sale).

If the transfer of partial financial asset satisfies the conditions for stopping recognition, the carrying amount of the entire financial asset transferred shall be allocated at their respective relevant fair value, between the portion whose recognition has stopped and the portion whose recognition has not stopped, and the difference between the amounts of the following 2 items:

i) The carrying amount of the portion whose recognition has stopped;

ii) The aggregate consideration of the portion whose recognition has stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in the owner's equities which is corresponding to the portion whose recognition has stopped (in the event that the financial asset involved in the transfer is a financial asset available for sale).

The transfer of financial assets does not meet the de-recognition condition, the financial assets shall continue to be recognized, and the consideration received will be recognized as financial liabilities.

(5) Determination of the fair value of financial instruments

As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The quoted prices shall be determined based on the following principles:

- a. In the active market, the quoted prices of the Company for the financial assets it holds or the financial liabilities it plans to assume shall be the present actual offer, while the quoted prices of the Company for the financial assets it plans to acquire or the financial liabilities it has assumed shall be the available charge.
- b. Where there is no available offer or charge for a financial asset or financial liability, the Company shall adopt the market quoted price of the latest transaction or the market quoted price of the latest transaction after adjustment to determine the fair value of the said financial asset or financial liability, otherwise that the Company has adequate evidences to prove that the market quoted price of the latest transaction is not a fair value.

Where there is no active market for a financial assets and financial liabilities, the Company concerned shall adopt value appraisal techniques to determine its fair value.

(6) Impairment of financial assets

The Company shall carry out an inspection, on the balance sheet date, on the carrying amount of the financial assets. Where there is any objective evidence proving that such financial asset has been impaired, an impairment provision shall be made. The expression “objective evidence proving that the financial asset has been impaired” refers to the actually incurred events which, after the financial asset is initially recognized, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the enterprise.

Held-to-maturity investments

Where held-to-maturity investments measured on the basis of post-amortization costs is impaired, the carrying amount of the said held-to-maturity investments shall be written down to the current value (discount rate is by adopting the original actual interest rate) of the predicted future cash flow (excluding the loss of future credits not yet occurred), and the amount as written down shall be recognized as loss of the impairment of the asset and shall be recorded into the profits and losses of the current period. An independent impairment test shall be made on the held-to-maturity investments with significant single amounts. With regard to the held-to-maturity investments with insignificant single amounts, they may be included in a combination of held-to-maturity investments with similar credit risk features so as to carry out an impairment-related test. Where, upon independent test, the held-to-maturity investments has not been impaired, it shall be included in a combination of held-to-maturity investments with similar risk features so as to conduct another impairment test. The held-to-maturity investments which have suffered from an impairment loss in any single amount shall not be included in any combination of held-to-maturity investments with similar risk features for any impairment test.

Accounts receivable

For withdrawal method of impairment for accounts receivable, please refer to Note IV. Accounts receivable.

Available-for-sale financial asset

If the fair value of financial assets available for sale has greatly dropped at the end of reporting period, or after considering of all the relevant factors and expecting decrease trend is non-temporary, the impairment should be recognized at the variation that the fair value is lower than carrying value, and the provision for impairment shall be withdrawn, when confirming impairment, accumulated losses due to decreases in fair value previously recognized directly in capital reserve are reversed and charged to profit or loss for the current period.

Other

Where the impairment-related losses incurred to an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, or incurred to a derivative financial asset which is connected with the said equity instrument and which shall be settled by delivering the said equity instrument, the balance between the equity instrument investment or the derivative financial asset's book value and the present value confirmed according to similar financial assets' current market yield against future cash flow discount should be confirmed as a depreciation loss and reckoned in the period's gains and losses. After the impairment-related losses incurred to an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, may not be reversed.

8. Accounts receivable

(1) Recognition of provision for bad debts:

The Company shall test the book value of accounts receivable on the balance sheet date. Where there is any objective evidence proving that such accounts receivable has been impaired, an impairment provision shall be made.

debtor has serious financial difficult;

debtor goes against the contract clause (for instance, breach of faith or overdue paying interests or principal);

debtors has a great probability of bankruptcy or other financial reorganization;

other objective evidence proving such accounts receivable has been impaired;

(2) Withdrawal method of provision for bad debt

On the balance sheet date, an independent impairment test shall be carried out on the accounts receivable with significant single amounts (the balance over RMB 5 million) and accounts receivable with insignificant single amounts but with high credit risk Group. If any objective evidence shows that the accounts receivable has been impaired, impairment loss shall be recognized on the basis of the gap between the current values of the future cash flow lower than its carrying value so as to withdraw provision for bad debts. Accounts receivable with insignificant single amounts and ones that has not be impaired through independent impairment test shall be divided into several combinations in the light of aging, and then the impairment loss shall be recognized on the basis of a certain proportion of closing balance of accounts receivable combination so as to withdraw provision for bad debts. If there is small difference between predicted future cash flow of short-term accounts receivable and its current value, the predicted future cash flow shall not be discounted when confirming relevant impairment loss. Withdrawing proportion of bad debts are as below:

Aging	Accounts receivable	Other receivables
Within 1 year (including 1 year, the same below)	5%	5%
1-2 years	10%	10%
2-3 years	20%	20%
Over 3 years	30%	30%

(3) If there is any objective evidence proving that the value of the said accounts receivable has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said accounts receivable on the day of reverse under the assumption that no provision is made for the impairment.

9. Inventory

(1) Classification

Inventories of the Company are classified as: raw materials, goods in process, processing materials on consignment and merchandise inventory etc.

(2) Pricing method of outgoing and obtaining inventories

The inventories shall be measured in light of their cost when obtained. The cost of inventory consists of purchase costs, processing costs and other costs. A raw material is accounted as per the planned cost. The difference between planned cost of and actual cost of raw materials is accounted through the cost variance item, and the planned cost is adjusted to the actual cost according to the cost difference which the carryover and given-out inventory should shoulder in the period. Other inventories shall be measured in line with weighted average method when obtained and outgone.

(3) Recognition standard and withdrawal method of depreciation reserves for inventories

On the balance sheet date, the inventories shall be measured according to the cost or the net realizable value, whichever is lower.

The net realizable value refers, in the ordinary course of business, to the account after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. Of which: Finished goods, merchandise inventories, and available for sale materials which are applied directly for sales of stock inventory, under normal producing process, to the amount after deducting the estimated sale expense and relevant taxes from the estimated sell price of the inventory, the net realizable value has been recognized. Material inventories which need to be processed, under normal producing process, to the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of produced finished goods, the net realizable value has been recognized. The net realizable value of inventories held for the execution of a sales contract or labor contract shall be calculated on the basis of the contract price. If an enterprise holds more inventories than the quantities subscribed in the sales contract, the net realizable value of the excessive inventories shall be calculated on the basis of the general sales price.

The Company shall make provision for loss on decline in value of inventories on the basis of each item of inventories at the year-end.

On the balance sheet date, where the cost of inventories is higher than its net realizable value, the provision for loss on decline in value of inventories shall be made, which recorded into the profits and losses of the current period. If the factors, which cause any write-down of the inventories, have disappeared, the amount of write-down shall be resumed and shall be reversed from the provision for the loss on decline in value of inventories which has been made. The reversed amount shall be included in the profits and losses of the current period.

(4) Inventory system for inventories: Perpetual inventory system.

(5) Amortization method of the low-value consumption goods and packing articles

The Company shall amortize the low-value consumption goods and packing through the one-off amortization method.

10. Long-term equity investment

(1) As for the long-term equity investment formed in business combinations under the same control, the initial cost shall be ascertained at the share of the book value of the owner's equity of the merged enterprise. For the long-term equity investment formed in business combinations under different control, the merging party shall make initial measurement to at the merger costs ascertained. For long-term equity investment through other methods, the initial costs shall be recognized by difference acquisition method, e.g. the cash paid actually, the fair value of the equity securities issued, the value stipulated in the investment contract or agreement. The initial cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

As for the long-term equity investment formed in business combinations under the same control, the Company

shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The variation between the initial investment cost of the long-term equity investment and the book value of combined consideration paid (or total par value of shares issued) shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The direct related costs occurred for the business combination of the combining party shall be included into the profit and loss of current accounting period at the time of merger. The bonds issued for a business combination or the handling fees and commissions for assuming other liabilities shall be recorded into the amount of initial measurement of bonds issued and other debts. The handling fees and commissions for the issuance of equity securities for the business combination shall be shall offset against the surplus of equity securities. If the surplus is insufficient to dilute, the retained earnings shall be offset.

As for the long-term equity investment formed in business combinations not under the same control, the Company shall, on the acquisition date, regard the combination costs as the initial cost of long-term equity investment. The combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the Company in exchange for the control on the acquiree, and all relevant direct costs incurred to the acquirer for the business combination. For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer shall record the said amount into the combination costs. The bonds issued for a business combination or the handling fees and commissions for assuming other liabilities shall be recorded into the amount of initial measurement of bonds issued and other debts. The handling fees and commissions for the issuance of equity securities for the business combination shall be shall offset against the surplus of equity securities. If the surplus is insufficient to dilute, the retained earnings shall be offset.

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid. The initial cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

The initial cost of a long-term investment obtained by the exchange of non-monetary assets shall be ascertained in accordance with the Accounting Standards for Enterprises No. 7 - Exchange of Non-monetary Assets.

The initial cost of a long-term equity investment obtained by recombination of liabilities shall be ascertained in accordance with Accounting Standards for Enterprises No. 12 - Debt Restructuring.

The Company makes the corporate system restructuring, therefore, the book value of assets and liabilities are adjusted at the appraisal value, resulting in recognition of initial investment cost of long-term equity investment at the appraisal value.

Besides all relevant direct costs incurred for the business combination, the initial cost of long-term equity investment obtained by other means consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

Where cash dividends that have been declared but not yet distributed and profits are included into the consideration paid as acquiring investment, it shall be recognized receivables, instead of the initial cost of the long-term equity investment.

(2) Subsequent measurement of long-term equity investment and recognized method of investment income

The long-term equity investment of the Company that is able to control the invested enterprise and which of the Company that does not do joint control or does not have significant influences on the invested entity, and has no offer in the active market and its fair value cannot be reliably measured, it shall be measured by employing the cost method.

The price of a long-term equity investment measured by employing the cost method shall be included at its initial investment cost. If there are additional investments or disinvestments, the cost of the long-term equity investment shall be adjusted. The dividends or profits declared to distribute by the invested entity shall be recognized as the current investment income.

A long-term equity investment of the Company that does joint control or significant influences over the invested entity shall be measured by employing the equity method. If the initial cost of a long-term equity investment is more than the Company's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the Company's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

After the Company obtains a long-term equity investment, it shall, in accordance with the attributable share of the net profits or losses of the invested entity, recognize the investment profits or losses and adjust the book value of the long-term equity investment. The Company shall, in the light of the profits or cash dividends declared to distribute by the invested entity, calculate the proportion it shall obtain, and shall reduce the book value of the long-term equity investment correspondingly.

The Company shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero, unless the investing enterprise has the obligation to undertake extra losses. If the invested entity realizes any net profits later, the investing enterprise shall, after the amount of its attributable share of profits offsets against its attributable share of the un-recognized losses, resume to recognize its attributable share of profits.

Where any change is made to the owner's equity other than the net profits and losses of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in the owner's equity. Where the said investment is disposed, the part that is included in the owner's equity (only included in capital reserve) shall be transferred into the profit and loss of the current period by the proportion.

(3) Recognition basis of joint control and significant influences

Recognition basis of joint control: any a joint venture party can not individually control production and operation activities of the joint venture enterprise. The decision-making involved in basic operation activities of the joint venture enterprise shall be needed to make consensus of opinion by each joint venture party.

Recognition basis of significant influences: where the Company directly or indirectly through subsidiary company holds over 20% (including 20%) but no more than 50% of voting shares of invested enterprise shall be confirmed the significant influence on the invested enterprise except that there is any evidence proving that the Company can not enjoy the production and operation decision-making of invested enterprise under such situation. Where the Company holds no more than 20% (excluding 20%) of voting shares of invested enterprise shall be confirmed the no significant influence on invested enterprise. But the Company shall be confirmed as significant influence on invested enterprise when the following situations are accorded with:

A. appointed representative in the Board of Directors and power department; B. participated in the course of policies establishment of invested enterprise; C. the material transaction occurred between the Company and

invested enterprise; D. appointed management person to invested enterprise; E. provided the key technology information to invested enterprise.

(4) Testing of impairment and withdrawal method of provision for impairment

The Company shall, on the day of balance sheet, make a judgment on whether there is any sign of possible impairment of the long-term equity investment according to the following materials. Where there is sign of impairment, the Company shall estimate the recoverable amount of the long-term equity investment and made impairment testing.

The current market price of long-term equity investment falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;

The economic, technological or legal environment in which the Company operates, or the market where the long-term equity investment is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;

The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of the Company for calculating the expected future cash flow of the long-term equity investment will be affected, which will result in great decline of the recoverable amount of the long-term equity investment;

The long-term equity investment have been or will be left unused, or terminated for use, or disposed ahead of schedule;

Any evidence in the internal report of the Company shows that the economic performance of the long-term equity investment have been or will be lower than the expected performance, for example, the net cash flow created by long-term equity investment or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.; and

Other evidence indicates that the impairment of long-term equity investment has probably occurred.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the long-term equity investment minus the disposal expenses and the current value of the expected future cash flow of the long-term equity investment. The Company shall, on the basis of single item long-term equity investment, estimate recoverable amount.

Where the recoverable amount of single item long-term equity investment is lower than its carrying value, the carrying value of the long-term equity investment shall be recorded down to the recoverable amount, and the reduced amount shall be recorded as the profit or loss for the current period. Simultaneously, a provision for the impairment of the long-term equity investment shall be made accordingly.

Once any loss of impairment of the long-term equity investment is recognized, it shall not be switched back in the future accounting periods.

11. Investment real estates

The Company's investment real estates consist of the right to use any land which has already been rented; the right to use any land which is held and prepared for transfer after appreciation; and the right to use any building which has already been rented.

The Company shall make a follow-up measurement to the investment real estates through the cost pattern. As for investment properties that its follow-up measurement shall be made by employing the cost pattern, its depreciation policy and amortization shall be the same as ones of same or similar fixed assets and intangible assets.

The Company shall, on the day of balance sheet, make a judgment on whether there is any sign of possible impairment of the investment real estates according to the following materials. Where there is sign of impairment, the Company shall estimate the recoverable amount of the investment real estates and made impairment testing.

The current market price of investment real estates falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;

The economic, technological or legal environment in which the Company operates, or the market where the investment real estates is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;

The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of the Company for calculating the expected future cash flow of the investment real estates will be affected, which will result in great decline of the recoverable amount of the investment real estates;

Any evidence shows that the investment real estates have become obsolete or have been damaged substantially;

The investment real estates have been or will be left unused, or terminated for use, or disposed ahead of schedule;

Any evidence in the internal report of the Company shows that the economic performance of the investment real estates have been or will be lower than the expected performance, for example, the net cash flow created by investment real estates or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.; and

Other evidence indicates that the impairment of investment real estates has probably occurred.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the investment real estates minus the disposal expenses and the current value of the expected future cash flow of the investment real estates. The Company shall, on the basis of single item investment real estates, estimate recoverable amount.

Where the recoverable amount of single item investment real estates is lower than its carrying value, the carrying value of the investment real estates shall be recorded down to the recoverable amount, and the reduced amount shall be recorded as the profit or loss for the current period. Simultaneously, a provision for the impairment of the investment real estates shall be made accordingly. Once any loss of impairment of the investment real estates is recognized, it shall not be switched back in the future accounting periods.

12. Fixed assets

(1) Recognized standard of fixed assets

The term "fixed assets" refers to the tangible assets that simultaneously possess the features as follows: they are held for the sake of producing commodities, rendering labor service, renting or business management; and their useful life is in excess of one fiscal year. No fixed asset may be recognized unless it simultaneously meets the conditions as follows: The economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and The cost of the fixed asset can be measured reliably.

(2) Category of fixed assets and depreciation

The Company shall withdraw the depreciation of fixed assets by adopting the straight-line method. Useful life, expected net salvage value and annual depreciation rate of each fixed assets are as below:

Category of fixed assets	depreciation life (Y)	Expected net salvage value (%)	Annual depreciation rate (%)
Housing and building	5-20	5-10%	19.00-4.50
Machinery equipments	10-13	5-10%	6.92-9.50
Electronic equipments and other	5	5-10%	19.00-18.00

As for the fixed assets, the provision for depreciation has been made, its withdrawal method of depreciation: For a fixed asset, the provision for depreciation has been made, it shall be withdrawn depreciation in the light of the amount after deducting expected net salvage value, depreciation withdrawn and impairment provision from original value of such fixed assets and the remained useful life. As for the fixed assets, its expected conditions for use has been reached but not handle completion settlement, its cost shall be confirmed in the light of estimated value and withdrew depreciation; after completion settlement, the original estimated value shall be adjusted in line with the actual cost, but original depreciation withdrawn shall not be adjusted.

At least, the Company shall make recheck to useful life, expected net salvage value and depreciation method of the fixed assets when the end of each accounting year, if necessary, the Company shall make adjustment.

(3) Testing of impairment and withdrawal method of provision for impairment

The Company shall, on the day of balance sheet, make a judgment on whether there is any sign of possible impairment of the fixed assets according to the following materials. Where there is sign of impairment, the Company shall estimate the recoverable amount of the fixed assets and made impairment testing.

The current market price of fixed assets falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;

The economic, technological or legal environment in which the Company operates, or the market where the fixed assets is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;

The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of the Company for calculating the expected future cash flow of the fixed assets will be affected, which will result in great decline of the recoverable amount of the fixed assets;

Any evidence shows that the fixed assets have become obsolete or have been damaged substantially;

The fixed assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;

Any evidence in the internal report of the Company shows that the economic performance of the fixed assets have been or will be lower than the expected performance, for example, the net cash flow created by fixed assets or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.; and

Other evidence indicates that the impairment of fixed assets has probably occurred.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the fixed assets minus the disposal expenses and the current value of the expected future cash flow of the fixed assets. The Company shall, on the basis of single item fixed assets, estimate recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs. The recognition of an asset group shall base on whether the main cash inflow generated by the asset group is independent of those generated by other assets or other group assets.

Where the recoverable amount of single item fixed assets or asset group to which the asset belongs is lower than its carrying value, its carrying value shall be recorded down to the recoverable amount, and the reduced amount shall be recorded as the profit or loss for the current period. Simultaneously, a provision for the impairment of the fixed assets shall be made accordingly. Once any loss of impairment of the fixed assets is recognized, it shall not be switched back in the future accounting periods.

(4) Fixed assets by financing leased

For recognized basis, pricing method and depreciation method of fixed assets by financing lease, please refer to "Note IV. Lease".

13. Constructions in progress

The Company's constructions in progress include the preliminary works, constructional engineering, erection

works and technical innovation projects, as well as major repair works etc., which shall be priced in the light of the actual cost. Constructions in progress shall be carried down to fixed assets according to their actual costs when completing and achieving estimated usable status.

The Company shall, on the day of balance sheet, make a judgment on whether there is any sign of possible impairment of the constructions in progress according to the following materials. Where there is sign of impairment, the Company shall estimate the recoverable amount of the constructions in progress and made impairment testing.

The current market price of constructions in progress falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;

The economic, technological or legal environment in which the Company operates, or the market where the constructions in progress is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;

The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of the Company for calculating the expected future cash flow of the constructions in progress will be affected, which will result in great decline of the recoverable amount of the constructions in progress;

Any evidence shows that the constructions in progress have become obsolete or have been damaged substantially;

The constructions in progress have been or will be left unused, or terminated for use, or disposed ahead of schedule;

Any evidence in the internal report of the Company shows that the economic performance of the constructions in progress have been or will be lower than the expected performance, for example, the net cash flow created by constructions in progress or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.; and

Other evidence indicates that the impairment of constructions in progress has probably occurred.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the constructions in progress minus the disposal expenses and the current value of the expected future cash flow of the fixed assets. The Company shall, on the basis of single item constructions in progress, estimate recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the constructions in progress belongs. The recognition of an asset group shall base on whether the main cash inflow generated by the asset group is independent of those generated by other assets or other group assets.

Where the recoverable amount of single item constructions in progress or asset group to which the constructions in progress belongs is lower than its carrying value, its carrying value shall be recorded down to the recoverable amount, and the reduced amount shall be recorded as the profit or loss for the current period. Simultaneously, a provision for the impairment of the constructions in progress shall be made accordingly. Once any loss of impairment of the constructions in progress is recognized, it shall not be switched back in the future accounting periods.

14. Borrowing costs

The term "borrowing costs" refers to the interest and other relevant costs, which are incurred by an enterprise in the borrowing of loans, including interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be

recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

(1) Recognition principle of capitalization of borrowing costs

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

- a. The asset disbursements have already incurred;
- b. The borrowing costs has already incurred; and
- c. The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

(2) Capitalization period

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue.

When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. The borrowing costs incurred after the qualified asset under acquisition and construction or production is ready for the intended use or sale shall be recognized as expenses at the incurred amount when they are incurred, and shall be recorded into the profits and losses of the current period.

(3) Measurement of capitalization amount

During the period of capitalization, the to-be-capitalized amount of interests (including the amortization of discounts or premiums) in each accounting period shall be determined according to the following provisions:

- a. As for specifically borrowed loans for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.
- b. Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

15. Intangible assets

(1) Initial measurement

The intangible assets shall be initially measured according to its cost. The actual cost shall be recognized on the basis on the following principles:

The cost of outsourcing intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is of financing intention, the cost of intangible assets shall be determined on the basis of the current value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be

recorded into profit or loss for the credit period, unless it shall be capitalized under the Accounting Standards for Enterprises No. 17 - Borrowing Cost.

The cost invested into intangible assets by investors shall be determined according to the conventional value in the investment contract or agreement, except for those of unfair value in the contract or agreement.

The cost of self-developed intangible assets shall include the total expenditures incurred during the period from the time when it meets the provisions of recognition of intangible assets to the time when the expected purposes of use are realized, except that the expenditures which have already been treated prior to the said period shall not be adjusted.

The costs of intangible assets acquired from non-monetary assets transaction, debt recombination, government subsidies, and merger of enterprises shall be determined respectively according to the Accounting Standard for Business Enterprises No. 7 -Exchange of non-monetary assets, Accounting Standard for Business Enterprises No. 12 - Debt Restructurings, Accounting Standard for Business Enterprises No. 16 - Government Grants and Accounting Standard for Business Enterprises No. 20 -Business Combinations.

(2) Subsequent measurement

The Company shall analyze and judge the service life of intangible assets, when it obtains intangible assets. The service life of the intangible assets shall be recognized based on the period when the intangible asset can bring economic benefits to the Company. If it is unable to forecast the period when the intangible asset can bring economic benefits to the Company, it shall be regarded as an intangible asset with uncertain service life.

As for intangible assets being derived from any contractual right or other statutory rights possessed or controlled by the Company, the useful life of intangible assets can not exceed the time limit regulated by contractual right or other statutory rights. If the contractual right or other statutory right is renewed at maturity, and there is evidence shows that the Company has not to pay a large sum of costs, the renewal term shall be included into the service life. If useful life is not be regulated by contractual right or other statutory rights, the Company shall synthesize each factors to determine term of economic benefit is expected to be brought by some intangible assets to the Company. If term of economic benefit is expected to be brought by some intangible assets to the Company is still not be confirmed according to the above method, such intangible assets shall be regarded as intangible asset with uncertain useful life.

With regard to intangible assets with limited service life, its amortization amount shall be amortized within its service life systematically and reasonably. The Company amortizes intangible assets by the straight-line method. The reasonable amortization amount of intangible assets shall be its cost minus the expected residual value. For intangible assets with an impairment provision, the accumulative amount of impairment provision shall be deducted from the cost as well. The amortized amount of intangible assets shall be recorded into profit or loss for the current period. Intangible assets with uncertain service life may not be amortized.

The Company shall, at the end of each year, check the service life and the amortization method of intangible assets with limited service life, which shall be adjusted if desired.

The Company shall check the service life of intangible assets with uncertain service life during each accounting period. Where there are evidences to prove the intangible assets have limited service life, it shall be treated according to the above policies applicable to intangible assets with limited service life.

(3) Expenditures for research and development

The expenditures for its internal research and development projects of the Company shall be classified into research expenditures and development expenditures. The term "research expenditures" refers to expenditures occurred for the creative and planned investigation to acquire and understand new scientific or technological knowledge. The research expenditures for its internal research and development projects of the Company shall be

recorded into the profit or loss for the current period. The term "development expenditures" refers to expenditures for the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product. The development expenditures for its internal research and development projects of the Company may be capitalized when they satisfy the following conditions simultaneously:

- a. It is feasible technically to finish intangible assets for use or sale;
- b. It is intended to finish and use or sell the intangible assets;
- c. The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;
- d. It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and
- e. The development expenditures of the intangible assets can be reliably measured.

(4) Testing of impairment and withdrawal method of provision for impairment

The Company shall, on the day of balance sheet, make a judgment on whether there is any sign of possible impairment of the intangible assets according to the following materials. Where there is sign of impairment, the Company shall estimate the recoverable amount of the intangible assets and made impairment testing. Intangible assets with uncertain service life shall be made an impairment testing at the end of every accounting year no matter whether there is sign of impairment.

The current market price of intangible assets falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;

The economic, technological or legal environment in which the Company operates, or the market where the intangible assets is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;

The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of the Company for calculating the expected future cash flow of the intangible assets will be affected, which will result in great decline of the recoverable amount of the intangible assets;

Any evidence shows that the intangible assets have become obsolete or have been damaged substantially;

The intangible assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;

Any evidence in the internal report of the Company shows that the economic performance of the intangible assets have been or will be lower than the expected performance, for example, the net cash flow created by intangible assets or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.;

and

Other evidence indicates that the impairment of intangible assets has probably occurred.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the intangible assets minus the disposal expenses and the current value of the expected future cash flow of the intangible assets. The Company shall, on the basis of single item intangible assets, estimate recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the intangible assets belongs. The recognition of an asset group shall base on whether the main cash inflow generated by the asset group is independent of those generated by other assets or other group assets.

Where the recoverable amount of single item intangible assets or asset group to which the intangible assets belongs is lower than its carrying value, its carrying value shall be recorded down to the recoverable amount, and the reduced amount shall be recorded as the profit or loss for the current period. Simultaneously, a provision for

the impairment of the intangible assets shall be made accordingly. Once any loss of impairment of the intangible assets is recognized, it shall not be switched back in the future accounting periods.

16. Long-term deferred expenses

Long-term deferred expenses refer to general expenses with the apportioned period over one year (one year excluded) that have occurred but attributable to the current and future periods. Long-term deferred expense shall be recoded into book in the light of the actual expenditure, and amortized averagely within benefit period.

17. Estimated debts

(1) Recognition basis of estimated debts

The obligation such as external guaranty, pending litigation or arbitration, product quality assurance, layoff plan, loss contract, restructuring and disposal of fixed assets, pertinent to a contingencies shall be recognized as an estimated debts when the following conditions are satisfied simultaneously:

- a. That obligation is a current obligation of the enterprise;
- b. It is likely to cause any economic benefit to flow out of the enterprise as a result of performance of the obligation; and
- c. The amount of the obligation can be measured in a reliable way.

(2) Measurement method of estimated debts

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Company shall take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies. If the time value of money is of great significance, the best estimate shall be determined after discounting the relevant future outflow of cash. The Company shall check the book value of the estimated debts on the balance sheet date. If there is any exact evidence indicating that the book value cannot really reflect the current best estimate, the Company shall adjust the book value in accordance with the current best estimate.

18. Share-based payment

(1) Category of share-based payment

The share-based payments shall consist of equity-settled share-based payments and cash-settled share-based payments.

(2) Recognition of the fair value of the equity instruments

The equity-settled share-based payment in return for employee services shall be measured at the fair value of the equity instruments granted to the employees.

The fair value of equity instruments for which there is an active market shall be recognized at quotation in the active market;

Where there is no active market for a equity instruments, the Company shall adopt value appraisal techniques to determined its fair value. The value appraisal techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc.

19. Revenue

(1) Recognition method of revenue from selling goods

No revenue from selling goods may be recognized unless the following conditions are met simultaneously:

- a. The significant risks and rewards of ownership of the goods have been transferred to the buyer by the enterprise;

- b. The enterprise retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods;
- c. The relevant amount of revenue can be measured in a reliable way;
- d. The relevant economic benefits may flow into the enterprise; and
- e. The relevant costs incurred or to be incurred can be measured in a reliable way.

(2) Recognition method of revenue from providing labor services

The Company can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services by employing the percentage-of-completion method. The schedule of completion under the transaction concerning the providing of labor services shall be recognized in the light of the proportion of the costs incurred against the estimated total costs.

If the Company can not, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, it shall be conducted in accordance with the following circumstances, respectively:

If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount; or

If the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

(3) Recognition method of revenue from abalienating the right to use assets

Recognition principle of revenue from abalienating the right to use assets

The revenue from abalienating of right to use assets consists of interest revenue and royalty revenue. No revenue from abalienating of right to use assets may be recognized unless the following conditions are met simultaneously:

- A. The relevant economic benefits are likely to flow into the enterprise; and
- B. The amount of revenues can be measured in a reliable way.

Recognition method

- A. The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate; or
- B. The amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

20. Government subsidies

The Company's government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

(1) Recognized conditions of government subsidy

No government subsidy may be recognized unless the following conditions are met simultaneously as follows:

The Company can meet the conditions for the government grants; and

The Company can obtain the government grants.

(2) Measurement

If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is a non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount (RMB 1.00).

The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government

subsidies measured at their nominal amounts shall be directly included in the current profits and losses. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: (a) Those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized; or (b) Those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current profits and losses.

If it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: (a) If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses; and (b) If there is no deferred income concerned to the government subsidy, it shall be directly included in the current profits and losses.

21. Deferred income tax assets and deferred income tax liabilities

The temporary difference between the carrying amount of an asset or liability and its tax base, and as for an item that has not been recognized as an asset or liability, if its tax base can be determined in light of the tax law, the temporary difference between the tax base and its carrying amount, shall withdraw deferred income tax by employing the balance sheet approach.

(1) Recognition of deferred income tax assets

As for the deductible temporary difference, any deductible loss or tax deduction that can be carried forward to the next year, the Company shall recognize the deferred income tax assets arising from a deductible temporary difference, any deductible loss or tax deduction to the extent of the amount of the taxable income, otherwise, the deductible temporary difference occurred in the following transactions:

This transaction is not business combination, and at the time of transaction, the accounting profits will not be affected, nor will the taxable amount or deductible loss be affected.

Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, the enterprise shall recognize the corresponding deferred income tax assets: A. The temporary differences are likely to be reversed in the expected future; and B. It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

(2) Recognition of deferred income tax liabilities

Except for the deferred income tax liabilities arising from the following transactions, the Company shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

A. the initial recognition of business reputation;

B. the initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: The transaction is not business combination; at the time of transaction, the accounting profits will not be affected, nor will the taxable amount or deductible loss be affected.

The taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint enterprises shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded: (a) The investing enterprise can control the time of the reverse of temporary differences; and (b) The temporary differences are unlikely to be reversed in the excepted future.

22. Leases

(1) Recognition standard of financing leases and operating leases

Where a lease satisfies one or more of the following criteria, it shall be recognized as a finance lease: The

ownership of the leased asset is transferred to the lessee when the term of lease expires; The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option becomes exercisable. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised; Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life (generally refer to 75% or over 75%) of the leased asset; In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date (generally refer to 90% or over 90%); in the case of the lessor, the present value of the minimum lease receipts on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date; and The leased assets are of a specialized nature that only the Company (the lessee) can use them without making major modifications.

The term "operating lease" shall refer to a lease other than a financing lease.

(2) Accounting treatment of financing leases

Accounting treatment of lessee of financing leases

On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs (ditto) such as commissions directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. As for the unrecognized financing charge, the Company shall adopt the effective interest rate method to calculate and recognize the financing charge in the current period. Contingent rents shall be recognized as a profits and losses of the current period in which they are actually incurred.

In calculating the depreciation of a leased asset, the Company should adopt a depreciation policy for leased assets consistent with that for depreciable assets which are owned by the Company.

Accounting treatments of lessors in financing leases

On the beginning date of the lease term, a lessor shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income.

As for the unrealized financing income, the Company shall calculate the financing income at the current period by adopting the effective interest rate method.

Contingent rents shall be recorded into the profits and losses of the period in which they actually occurred.

(3) Accounting treatment of lessees in operating leases

The rents from operating leases shall be recorded by the lessor or lessee in the profits and losses of the current period by using the straight-line method. The initial direct costs incurred by the lessor or lessee shall be recognized as the profits and losses of the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

23. Assets the Company holds for sale

Non-current assets (excluding financial assets and deferred income tax assets) shall be divided into assets the Company holds for sale when the following conditions are met simultaneously:

- (1) the Company has made proposal to dispose the said non-current assets;
- (2) the Company has signed irrevocable transfer agreement with assignee; and

(3) The said transfer will be completed due within one year.

Assets for sale shall be divided into single item assets and disposal group (refers to a group of asset that is sold as a whole or disposed together by other way), they shall be measured at the balance that the fair value minus disposal expenses, and may not exceed the original carrying value which is in compliance with conditions for sale. If the original carrying value is higher than the balance that the fair value minus disposal expenses, the said balance shall be recognized as loss on assets impairment and recorded into the profit and loss of the current period.

24. Change in major accounting policies and accounting estimates

(1) Change in accounting policies

No accounting policy changed in the Company.

(2) Change in accounting estimates

No accounting estimates changed in the Company.

25. Corrections of prior accounting errors

The Company has no matter related to correction of prior-period errors.

V. Taxation

1. Main taxes and tax rate

Category of taxes	Tax base	Tax rate
VAT	Sales revenue	17%、13%
Business tax	Taxable income	5%
Tax for maintaining and building cities	Circulating tax	7%、1%
Extra charges of education funds	Circulating tax	3%
Local education surcharge	Circulating tax	1%
Corporate income tax	Payable income tax amount	12.5%、15%、16.5%、25%
Housing property tax	Taxable original value of the real estates and rental income of real estates	1.2%、12%
Land use tax	Area of land for tax	RMB 7 or RMB 8/M ²

The Company is a VAT General Taxpayer. VAT payable shall be the balance that the output tax of the current period set off against input tax that can be offset. As for products to be sold in China, such as yarn-dyed fabric cloth and garments, their output VAT rate shall be 17%, while such as cotton and steam, their output VAT rate shall be 13%.

As for the export products, the Company shall, in accordance with the provision of CS [2007] No. 7 document, perform "tax exemption, deduction and rebate". As for fabric and clothing exported by the Company, their export rebate rate shall be, in accordance with the Circular of Ministry of Finance and State Administration of Taxation on Raising Export Rebate Rate of Some Commodities (CS [2008] No. 138 document) approved by the state council, raised to 14% since 1 Nov. 2008. For textiles and clothing exported by the Company, their export rebate rate shall be, in accordance with the he Circular of Ministry of Finance and State Administration of Taxation on Raising the Export Rebate Rates for Textiles and Clothing (CS [2009] No. 14 document) approved by the state council, raised to 15% from 1 Feb. 2009. Pursuant to the Circulation of the Ministry of Finance, the State Administration of Taxation of the People's Republic of China, on Raising the Export Rebate Rates for Textiles and Other Light Industries, Electronic Information and Other Products (CS [2009] No. 43), the export rebate rates for textiles and clothing shall be raised to 16% from 1 Apr. 2009.

2. Tax preference and official documents

The Company, in accordance with the Notice on Recognition of the First Batch of New High-tech Enterprise for the Year 2008 (LJGZ [2009] No. 12 document) from Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong and Local Taxation Bureau of Shandong Province, was recognized as a New High-tech Enterprise and obtained the Certificate of New High-tech Enterprise on 5 Dec. 2008. The Company shall, in line with the Article 28 of Enterprise Income Tax Law of the People's Republic of China and Notice of the State Administration of Taxation on the Issues concerning the Administration of Enterprise Income Tax Deduction and Exemption (GSF [2008] No. 111 document), enjoy a 15-percent rate for enterprise income tax.

As recognized by Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong and Local Taxation Bureau of Shandong Province, Luthai Huanzhong Pharmacy Co., Ltd. (hereinafter referred to as "Lutai Huanzhong") was recognized as New High-tech Enterprise and obtained the Certificate of New High-tech Enterprise on 29 Dec. 2008. The said company shall, in line with the Article 28 of Enterprise Income Tax Law of the People's Republic of China and Notice of the State Administration of Taxation on the Issues concerning the Administration of Enterprise Income Tax Deduction and Exemption (GSF [2008] No. 111 document), enjoy a 15-percent rate for enterprise income tax.

Lufeng Weaving & Dyeing Co., Ltd. (hereinafter called "Lufeng Weaving & Dyeing") is productive foreign funded enterprise, therefore, it shall enjoy a preferential enterprise income tax policy of "Two plus three" (Exemption of enterprise income tax for the first two years of making profit, and 50% tax reduction for following three years). Between 2006 and 2007, Lufeng Weaving & Dyeing enjoyed exemption from the enterprise income tax, and shall pay half of the enterprise income tax from 2008 to 2010. In accordance with the provisions of the Notice of the State Council on Carrying out the Transitional Preferential Policies on Enterprise Income Tax (GF [2007] No. 39 document), Lufeng Weaving & Dyeing paid the enterprise income tax at tax rate of 12.5% in 2009.

Luthai (Hong Kong), the wholly-owned subsidiary company of the Company, was incorporated in Hong Kong SAR, whose profit tax shall be paid at tax rate of 16.5%.

VI. Business combination and consolidated financial statement

1. Subsidiaries

(1) Subsidiaries obtained by establishment and investment

Subsidiaries	Type	Registered place	Business nature	Registered capital	Business scope	Unit: RMB'0000	
						Actual amount of investments at the period-end	Other essential investment
Beijing Luthai Shirt Co., Limited ("Beijing Luthai")	Holding subsidiary	Beijing	Limited liability company	RMB 560	Design, manufacturing and sale of clothing	RMB 336	
Beijing Sichuang Apparel Co., Ltd. (hereinafter called "Beijing Sichuang")	Holding subsidiary	Beijing	Limited liability company (Sino-foreign joint venture)	RMB 3,500	Design, manufacturing and sale of garment	RMB 2,100	

Subsidiaries	Type	Registered place	Business nature	Registered capital	Business scope	Actual amount of investments at the period-end	Other essential investment
Luthai (Hong Kong)	Wholly-owned subsidiary	Hong Kong	Limited liability company	HKD 600	Import & export trade, collection of market information, information consultation	RMB 636.66	
Luthai Huanzhong	Wholly-owned subsidiary	Zibo	Limited liability company	RMB 10,700	Production and sale of table, granule, capsule, oral liquid, syrup, suppository, mixture, bolus and lotion; retail of Chinese Traditional Patent Medicine, Chemical preparations, antibiotic, Biochemical Pharmaceutics (excluding bacterin, blood products)	RMB 8,883.45	
Xinjiang Luthai Harvest Cotton Co., Ltd. (“Xinjiang Luthai”)	Holding subsidiary	Xinjiang	Limited liability company	RMB11,863	Planting, processing and sale of Economic Crops, cooking oil crops; purchase, processing and sale of cotton and cotton-by products; production and sale of cotton textile products	RMB6,517.63	
Lufeng Weaving & Dyeing Co., Ltd. (Lufeng Weaving & Dyeing)	Holding subsidiary	Zibo	Limited liability company (Joint Ventures Funded by Hongkong Macao and Taiwan)	RMB48,616	Production and sale of textile and printing and dyeing products	RMB36,462	
Zibo Luqun Textile Co., Ltd. (Luqun Textile)	Wholly-owned subsidiary	Zibo	Limited liability company (sole corporation)	RMB16,822	Sale of cotton yarn	RMB17,178.46	
Zibo Xinsheng Power Co., Ltd. (Xinsheng Power)	Wholly-owned subsidiary	Zibo	Limited liability company (sole corporation)	RMB16,243.56	Power, steam and hot water	RMB17,634.07	

(Con.)

Unit: RMB'0000

Subsidiaries	The proportion of holding shares (%)	The proportion of voting rights(%)	Included in consolidated statement	Minority interests	Deductible minority interests	Balance of parent company's equity after deducting the difference that loss of minority interests exceed equity obtained by minority shareholders
Beijing Luthai	60	60	Yes	276.20		
Beijing Sichuang	60	60	Yes	1,742.18		
Luthai (Hong Kong)	100	100	Yes			
Luthai Huanzhong	100	100	Yes			
Xinjiang Luthai	57.41	57.41	Yes	8,684.76		
Lufeng Weaving & Dyeing	75	75	Yes	16,094.57		
Luqun Textile	100	100	Yes			
Xinsheng Power	100	100	Yes			
Total				<u>26,797.71</u>		

2. Conversion rate of main statements for overseas business entity

The balance sheet items of Luthai (Hong Kong) are converted at closing exchange rate between the RMB and the Hong Kong dollar of 1:0.8805; while the income statement items and cash flow statement items are converted at average value between exchange rate of the RMB against the Hong Kong dollar at the period-begin and at the period-end , i.e. 1:0.8812.

VII. Notes to the financial statements

Unless otherwise noted in the following items (including notes to the financial statement of parent company), the year-end refers to 31 Dec. 2009, and the year-begin refers to 1 Jan. 2009. The current period refers to the Year 2009, and the last year refers to the year 2008.

1. Monetary funds

(1) Breakdown of monetary fund

Items	Closing amount			Opening amount		
	Original currency	Exchange rate	Translated to RMB	Original currency	Exchange rate	Translated to RMB
Cash:						
-RMB	1,444,059.37	1.0000	1,444,059.37	1,450,297.02	1.0000	1,450,297.02
-USD	26,479.68	6.8282	180,808.55	25,534.48	6.8346	174,517.96
-EURO	3,803.33	9.7971	37,261.60	1,400.03	9.6590	13,522.89
-JPY	109,638.00	0.0738	8,091.29	90,503.00	0.0757	6,851.08

-HKD	8,715.64	0.8805	7,674.12	2,286.60	0.8819	2,016.54
-THB	120.19	0.2046	24.59	120.19	0.1955	23.50
-SGD	0.20	4.8605	0.97	0.20	4.7530	0.95
Subtotal			<u>1,677,920.49</u>			<u>1,647,229.94</u>
Bank deposit:						
-RMB	469,959,879.71	1.0000	469,959,879.71	911,030,094.89	1.0000	911,030,094.89
-USD	6,978,636.14	6.8282	47,651,523.33	21,102,470.11	6.8346	144,227,096.03
-EURO	926,914.51	9.7971	9,081,074.14	1,519,641.15	9.6590	14,678,213.87
-JPY	3,201,551.00	0.0738	236,274.47	12,182,826.00	0.0757	922,239.93
-HKD	23,497,324.56	0.8805	20,689,394.27	17,837,032.14	0.8819	15,730,478.64
-SF	46,692.65	6.5938	307,882.00	297,587.42	6.4624	1,923,128.94
Subtotal			<u>547,926,027.92</u>			<u>1,088,511,252.30</u>
Other monetary fund						
-RMB	4,000,000.00	1.0000	4,000,000.00	34,000,000.00	1.0000	34,000,000.00
-USD	2,396,587.11	6.8282	16,364,376.12	2,472,406.62	6.8346	16,897,910.27
-EURO	20.65	9.7971	202.31	1.51	9.6590	14.59
Subtotal			<u>20,364,578.43</u>			<u>50,897,924.86</u>
Total			<u><u>569,968,526.84</u></u>			<u><u>1,141,056,407.10</u></u>

(2) Closing amount of monetary fund has decreased by 50.05% compared with opening amount, which was because that raised capital, from which the Company issued RMB common shares on 8 Dec. 2008, was used in the reporting period.

(3) Item “Other” under the monetary fund amounting to RMB 4 million is margin deposits for acceptance bill. US dollar deposit in the other monetary fund is foreign currency payment, from which the Company exported the products, being in verification stage in accordance with the State Administration of Foreign Exchange.

2. Notes receivable

(1) Categories

Categories	Closing amount	Opening amount
Bank acceptance bill	7,348,990.25	18,285,935.20
Letter of credit (LC)	134,063,752.21	97,480,808.62
Total	<u>141,412,742.46</u>	<u>115,766,743.82</u>

(2) The notes that the Company has made indorsement to other party but not yet due was RMB 27,179,614.85. Details of the top five entities are as follows:

Entities	Date of draft	Date due	Amount
Wenzhoushi Baozitou Garment Co., Ltd.	2009-7-8	2010-1-6	1,000,000.00
Wenzhoushi Baozitou Garment Co., Ltd.	2009-10-19	2010-4-15	1,000,000.00
Qingdao Haoshilai Suits Co., Ltd.	2009-10-29	2010-4-29	1,000,000.00
Wenzhoushi Baozitou Garment Co., Ltd.	2009-11-13	2010-5-12	1,000,000.00
Suzhou Meihao Ting Garment Co., Ltd.-	2009-7-3	2010-1-3	660,000.00
Total			<u>4,660,000.00</u>

(3) No mortgaged note in the reporting period.

3. Accounts receivable

(1) Breakdown of accounts receivable listed by categories

Categories	Closing amount			
	Book balance		Provision for bad debts	
	Amount	Proportion(%)	Amount	Proportion (%)
Individually significant accounts receivable	70,254,295.63	43.20	3,512,714.78	41.02
Accounts receivable which are not individually significant, but are assessed at high risk level through credit risk combination				
Other non-material receivables	92,378,220.81	56.80	5,050,476.04	58.98
Total	162,632,516.44	100.00	8,563,190.82	100.00

(Con.)

Categories	Opening amount			
	Book balance		Provision for bad debts	
	Amount	Proportion(%)	Amount	Proportion (%)
Individually significant accounts receivable	55,187,878.31	38.92	2,759,393.92	36.70
Accounts receivable which are not individually significant, but are assessed at high risk level through credit risk combination				
Other non-material receivables	86,602,994.03	61.08	4,758,909.43	63.30
Total	141,790,872.34	100.00	7,518,303.35	100.00

Accounts receivable with significant single amount refer to accounts receivable that the closing balance is over RMB 5 million.

(2) Withdrawal of provision for bad debts at the period-end

Withdrawal of provision for bad debts of accounts receivable which single amount is significant or single amount is not significant but its impairment test is individually made:

Contents	Book amount	Provision for bad debts	Proportion	Reason
TAL APPAREL LIMITED	18,232,580.72	911,629.04	5%	Note IV. 8. (2)
OXFORD PRODUCTS (INTERNATIONAL) LIMITED	13,962,497.64	698,124.88	5%	Note IV. 8. (2)
Chen Feng (Jin Tan) Garments Co., Ltd.	13,480,337.42	674,016.87	5%	Note IV. 8. (2)
SETA TEKSTIL HALIT ZIYA TURKKAN SOK.	10,951,149.77	547,557.49	5%	Note IV. 8. (2)
Zibo Power Supply Company	7,563,478.92	378,173.94	5%	Note IV. 8. (2)
PHILLIPS VANHEUSEN SHIRT GROUP	6,064,251.16	303,212.56	5%	Note IV. 8. (2)
Total	70,254,295.63	3,512,714.78		

Breakdown of accounts receivable listed by aging and withdrawal of bad debts

Aging	Closing amount			Opening amount		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	160,218,732.11	98.52	8,010,936.61	139,824,419.83	98.61	6,991,221.00
1-2 years	819,363.89	0.50	81,936.39	175,169.47	0.12	17,516.95
2-3 years	80,083.18	0.05	16,016.64	278,195.14	0.20	55,639.03
Over 3 years	1,514,337.26	0.93	454,301.18	1,513,087.90	1.07	453,926.37
Total	162,632,516.44	100.00	8,563,190.82	141,790,872.34	100.00	7,518,303.35

(3) Accounts receivable written off actually in the reporting period

Name of entities	Nature	Amount	Reason	Occurred due from related transaction or not
Running water	Water rates	13,065.28	Irrecoverable payment	No
Arrears of consumptions on POS	Consumer payment	1,450.00	Irrecoverable payment	No
Zibo Shanhe Pharmaceutical Co. Ltd	Payment for goods	460.00	Irrecoverable payment for goods due to quality problems	No
Total		14,975.28		

(4) There was no accounts receivable due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

(5) The information list for the top 5 customers:

Customers	Relationship with the Company	Amount	Aging	Proportion to total accounts receivable (%)
TAL APPAREL LIMITED	Trade debtors	18,232,580.72	Within 1 year	11.21
OXFORD PRODUCTS (INTERNATIONAL) LIMITED	Trade debtors	13,962,497.64	Within 1 year	8.59
Chen Feng (Jin Tan) Garments Co., Ltd.	Trade debtors	13,480,337.42	Within 1 year	8.29
SETA TEKSTIL HALIT ZIYA TURKKAN SOK.	Trade debtors	10,951,149.77	Within 1 year	6.73
Zibo Power Supply Company	Trade debtors	7,563,478.92	Within 1 year	4.65
Total		64,190,044.47		39.47

4. Advances to the supplier

(1) Aging analysis:

Aging	Closing amount		Opening amount	
	Amount	Proportion(%)	Amount	Proportion(%)
Within 1 year	160,214,862.72	99.66	85,191,947.94	98.28
1-2 years	238,174.46	0.15	820,617.31	0.95
2-3 years	84,454.74	0.05	644,626.14	0.74
Over 3 years	221,803.48	0.14	23,052.91	0.03
Total	160,759,295.40	100.00	86,680,244.30	100.00

(2) The information list for the top 5supplieers

Name of suppliers	Relationship with the Company	Amount	Aging	Reason for unsettlement
J.G.BOSWELL COMPANY	Supplier	38,274,574.67	Within 1 year	Purchasing payment in advance
ALLENBERG COTTON CO.	Supplier	35,095,995.33	Within 1 year	Purchasing payment in advance
DUNAVANT ENTERPRISES,INC	Supplier	22,651,984.10	Within 1 year	Purchasing payment in advance
JESS SMITH & SONS COTTON. LLC	Supplier	11,338,200.15	Within 1 year	Purchasing payment in advance
QC(US) MARKETING	Supplier	8,612,414.46	Within 1 year	Purchasing payment in advance
Total		115,973,168.71		

(3) There was no advance to the suppliers due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

(4) The closing amount of advances to the suppliers has increased by 85.46% compared with the opening amount, which was mainly due to increase of advance payment for purchasing import materials.

5. Other receivables

(1) Breakdown of other receivables listed by categories

Categories	Closing amount			
	Book balance		Provision for bad debts	
	Amount	Proportion(%)	Amount	Proportion (%)
Individually significant other receivables	23,691,525.51	39.75	5,412,401.40	54.66
Other receivables which are not individually significant, but are assessed at high risk level through credit risk combination				
Other non-material other receivables	35,908,680.23	60.25	4,490,093.72	45.34
Total	59,600,205.74	100.00	9,902,495.12	100.00

(Con.)

Categories	Opening amount			
	Book balance		Provision for bad debts	
	Amount	Proportion(%)	Amount	Proportion (%)
Individually significant other receivables	40,347,449.55	52.94	5,984,364.11	59.24
Other receivables which are not individually significant, but are assessed at high risk level through credit risk combination				
Other non-material other receivables	35,866,522.38	47.06	4,117,132.56	40.76
Total	76,213,971.93	100.00	10,101,496.67	100.00

Other receivables with significant single amount refer to ones that the closing balance is over RMB 5 million.

(2) Withdrawal of provision for bad debts at the period-end

Withdrawal of provision for bad debts of other receivables which single amount is significant or single amount is not significant but its impairment test is individually made:

Contents	Book amount	Provision for bad debts	Proportion	Reason
Awat County Tian Hong State-owned Assets Investment Operation Co., Ltd	17,026,634.40	5,079,156.84	20%、30%	Note IV. 8 (2)
Export rebates tax receivable	6,664,891.11	333,244.56	5%	Note IV. 8 (2)
Total	23,691,525.51	5,412,401.40		

Breakdown of accounts receivable listed by aging and withdrawal of bad debts

Aging	Closing amount			Opening amount		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	25,544,733.25	42.86	1,277,236.67	40,767,466.83	53.49	2,038,373.35
1-2 years	5,495,836.41	9.22	549,583.64	9,055,596.62	11.88	905,559.66
2-3 years	4,922,160.28	8.26	984,432.07	7,597,088.67	9.97	1,519,417.72
Over 3 years	23,637,475.80	39.66	7,091,242.74	18,793,819.81	24.66	5,638,145.94
Total	59,600,205.74	100.00	9,902,495.12	76,213,971.93	100.00	10,101,496.67

(3) There was no other receivable due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

(4) Nature or content of other receivables with the greater amount

Name	Amount	Nature or content
Awat County Tian Hong State-owned Assets Investment Operation Co., Ltd	17,026,634.40	Advance payment of operating funds for Awat County Government due to Xinjiang Luthai's restructuring
Total	17,026,634.40	

(5) The information list for the top 5 customers:

Name	Relationship with the Company	Amount	Aging	Proportion to total other Receivables (%)
Awat County Tian Hong State-owned Assets Investment Operation Co., Ltd	Advance payment of operating funds for Awat County Government due to Xinjiang Luthai's restructuring	17,026,634.40	2-3 years, Over 3 years	28.57
Export rebates tax receivable	Governmental export rebates	6,664,891.11	Within 1 year	11.18
Bureau of Finance of Zichuan District of Zibo	Refundable export rebates by local government	2,665,685.60	1-2 years, 2-3 years	4.47
Petroleum And Natural Gas Transport Corporation Of China	Advance construction payment for project of cotton field drip irrigation	1,300,000.00	2-3 years, Over 3 years	2.18
Bureau of Land and Resources of Awat County	Advance supplementary funds for cotton field formation project	1,230,549.50	1-2 years, 2-3 years	2.07
Total		28,887,760.61		48.47

6. Inventory

(1) Category

Items	Closing amount		
	Book balance	Falling price reserve	Net book value
Raw materials	680,591,538.75	326,645.83	680,264,892.92
Goods in process	286,575,574.09	22,696.46	286,552,877.63
Merchandise inventory	284,415,234.52	45,046,370.16	239,368,864.36
Consigned materials for processing	23,308,255.34		23,308,255.34
Total	1,274,890,602.70	45,395,712.45	1,229,494,890.25

(Con.)

Items	Opening amount		
	Book balance	Falling price reserve	Net book value
Raw materials	675,901,000.82	61,545.96	675,839,454.86
Goods in process	318,305,947.57	3,524,867.49	314,781,080.08
Merchandise inventory	432,291,978.43	68,472,475.52	363,819,502.91
Consigned materials for processing	15,618,075.74		15,618,075.74
Total	1,442,117,002.56	72,058,888.97	1,370,058,113.59

(2) Provision for falling price of inventory

Items	Opening amount	Provided in the current period	Decreased this period		Closing amount
			Written back	Written off	
Raw materials	61,545.96	265,099.87			326,645.83
Goods in process	3,524,867.49			3,502,171.03	22,696.46
Merchandise inventory	68,472,475.52	4,811,084.12		28,237,189.48	45,046,370.16
Total	72,058,888.97	5,076,183.99		31,739,360.51	45,395,712.45

(3) Provision for falling price of inventory

	Thereunder	Reason for transferring to provision for falling price of inventory	Proportion to the closing balance of the inventory (%)
Raw materials	The lower of cost and net realizable value		
Goods in process	The lower of cost and net realizable value		
Merchandise inventory	The lower of cost and net realizable value		

(4) Basis of withdrawal of provision for falling price of inventory

On the balance sheet date, the provision for falling price of inventory shall be withdrawn at cost and net realizable value. Where the cost of inventory is higher than its net realizable value, the inventory shall be measured at the net realizable value, meanwhile, the provision for falling price of inventory shall be withdrawn at the balance of the cost higher than the net realizable value. The net realizable value shall be recognized as below:

the inventories for sale directly such as finished goods, commodities and materials for sale, in the course of normal production and operation, the net realizable value of such inventories is an amount after deducting estimated sale expense and relevant taxes from the estimated sale price of inventories;

materials inventory that need to go through processing, in the course of normal production and operation, the net realizable value of such inventories is an amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of products manufactured by the Company.

At the end of reporting period, due to the part of raw materials with the longer aging, dyed yarn with quality problems and shirt and fabrics with the longer aging, the costs of inventory is higher than its net realizable value, the balance between which is withdrawn as the provision for falling price of inventory.

(5) Inventories used for security for a debt

Items	Book value	Remark
Raw materials	155,946,313.21	Mortgage
Total	155,946,313.21	

The seed cotton is used for mortgage by Xinjiang Luthai for short-term loans of RMB 115 million from the bank. Please see "Note IX. 1" for details.

7. Long-term equity investment

(1) Category

Items	Opening amount	Increase in 2009	Decrease in 2009	Closing amount
Investment in joint venture enterprises	800,000.00		800,000.00	
Investment in other enterprises		160,000.00		160,000.00
Less: provision for impairment of long-term equity investment	800,000.00		800,000.00	
Total		160,000.00		160,000.00

(2) Breakdown of long-term equity investment

Name of invested entities	Accounting method	Initial investment cost	Opening amount	Increase/decrease	Closing amount
Zibo Chengshun Heating Co., Ltd.	Cost method	160,000.00		160,000.00	160,000.00
Awat Silk Road Gash Fruits Co., Ltd.			800,000.00	-800,000.00	
Total			800,000.00	-640,000.00	160,000.00

(Con.)

Name of invested entities	Proportions of shareholding (%)	Proportions Of voting rights (%)	Provision for impairment	Impairment provision withdrawn in the current period	Cash dividends in the current period
Zibo Chengshun Heating Co., Ltd.	2.00	2.00			
Awat Silk Road Gash Fruits Co., Ltd.					
Total					

Administration for Industry and Commerce of Awat County has revoked the business license of Awat Silk Road Gash Fruits Co., Ltd. Thus, the investment in it was written off in the reporting period.

8. Fixed assets

(1) Breakdown of fixed assets

Items	Opening amount	Increase in 2009	Decrease in 2009	Closing amount
I. Cost	5,324,873,664.36	255,611,692.10	45,458,445.62	5,535,026,910.84
Including: House and building	1,370,382,764.76	171,486,281.11	13,658,654.71	1,528,210,391.16
Machinery equipment	3,844,239,866.84	71,345,801.07	29,076,911.26	3,886,508,756.65
Transportation vehicles	44,857,322.97	7,856,609.20	1,045,950.02	51,667,982.15
Electronic equipment and other	65,393,709.79	4,923,000.72	1,676,929.63	68,639,780.88
II. Depreciation	1,589,707,371.06	347,328,708.27	28,713,388.26	1,908,322,691.07
Including: House and building	269,980,002.42	67,745,690.95	2,926,569.61	334,799,123.76
Machinery equipment	1,247,722,661.90	268,996,791.31	24,100,085.02	1,492,619,368.19
Transportation vehicles	31,114,255.74	3,624,704.20	928,453.84	33,810,506.10
Electronic equipment and other	40,890,451.00	6,961,521.81	758,279.79	47,093,693.02
III. The net book value	3,735,166,293.30			3,626,704,219.77
Including: House and building	1,100,402,762.34			1,193,411,267.40
Machinery equipment	2,596,517,204.94			2,393,889,388.46
Transportation vehicles	13,743,067.23			17,857,476.05
Electronic equipment and other	24,503,258.79			21,546,087.86
IV. Provision for impairment loss	6,503,847.08	466,182.24	563,869.01	6,406,160.31
Including: House and building		98,456.34		98,456.34

Machinery equipment	6,379,082.25	254,222.87	547,125.96	6,086,179.16
Transportation vehicles	107,091.50	70,518.08	16,743.05	160,866.53
Electronic equipment and other	17,673.33	42,984.95		60,658.28
V. Total book value	3,728,662,446.22			3,620,298,059.46
Including: House and building	1,100,402,762.34			1,193,312,811.06
Machinery equipment	2,590,138,122.69			2,387,803,209.30
Transportation vehicles	13,635,975.73			17,696,609.52
Electronic equipment and other	24,485,585.46			21,485,429.58

Note: the depreciation was RMB 347,328,708.27 in the current period. The original price that the construction in progress was transferred into fixed assets was RMB 192,972,056.35.

(2) Fixed assets leased by operating lease

Items	Original book value	Remake
House and building	1,933,978.40	Lessee is Lucheng Textile
Total	1,933,978.40	

(3) Fixed assets that the property certificates has not been completed

Items	Reason	Expected time for completion	Book value
House property of 50 million-meter yarn-dyed fabric project	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2010	235,405,695.08
House property of 5 million shirts project	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2010	38,232,953.32
Luqun Spinning workshop	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2010	53,353,764.14
Main factory building of 6# boiler of electric power plant	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2010	4,418,493.41
Total			331,410,905.95

Note: Xinjiang Luthai mortgaged the machinery equipment and land use right with the net book value of RMB 64,660,703.88 for short-term bank loans of RMB 69.69 million. Please see “Note IX. 1” for details.

9. Construction in progress

(1) Breakdown of construction in progress

Items	Closing amount			Opening amount		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Lu Thai Industry Park	1,274,882.42		1,274,882.42	7,642,808.26		7,642,808.26
Other small projects	13,290,593.95		13,290,593.95	9,626,243.10		9,626,243.10
50 million-meter yarn-dyed fabric	3,516,943.40		3,516,943.40	26,705,822.47		26,705,822.47

5 million shirts project			190,000.00	190,000.00
Twisting plant project	25,243,565.54	25,243,565.54	56,910,566.65	56,910,566.65
Piece dyeing project	737,191.85	737,191.85	2,753,018.64	2,753,018.64
Spinning project of Xinjiang Luthai	40,000.00	40,000.00	4,118,269.86	4,118,269.86
Xinsheng Power Expansion project	7,538,641.42	7,538,641.42		
Renovation project of double-twist plant of Luqun Textile	487,819.62	487,819.62	1,715,646.76	1,715,646.76
Production line project of 3000000-piece high-grade shirts	8,265,467.62	8,265,467.62		
150000-ingot high-grade combing yarn project	3,882,747.07	3,882,747.07	37,411,403.58	37,411,403.58
50000-ingot double-twist project	8,349,379.59	8,349,379.59	14,724,607.64	14,724,607.64
project of 10 million-meter high-grade fabrics in women's wear	418,196.14	418,196.14		
Total	73,045,428.62	73,045,428.62	161,798,386.96	161,798,386.96

(2) Profiles of main construction in progress and changes

Project	Budget (RMB'0000)	Opening amount	Increase in 2009	Transferred to fixed assets this year	Other decrease this year	Closing amount
Lu Thai Industry Park	980	7,642,808.26	1,932,621.74	8,300,547.58		1,274,882.42
Other small projects	2,900	9,626,243.10	11,728,252.68	8,063,901.83		13,290,593.95
50 million-meter yarn-dyed fabric	27,007	26,705,822.47	13,939,867.66	37,128,746.73		3,516,943.40
5 million shirts project	1,200	190,000.00		190,000.00		
Twisting plant project	11,921	56,910,566.65	15,537.05	31,682,538.16		25,243,565.54
Piece dyeing project	29,187	2,753,018.64	15,048,320.11	17,064,146.90		737,191.85
Spinning project of Xinjiang Luthai	1,565	4,118,269.86	6,703,553.89	10,781,823.75		40,000.00
Xinsheng Power Expansion project	1,200		10,723,663.81	3,185,022.39		7,538,641.42
Renovation project of double-twist plant of Luqun Textile	6,300	1,715,646.76	2,194,139.70	3,421,966.84		487,819.62
Production line project of 3000000-piece high-grade shirts	6,687		8,265,467.62			8,265,467.62
150000-ingot high-grade	26,461	37,411,403.58	25,318,290.82	58,846,947.33		3,882,747.07

Project	Budget (RMB'0000)	Opening amount	Increase in 2009	Transferred to fixed assets this year	Other decrease this year	Closing amount
combing yarn project						
50000-ingot double-twist project	4,086	14,724,607.64	7,931,186.79	14,306,414.84		8,349,379.59
project of 10 million-meter high-grade fabrics in women's wear	14,534		418,196.14			418,196.14
Total		<u>161,798,386.96</u>	<u>104,219,098.01</u>	<u>192,972,056.35</u>		<u>73,045,428.62</u>

(Con.)

Project	Accumulative amount of capitalization of interest	Including: amount of capitalization of interest this year	Interest capitalization rate this year (%)	Proportion of Engineering input to budget (%)	Progress (%)	Sources
Lu Thai Industry Park				97	97	Other
Other small projects				95	95	Other
50 million-meter yarn-dyed fabric				97	97	Other
5 million shirts project				100	100	Other
Twisting plant project				96	96	Other
Piece dyeing project				99	99	Other
Spinning project of Xinjiang Luthai				98	98	Other
Xinsheng Power Expansion project				90	90	Other
Renovation project of double-twist plant of Luqun Textile				99	99	Other
Production line project of 3000000-piece high-grade shirts				12	12	Other
150000-ingot high-grade combing yarn project				98.19	98.19	Raised capital
50000-ingot double-twist project				93.42	93.42	Raised capital
project of 10 million-meter high-grade fabrics in women's wear				19.51	19.51	Raised capital
Total						

(3) Progress of main construction in process

Items	Progress	Remark
150000-ingot high-grade combing yarn project	98.19%	
50000-ingot double-twist project	93.42%	
project of 10 million-meter high-grade fabrics in women's wear	19.51%	

(4) The closing amount of construction in progress has decreased by 54.85% compared with the opening amount, which was due to caused by completion of construction in the current period transferred into fixed assets.

(5) As at 31 Dec. 2009, there was no situation that book value of the construction in progress is higher than its recoverable amount.

10. Engineering material

(1) Breakdown of engineering material

Items	Opening amount	Increase in 2009	Decrease in 2009	Closing balance
Engineering material	5,976,824.75	51,676,535.59	45,941,206.68	11,712,153.66
Total	5,976,824.75	51,676,535.59	45,941,206.68	11,712,153.66

(2) The closing amount of engineering material has increase by 95.96% compared with the opening amount, which was due to increase of procurement of equipment.

(3) As at 31 Dec. 2009, there was no situation that book value of the engineering material is higher than its recoverable amount.

11. Intangible assets

(1) Breakdown of intangible assets

Items	Opening book balance	Increase in 2009	Decrease in 2009	Closing book balance
I. Cost	243,102,293.49	9,659,540.00		252,761,833.49
Land use right	173,828,868.33			173,828,868.33
Land use right of Xinsheng Power	12,137,593.14	17,840.00		12,155,433.14
Water use right	280,000.04			280,000.04
Luthai Huanzhong-drug concession	5,599,999.96			5,599,999.96
Luthai Huanzhong-non-patent technology	996,333.26			996,333.26
Lufeng Weaving & Dyeing-land use right	12,204,217.94			12,204,217.94
Luqun Textile-land use right	29,990,861.00	9,641,700.00		39,632,561.00
Luthai Huanzhong-land use right	8,064,419.82			8,064,419.82
II. Accumulative amortization	15,801,674.67	8,003,621.90		23,805,296.57
Land use right	12,195,874.41	6,198,044.64		18,393,919.05
Land use right of Xinsheng Power	1,408,562.98	507,343.32		1,915,906.30
Water use right				
Luthai Huanzhong-drug concession				
Luthai Huanzhong-non-patent technology				

Items	Opening book balance	Increase in 2009	Decrease in 2009	Closing book balance
Lufeng Weaving & Dyeing-land use right	502,842.19	256,238.32		759,080.51
Luqun Textile-land use right	1,097,030.53	743,313.34		1,840,343.87
Luthai Huanzhong-land use right	597,364.56	298,682.28		896,046.84
III. The net book value	227,300,618.82			228,956,536.92
Land use right	161,632,993.92			155,434,949.28
Land use right of Xinsheng Power	10,729,030.16			10,239,526.84
Water use right	280,000.04			280,000.04
Luthai Huanzhong-drug concession	5,599,999.96			5,599,999.96
Luthai Huanzhong-non-patent technology	996,333.26			996,333.26
Lufeng Weaving & Dyeing-land use right	11,701,375.75			11,445,137.43
Luqun Textile-land use right	28,893,830.47			37,792,217.13
Luthai Huanzhong-land use right	7,467,055.26			7,168,372.98

Note: Amortization amount was RMB 8,003,621.90 in the current period.

(2) As at 31 Dec. 2009, there was no situation that book value of the intangible assets is higher than its recoverable amount.

(3) Xinjiang Luthai mortgaged the land use right and machinery equipment with the net book value of RMB 34,068,954.29 for short-term bank loans of RMB 114.69 million. Please see “Note IX. 1” for details.

12. Goodwill

(1) Breakdown of goodwill

Name of invested entity	Opening balance	Increase in 2009	Decrease in 2009	Closing balance	Provision for impairment at the year-end
Xinsheng Power	20,563,803.29			20,563,803.29	
Total	20,563,803.29			20,563,803.29	

(2) Impairment testing of goodwill and withdrawal method of impairment reserve: No matter whether there is any sign of possible impairment, the goodwill formed by the business combination shall be subject to impairment test at the end of year at least. The Company shall, as of the purchasing day, apportion the book value of the good formed by business combination to the relevant asset groups by a reasonable method. Where it is difficult to do so, the Company shall be apportioned to the relevant combinations of asset groups. The related asset group or combination of asset groups shall be the asset group or combination of asset groups that can benefit from the synergy effect of enterprise merger, and shall be smaller than the reporting segments as determined by the Company.

When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the Company shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount and recognize the corresponding impairment loss. Then the Company shall make an impairment test of the asset groups or combinations of asset groups containing

goodwill, and compare the carrying value of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of an asset group or a combination of asset groups is lower than its carrying value, the amount of the impairment loss shall first charge against the book value of the headquarter' assets and goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the book value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded. Once any impairment loss of the above goodwill is recognized, it shall not be switched back in the future accounting periods.

13. Deferred income tax assets / Deferred income tax liabilities

(1) Deferred income tax assets and deferred income tax liabilities confirmed

Items	Closing amount	Opening amount
Deferred income tax assets:		
Provision for assets impairment	10,941,874.02	14,166,519.23
Accumulated depreciation	75,695.56	309,074.35
Profit and loss on change in fair value	8,947,566.25	2,542,960.00
Unrealized gross profit from inventory	12,494,164.40	16,585,918.12
Payroll payable	10,469,186.23	
Subtotal	42,928,486.46	33,604,471.70
Deferred income tax liabilities:		
Accumulated depreciation	406,802.45	407,449.26
Subtotal	406,802.45	407,449.26

(2) Breakdown of unconfirmed deferred income tax assets

Items	Closing amount	Opening amount
Deductible temporary differences	167,725.37	1,496,821.99
Deductible loss	39,570,763.48	37,068,942.82
Total	39,738,488.85	38,565,764.81

(3) Deductible loss of unconfirmed deferred income tax assets will fall due in the following year:

Year	Closing amount	Opening amount
2009		3,933,337.24
2010	9,516,821.53	9,516,821.53
2011	7,591,278.28	7,591,278.28
2012	6,661,428.38	8,110,768.53
2013	7,347,013.16	7,916,737.24
2014	8,454,222.13	
Total	39,570,763.48	37,068,942.82

(4) Temporary differences

Items	Temporary differences
Accounts receivable	8,086,833.07
Other receivables	9,872,214.99
Inventory	125,227,495.07
Fixed assets	6,406,160.31
Accumulated depreciation	2,970,106.46
Tradable financial liabilities	61,408,150.00
Payroll payable	69,314,721.84
Total	<u>283,285,681.74</u>

14. Breakdown of assets impairment

Items	Opening amount	Withdrawal this year	Decrease this year		Closing amount
			Written back	Written off	
(1) Bad debt reserve	17,619,800.02	860,861.20		14,975.28	18,465,685.94
(2) Provision for falling price of inventory	72,058,888.97	5,076,183.99		31,739,360.51	45,395,712.45
(3) Provision for impairment of long-term equity investment	800,000.00			800,000.00	
(4) Provision for impairment of fixed assets	6,503,847.08	466,182.24		563,869.01	6,406,160.31
Total	<u>96,982,536.07</u>	<u>6,403,227.43</u>		<u>33,118,204.80</u>	<u>70,267,558.70</u>

15. Assets with restricted ownership and use right

Items	Closing amount	Reason
Assets used for guarantee		
Inventory	155,946,313.21	Mortgage loan
Fixed assets	64,660,703.88	Mortgage loan
Intangible assets	34,068,954.29	Mortgage loan
Total	<u>254,675,971.38</u>	

16. Short-term loan

(1) Category

Items	Closing amount	Opening amount
Mortgage loan	229,690,000.00	247,700,000.00
Guaranteed loan	10,000,000.00	95,000,000.00
Credit loan	792,851,840.01	1,631,633,875.02
Total	<u>1,032,541,840.01</u>	<u>1,974,333,875.02</u>

(2) Closing amount of short-term loan has decreased by 47.70% compared with opening amount, which was mainly because that the raised capital obtained by issuing ordinary shares replaced the borrowing for raised proceeds project.

(3) The closing credit loan included foreign currency loans of USD 52,197,619.07, converting into RMB 356,415,782.53.

(4) All guarantee loan at the balance sheet date is that the Company provides guarantee for Lufeng Weaving & Dyeing (holding subsidiary of the Company).

(5) As for the guaranty and mortgage for guaranteed loan and mortgage loan, please refer to “Note IX. 1”.

17. Tradable financial liabilities

(1) Breakdown of tradable financial liabilities

Items	Closing fair value	Opening fair value
Derivative financial liabilities	61,408,150.00	19,175,600.00
Total	61,408,150.00	19,175,600.00

(2) Closing amount of tradable financial liabilities has increase by RMB 42,232,550.00 compared with the opening amount, which was caused by the change in fair value of derivative financial liabilities at the end of reporting period.

18. Notes payable

(1) Breakdown of notes payable

Category	Closing amount	Opening amount
Bank acceptance bill	28,820,100.80	209,536,950.08
Trade acceptance bill	72,149,682.26	117,369,198.35
Total	100,969,783.06	326,906,148.43

(2) Closing amount of notes payable has decreased by 69.11% compared with opening amount, which was because that the bill be due to by pay.

(3) Amount of RMB 100,969,783.06 will fall due in the next accounting period.

19. Accounts payable

(1) Breakdown of accounts payable

Items	Closing amount	Opening amount
Within 1 year	264,848,696.55	298,837,036.64
1-2 years	6,881,994.72	5,770,986.63
2-3 years	868,922.49	1,948,313.29
Over 3 years	3,277,191.77	2,848,369.41
Total	275,876,805.53	309,404,705.97

(2) The balance related to the shareholders holding over 5 percent stocks are as followings:

Items	Closing amount	Opening amount
Lucheng Textile	1,260,493.77	
Total	1,260,493.77	

20. Advance from customer

(1) Breakdown of advance from customers

Items	Closing amount	Opening amount
Within 1 year	39,326,731.19	30,495,414.75
1-2 years	1,390,192.13	495,573.10
2-3 years	367,031.41	532,219.81
Over 3 years	357,503.93	219,638.23
Total	41,441,458.66	31,742,845.89

(2) There was no advance from customers due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

(3) Closing amount of advance from customers has increased by 30.55% compared with opening amount, which was caused by increase of advance payment for shirts and fabrics by the end of year.

21. Payroll payable

(1) Breakdown of payroll payable

Items	Opening amount	Increase in 2009	Decrease in 2009	Closing amount
I. Wage, bonus, allowance and subsidies	200,369,284.90	526,404,159.30	522,279,112.57	204,494,331.63
II. Employee welfare		49,911,168.68	49,911,168.68	
III. Social insurance	13,560,237.94	141,090,734.84	152,804,774.08	1,846,198.70
Endowment insurance	5,570,029.76	102,047,081.90	106,459,391.97	1,157,719.69
Medical insurance	7,191,869.64	25,324,764.87	32,272,116.93	244,517.58
Insurance against injuries at work	102,281.97	3,272,398.98	3,254,096.90	120,584.05
Insurance for unemployment	604,208.79	7,937,796.86	8,324,729.47	217,276.18
Maternity insurance	91,847.78	2,508,692.23	2,494,438.81	106,101.20
IV. Housing fund	2,477,809.10	13,176,422.12	12,398,765.74	3,255,465.48
V. Other	9,543,341.24	11,485,821.73	10,265,984.25	10,763,178.72
Total	225,950,673.18	742,068,306.67	747,659,805.32	220,359,174.53

(2) Payroll payable excluded the payment falling into arrears. Trade union and education allowance were RMB 10,763,178.72.

(3) Expected distribution time to payroll payable

Year	Amount
2010	156,223,632.33
2011	28,162,999.30
2012	20,107,700.00

22. Tax payable

(1) Breakdown of tax payable

Items	Closing amount	Opening amount
VAT	-2,645,709.16	-7,857,803.72
Business tax	307,941.13	877,355.26
Urban maintenance and construction tax	165,085.98	668,544.78
Enterprise income tax	27,024,578.42	-26,038,039.27
Personal income tax	732,854.03	506,086.06
Stamp tax	620,280.31	2,141,475.87
Property tax	1,313,808.63	1,181,060.04
Use tax of land	1,050,219.98	1,740,022.41
Education surtax	86,210.01	391,760.03
Local tax for education	27,361.71	111,369.16
Total	28,682,631.04	-26,278,169.38

(2) Closing amount of tax payable has increased by RMB 54,960,800.42 compared with opening amount, which

was caused by the increase of enterprise income tax payable at the end of reporting period.

23. Interest payable

Items	Closing amount	Opening amount
Long-term borrowing interests payable	490,102.22	84,631.63
Total	490,102.22	84,631.63

24. Dividends payable

Name	Closing amount	Opening amount	Reason of unpaid over 1 year
Employee shares	442,538.04	442,844.04	Individual shareholders failed to receive cash dividend distributed in the previous years
Total	442,538.04	442,844.04	

25. Other payables

(1) Other payable details

Items	Closing amount	Opening amount
Within 1 year	37,756,104.08	45,546,415.17
1-2 years	26,163,398.67	14,376,874.42
2-3 years	8,907,217.05	9,393,487.77
Over 3 years	17,582,077.20	16,272,339.55
Total	90,408,797.00	85,589,116.91

(2) The balance related to the shareholders holding over 5 percent stocks are as followings:

Items	Closing amount	Opening amount
Lucheng Textile	10,287,625.00	
Total	10,287,625.00	

(3) The details of significant other payables with aging over 1 year are as follows:

Name	Amount	Reason for unpaid	Whether return after balance sheet date
Contracting fees in locus contractus	11,931,488.48	Receiving contracting fees in locus contractus	No
Cotton and Jute Company in Xinjiang AR	11,925,000.00	Received earnest money for Cotton Sale Contract	No
Total	23,856,488.48		

(4) The details of significant other payables are as follows

Name	Closing amount	Nature or contents
Lucheng Textile	10,287,625.00	a loan borrowed by Luqun Textile from Lucheng Textile
Contracting fees in locus contractus	11,931,488.48	Contracting fees in locus contractus
Cotton and Jute Company in Xinjiang AR	11,925,000.00	Earnest money for Cotton Sale Contract
Total	34,144,113.48	

26. Non-current liabilities due within 1 year

(1) Breakdown of non-current liabilities due within 1 year

Items	Closing amount	Opening amount
Long-term borrowing due within one year	157,379,900.00	52,183,370.00
Total	157,379,900.00	52,183,370.00

(2) Long-term borrowing due within one year

Breakdown of long-term borrowing due within one year

Item	Closing amount	Opening amount
Credit loan	157,379,900.00	52,183,370.00
Total	157,379,900.00	52,183,370.00

The top five

Units	Starting date	Ending date	Interest rate	Currency	Closing amount		Opening amount	
					Foreign amount	Converted into RMB	Foreign amount	Converted into RMB
Bank of China Limited Zibo Zichuan Subbranch	2007-1-16	2010-1-15	3LIBOR+1.01%	USD	6,300,000.00	43,017,660.00		
Bank of China Limited Zibo Zichuan Subbranch	2007-3-23	2010-3-22	3LIBOR+1.01%	USD	3,500,000.00	23,898,700.00		
Bank of China Limited Zibo Zichuan Subbranch	2007-4-20	2010-4-19	3LIBOR+1.01%	USD	2,800,000.00	19,118,960.00		
China Construction Bank Corporation Zibo Zichuan Subbranch	2007-3-26	2010-12-26	3LIBOR+1%	USD	1,200,000.00	8,193,840.00		
China Construction Bank Corporation Zibo Zichuan Subbranch	2008-6-19	2010-6-18	LIBOR+1.4%	USD	7,000,000.00	47,797,400.00		
Bank of China Limited Zibo Zichuan Subbranch	2006-12-30	2009-12-29	3LIBOR+1.01%	USD			1,000,000.00	6,834,600.00

Units	Starting date	Ending date	Interest rate	Currency	Closing amount		Opening amount	
					Foreign amount	Converted into RMB	Foreign amount	Converted into RMB
China Construction Bank Corporation Zibo Zichuan Subbranch	2006-4-24	2009-4-23	3LIBOR+1.01%	USD			2,000,000.00	13,669,200.00
HSBC Bank (China) Co., Ltd. Qingdao Branch	2007-6-7	2009-2-17	3LIBOR+1.01%	USD			950,000.00	6,492,870.00
HSBC Bank (China) Co., Ltd. Qingdao Branch	2007-3-8	2009-2-17	3LIBOR+1.01%	USD			1,000,000.00	6,834,600.00
China Construction Bank Corporation Zibo Zichuan Subbranch	2006-5-31	2009-5-30	3LIBOR+1.70%	EURO			1,900,000.00	18,352,100.00
							142,026,560.00	52,183,370.00

(3) Of which: Long-term foreign loan due within 1 year

Items	Conditions of loan	Closing amount	Opening amount
US dollar loan	Credit	148,854,760.00	33,831,270.00
EURO loan	Credit	4,898,550.00	18,352,100.00
SF loan	Credit	3,626,590.00	
Total		157,379,900.00	52,183,370.00

27. Long-term loan

(1) Breakdown of long-term loan

Category of long-term loan

Items	Closing amount			Opening amount		
	Foreign amount (USD, EURO, SF)	Exchange rate	RMB Yuan	Foreign amount (USD, EURO, SF)	Exchange rate	RMB Yuan
US dollar loan	7,900,000.00	6.8282	53,942,780.00	36,600,000.00	6.8346	250,146,360.00
EURO loan	2,500,000.00	9.7971	24,492,750.00	3,000,000.00	9.659	28,977,000.00
SF loan	2,150,000.00	6.5938	14,176,670.00	3,000,000.00	6.4624	19,387,200.00
Total			92,612,200.00			298,510,560.00

The top five

Units	Starting date	Ending date	Interest rate	Currency	Closing amount		Opening amount	
					Foreign amount	Converted into RMB	Foreign amount	Converted into RMB
China Construction Bank Corporation Zibo Zichuan Subbranch	2009-3-30	2011-3-29	1LIBOR+1%	USD	4,000,000.00	27,312,800.00		

Bank Corporation									
Zibo Zichuan									
Subbranch									
China Construction									
Bank Corporation	2007-3-5	2013-3-5	3LIBOR+1.7%	EURO	2,500,000.00	24,492,750.00	3,000,000.00	28,977,000.00	
Zibo Zichuan									
Subbranch									
China Construction									
Bank Corporation	2007-3-26	2013-3-25	3LIBOR+1.01%	USD	3,900,000.00	26,629,980.00	6,000,000.00	41,007,600.00	
Zibo Zichuan									
Subbranch									
China Construction									
Bank Corporation	2007-3-29	2013-3-28	3LIBOR+2.5%	SF	2,150,000.00	14,176,670.00	3,000,000.00	19,387,200.00	
Zibo Zichuan									
Subbranch									
Total							<u>92,612,200.00</u>	<u>89,371,800.00</u>	

(2) Closing amount of long-term loan has decreased by 68.98% compared with opening amount, which was caused by transferring long-term loan due within 1 year.

28. Long-term accounts payable

(1) The top five

Unit	Initial amount	Interest rate (%)	Interest accrued	Closing balance	Conditions of loans
Power bonds	9,735,560.00			9,735,560.00	Credit
Total	<u>9,735,560.00</u>			<u>9,735,560.00</u>	

29. Share capital

Items	Before the change		Increase/decrease (+ , -)					After the change	
	Number	Ratio	Issuance of new shares	Bonus	Capitalization of capital reserve	Other	Sub-total	Number	Ratio
I. Shares subject to trading moratorium	218,099,409	21.92%				-175,817	-175,817	217,923,592	21.90%
1. Shares held by the State									
2. Share held by state-owned corporation									
3. Shares held by other domestic investors	98,358,000	9.89%						98,358,000	9.89%
Among which: Shares held by domestic non-state-owned	98,358,000	9.89%						98,358,000	9.89%

corporation									
Shares held by domestic natural persons									
4. Shares held by foreign investors	118,232,400	11.88%						118,232,400	11.88%
Among which: Shares held by foreign corporation	118,232,400	11.88%						118,232,400	11.88%
Shares held by foreign natural persons									
5. Shares held by senior management	1,509,009	0.15%				-175,817	-175,817	1,333,192	0.13%
II. Shares not subject to moratorium	776,765,391	78.08%				175,817	175,817	776,941,208	78.10%
1. RMB ordinary shares	452,776,211	45.51%				175,817	175,817	452,952,028	45.53%
2. Domestically listed foreign shares	323,989,180	32.57%						323,989,180	32.57%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	994,864,800	100.00%						994,864,800	100.00%

30. Capital reserve

(1) Breakdown of capital reserve

Items	Opening amount	Increase in 2009	Decrease in 2009	Closing amount
Premium on share capital	1,065,164,874.44			1,065,164,874.44
Other	62,970,839.33	7,220,454.95		70,191,294.28
Total	1,128,135,713.77	7,220,454.95		1,135,356,168.72

(2) Among increase of capital reserve in 2009, the item "Other" is from minority interests of Luthai Zhonghuan purchased by the Company in March 2009.

31. Surplus reserve

(1) Breakdown of surplus reserve

Items	Opening amount	Increase in 2009	Decrease in 2009	Closing amount
Statutory surplus reserve	327,320,962.62	43,766,993.99		371,087,956.61
Discretionary surplus reserve	3,341,572.58			3,341,572.58
Total	330,662,535.20	43,766,993.99		374,429,529.19

(2) Appropriating statutory surplus reserve at 10% profit after tax.

32. Retained profit

(1) Change in retained profit

Items	Amount	Proportion
Retained profit as at 31 Dec. 2008 before adjustment	1,090,990,313.22	
Adjustment: Total retained profit as at 1 Jan. 2009 (increase "+", decrease "-")		
Retained profit as at 1 Jan. 2009 after adjustment	1,090,990,313.22	
Add: Net profit attributable to owners of parent company in 2009	570,218,343.41	
Recovery of losses with surplus reserve		
Other transfer-in		
Less: appropriating statutory surplus reserve	43,766,993.99	10%
Appropriating discretionary surplus reserve		
Common share dividend payable	198,972,960.00	RMB 0.2/share
Closing retained profit	1,418,468,702.64	

(2) Note to profit distribution

The cash dividend of RMB 198,972,960.00 was distributed in accordance with the profit distribution plan 2008 approved at the shareholders' general meeting 2008 held on 5 Jun. 2009.

33. Operating income and operating cost

(1) Operating income and operating cost

Items	Occurred this year	Occurred last year
Income from main operation	3,827,054,199.11	3,713,267,976.09
Other operating income	209,165,638.02	208,569,374.73
Total operating income	4,036,219,837.13	3,921,837,350.82
Cost of main operation	2,666,204,782.76	2,775,082,081.41
Other operating cost	135,686,162.95	142,794,186.08
Total operating cost	2,801,890,945.71	2,917,876,267.49

(2) Main business (categories by product)

Name of products	Occurred this year		Occurred last year	
	Operating income	Operating cost	Operating income	Operating cost
Yarn-dyed fabric	2,504,741,922.62	1,730,511,827.63	2,567,118,497.80	1,902,815,655.95
Shirt	1,073,817,067.09	728,738,962.22	1,018,673,011.96	745,945,592.44
Cotton	72,549,910.73	60,110,230.27	35,623,745.59	32,292,925.38
Drugs	17,258,871.35	15,779,389.80	17,991,108.96	14,650,545.73
Power and steam	86,555,207.37	80,762,730.96	45,750,979.49	62,697,142.29
Other	72,131,219.95	50,301,641.88	28,110,632.29	16,680,219.62
Total	3,827,054,199.11	2,666,204,782.76	3,713,267,976.09	2,775,082,081.41

(3) Turnover from top 5 clients:

Name of clients	Operating income	Portion in total turnover (%)
OXFORD PRODUCTS (INTERNATIONAL) LIMITED	395,514,154.15	9.80
TAL APPAREL LIMITED	318,218,712.04	7.88
Chen Feng (Jin Tan) Garments Co., Ltd.	259,140,609.26	6.42
PHILLIPS VANHEUSEN SHIRT GROUP	164,886,224.39	4.08
KUSAK TEKSTIL PAZARLAMA A.S.	140,266,542.62	3.48
Total	1,278,026,242.46	31.66

34. Business tax and surcharge

Items	Occurred this year	Occurred last year	计提标准
Business tax	28,962.48	5,158.08	5%
City maintenance and construction tax	1,725,887.93	2,067,111.90	7%、1%
Education surtax	1,167,661.79	1,193,618.07	3%
Local education surcharge	274,210.49	313,148.59	1%
Total	3,196,722.69	3,579,036.64	

35. Sales expenses

Items	Occurred this year	Occurred last year
Sales expenses	137,516,891.23	123,654,578.28

36. Administrative expenses

Items	Occurred this year	Occurred last year
Administrative expenses	339,719,215.46	231,549,384.65

Occurred amount of administrative expense for the year 2009 has increased by 46.72% compared with that of 2008, which was mainly due to increase in R&D expenses in the reporting period.

37. Financial expenses

(1) Breakdown of financial expenses

Items	Occurred this year	Occurred last year
Interest expenses	55,304,561.41	177,805,342.44
Less: Interest income	4,826,055.01	5,407,149.27
Exchange losses	14,948,252.64	50,336,506.72
Less: exchange gain	13,406,654.69	194,120,407.20
Commission charge	8,919,576.96	10,490,804.40
Total	60,939,681.31	39,105,097.09

(2) Occurred amount of financial expense for the year 2009 has increased by 55.84% compared with that of 2008, which was mainly due to decrease in exchange loss and interest expenses in the reporting period.

38. Loss on assets impairment

(1) Breakdown of assets impairment

Items	Occurred this year	Occurred last year
Loss on bad debts	860,861.20	-820,692.97
Loss on falling price of inventory	5,076,183.99	25,761,860.43
Loss on impairment of fixed assets	466,182.24	494,171.69
Total	6,403,227.43	25,435,339.15

(2) Occurred amount of assets impairment loss for the year 2009 has decreased by 74.83% compared with that of 2008, which was mainly due to decrease in loss on falling price of inventory in the reporting period.

39. Gain from change in fair value

(1) Breakdown of gain from change in fair value

Resource	Occurred this year	Occurred last year
Tradable financial assets		-6,695,962.74
Of which: gain from change in fair value of derivative financial instrument		-6,695,962.74
Tradable financial liabilities	-42,232,550.00	-19,175,600.00
Total	-42,232,550.00	-25,871,562.74

(2) Occurred amount of gain from change in fair value for the year 2009 has decreased by RMB 16,360,987.26 compared with that of 2008, which was mainly caused by change in fair value of tradable financial liabilities.

40. Investment income

(1) Breakdown of investment income

Items	Occurred this year	Occurred last year
Investment income from tradable equity instruments		-413,767.16
Investment income during holding tradable financial assets (liabilities)	7,995,260.00	5,112,500.00
Total	7,995,260.00	4,698,732.84

Note: There exists no major limitation to repatriation of investment income.

(2) Occurred amount of investment income for the year 2009 has increased by RMB 70.16% compared with that of 2008, which was mainly caused by increase of gains form tradable financial assets (liabilities).

41. Non-operating income

(1) Breakdown of non-operating income

Items	Occurred this year	Occurred last year
Profit from disposal of non-current assets	1,552,926.74	5,005,467.09
Of which: Profit from disposal of fixed assets	1,552,926.74	5,005,467.09
Income from claim for compensation	1,928,722.03	3,782,736.04
Income from penalty	1,254,120.20	1,085,966.27
Government grants	20,687,797.51	26,417,148.02
Other	11,583,691.63	22,810,547.04

Total	37,007,258.11	59,101,864.46
-------	---------------	---------------

(2) Occurred amount of non-operating income for the year 2009 has increased by RMB 37.38% compared with that of 2008, which was mainly caused by decrease in government grants and other non-operating income.

(3) Breakdown of government grants

Items	Occurred this year	Occurred last year	Note
Financial appropriations	17,030,268.25	25,972,797.02	
Financial discount	3,657,529.26	444,351.00	
Total	20,687,797.51	26,417,148.02	

(4) Explanation on government grants received by the Company in the reporting period:

Items	Amount this year	Document
Subsidies for Moving costs of Xinjiang cotton	4,050,000.00	The Circular of the Ministry of Finance (CJ [2008] No. 396)
Subsidies for crop fine breed and agriculture aid funds for wheat	533,255.78	The Circular of the Awat County People's Government (WZF[2009] No. 23)
Discount on loan of reemployment	360,800.00	The reply of the Finance Bureau of Aksu Administrative Offices (ADCS [2009] No. 97)
Subsidies for social Insurance	696,742.20	The Referendums of the Personnel and Labor and Social Security Bureau of Awat County with WRLZi [2009] No. 10, WRLZi [2009] No. 18, WRLZi [2009] No. 25, WRLZi [2009] No. 28 and WRLZi [2009] No. 135
Special funds for "Enrich people and Strong County by Technology"	100,000.00	The Distribution Plan of Awat County Science & Technology Bureau on Special Funds for "Enrich people and Strong County by Technology"
Appropriation for energy-saving	200,000.00	The Circular of the Finance Bureau of Zibo City (ZJMJZi [2008] No. 50)
Import/export discount	2,832,629.26	The Circular of Mechanical & Electrical Products Import & Export Office of Zibo City (ZJDJCZi [2008] No. 13), the Circular of Department of Finance of Shandong Province (LCQZ [2008] No. 105)
Award for science and technology	30,000.00	The Decision of Zibo Municipal People's Government (ZZF [2009] No. 14)
Funds for commendation and reward	890,000.00	The Decision of Committee of Zichuan District of CPC and Zichuan District People's Government (CW [2009] No. 22)
Special grants for Shandong provincial patent development	3,000.00	Measure for Administration of Special Grants for Shandong Provincial Patent Development issued by Department of Finance of Shandong Province and Intellectual Property Office of Shandong Province (LCJ [2006] No. 23)
Development fund for enterprise brand	200,000.00	The Circular of Zibo Municipal People's Government Office on Printing and Distributing Provisional Measures on Administration of Development Funds of Zibo Municipal Enterprise Brand (ZZBF [2007] No. 41)
Patent grants and rewards	25,000.00	The Measure of Hi-tech Technology Industrial Development Zone Management Committee on Printing and Distributing Patent Grants and Rewards of Zibo Hi-tech Park (ZGBF [2009] No. 60)
Progress prize in scientific	120,000.00	The Circular of Hi-tech Technology Industrial Development Zone

Items	Amount this year	Document
and technology		Management Committee on Science and Technology Progress Award and Technological Invention Award for 2009 (ZGXGF [2009] No. 62)
First prize in innovation awards of Enterprise Technology R&D Center	200,000.00	The Circular of Hi-tech Technology Industrial Development Zone Management Committee on Evaluation and Award made by Enterprise Technology R&D Center in High-tech Zone (ZGXGF [2009] No. 63)
Governmental rewards for undertaking the drafting of national standards or industry standards	190,000.00	The Circular of Hi-tech Technology Industrial Development Zone Management Committee (ZGXGF [2009] No.64)
Rewards related to scientific and technological reward above the provincial level	210,000.00	The Circular of Hi-tech Technology Industrial Development Zone Management Committee (ZGXGF [2009] No.64)
Shandong Governor quality award in 2009	100,000.00	The Circular of Department of Finance of Shandong Province on Governor Quality Award in 2009 (LCJZ [2009] No. 292)
The national science & technology support programs for 2009-rewards for production of starch size and replacing PVA applied key technology	470,000.00	The Circular of the Ministry of Science and Technology (GKFC [2009] No. 682)
Reward for promoting Development of strong economy	200,000.00	The Several Provisions of Zichuan People's Government of CPC on Promoting Development of Strong Economy (CF [2008] No. 10)
Reward for energy-saving and emission-reduction	1,816,021.27	Reward for Energy-saving and Emission-reduction of Gaoqing County Economic Development Zone Management Committee
Import discount	464,100.00	The Circular of Department of Finance of Shandong Province on Issuing Budget Index of Import Discount for 2007 (LCQZ [2008] No. 105)
Governmental reward	6,996,249.00	The Circular of People's Government of Gaoqing County on Printing and Distributing Measure for Administration of Key Economic Zone of Gaoqing County (GZF [2002] No. 28)

42. Non-operating expense

Items	Occurred this year	Occurred last year
Loss from disposal of non-current assets	3,101,963.68	4,774,678.31
Of which: Loss from disposal of fixed assets	3,101,963.68	4,774,678.31
Expenditure for penalty	52,630.73	262,572.94
Expenditure for compensation	4,333,306.95	4,251,269.01
Expenditure for donation	1,152,914.26	445,978.47
Other	582,504.36	211,905.46
Total	9,223,319.98	9,946,404.19

43. Income tax expense

Items	Occurred this year	Occurred last year
Income tax calculated by tax law and relevant provisions of current period	85,687,558.23	98,565,775.61
Adjustment of deferred income tax	-9,324,014.76	-4,760,080.97
Total	76,363,543.47	93,805,694.64

44. Basic earnings per share and diluted earnings per share

Profit in the reporting period	2009		2008	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Net profit attributable to common shareholders of the Company	0.57	0.57	0.60	0.60
Net profit attributable to common shareholders of the Company after deducting of non-recurring gain/loss	0.59	0.59	0.58	0.58

Note: Calculation method for earnings per share-basis

EPS-basis = net profit attributable to shareholders holding ordinary shares/weighted average amount of ordinary shares issued out

Weighted average amount of ordinary shares issued = $S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$

Of which: S_0 refers to total number of shares at the period-begin; S_1 refers to the number of shares increased due to transferring capital reserve into share capital or dividend distribution of shares during the report period; S_i refers to the number of shares increased due to issuance of new shares or debt for equity swap during the report period; S_j refers to the number of shares decreased due to stock repurchase during the report period; S_k refers to the number of split-share during the report period; M_0 refers to the number of months during the report period; M_i refers to the number of months from the next month to the end of the report period for increase of shares; M_j refers to the number of months from the next month to the end of the report period for decrease of shares.

Calculation method for earnings per share-diluted

EPS-diluted = [net profit attributable to shareholders holding ordinary shares +(potential diluted interests of ordinary shares recognized as expense - transfer fee) \times (1-income tax rate)]/ $(S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k +$ weighted average amount of ordinary shares increased due to warrant, share options、 convertible bond)

Of which: S_0 refers to total number of shares at the period-begin; S_1 refers to the number of shares increased due to transferring capital reserve into share capital or dividend distribution of shares during the report period; S_i refers to the number of shares increased due to issuance of new shares or debt for equity swap during the report period; S_j refers to the number of shares decreased due to stock repurchase during the report period; S_k refers to the number of split-share during the report period; M_0 refers to the number of months during the report period; M_i refers to the number of months from the next month to the end of the report period for increase of shares; M_j refers to the number of months from the next month to the end of the report period for decrease of shares.

45. Other misc. incomes

(1) Breakdown of other misc. income

Items	Occurred this year	Occurred last year
1. Gains (losses) from available-for-sale financial assets		
Less: Income tax influence of available-for-sale financial assets		
Net amount written into other gains and transferred into gain/loss in previous terms		
Sub-total		
2. Shares in other gains of investees on equity basis		
Less: Income tax influence of shares in other gains of investees on equity basis		
Net amount written into other gains and transferred into gain/loss in previous terms		
Sub-total		
3. Amount of gains (or losses) from cash flow hedge instrument		
Less: Income tax influence of cash flow hedge instruments		
Net amount written into other gains and transferred into gain/loss in previous terms		
Adjusted amount transferred to initial amount of the target project		
Sub-total		
4. Difference from translating of foreign currency financial statements	-39,790.52	-794,922.22
Less: Net amount of disposing overseas business and transferred to current gain/loss		
Sub-total	-39,790.52	-794,922.22
5. Others	7,215,239.04	
Less: Income tax influence by other accounted into other misc. incomes		
Net amount accounted into other misc. income and transferred into current gain/loss in previous terms		
Sub-total	7,215,239.04	
Total	7,175,448.52	-794,922.22

(2) Among other misc. income, the item “other” of RMB 7,215,239.04 is from minority interests of Luthai Huanzhong purchased by the Company in March 2009.

46. Notes to the cash flow statement

(1) The bigger amount in other cash received related with operating activities

Items	Amount
Government grants	20,687,797.51
Collection of employee’s payment	4,430,225.65
Compensation	1,928,722.03
Penalty	1,254,120.20
Withdrawing borrowing by employees and reserve funds	182,879.67
Total	28,483,745.06

(2) The bigger amount in other cash paid related with operating activities

Items	Amount
Freight and miscellaneous charges	56,497,820.45
Rental fees and management cost for shoppe	14,141,183.44
Rental fees	6,333,299.12
Advertising expenses	5,712,599.35
Fees for business trip and office	4,299,643.04
Insurance premium	3,752,693.63
Bank's service charge	3,246,553.67
Commodity inspection fee	3,069,404.38
Payment of royalty	2,616,347.49
Disclosure fees for auditing consulting	2,244,434.07
Fixture and fitting fare	1,150,524.87
Charge for water and power	899,376.56
Total	103,963,880.07

(3) The bigger amount in other cash received related with investing activities

Items	Amount
Interest income	4,826,055.01
Investment income from tradable financial assets (liabilities)	7,995,260.00
Total	12,821,315.01

(4) The bigger amount in other cash received related with financing activities:

Items	Amount
Borrowing payment from Lucheng Textile	17,000,000.00
Total	17,000,000.00

(5) The bigger amount in other cash paid related with financial activities :

Items	Amount
Repaying payment to Lucheng Textile	7,000,000.00
Total	7,000,000.00

47. Supplementary information to consolidated cash flow statement

(1) Adjusting net profit into cash flow arising from operating activities

Items	2009	2008
1.Net profit adjusted to cash flow of operation:		
Net profit	603,736,257.96	514,814,583.25
Plus: Asset impairment provision	6,403,227.43	25,435,339.15
Fixed asset depreciation, gas and petrol depreciation, production goods depreciation	347,328,708.27	327,944,009.89
Amortization of intangible assets	8,003,621.90	10,214,000.95
Amortization of long-term deferred expenses		

Items	2009	2008
Loss on disposal of fixed assets, intangible assets and other long-term assets (income is listed as “-”)	-517,379.38	-5,005,467.09
Loss on retirement of fixed assets (income is listed as “-”)	2,066,416.32	4,774,678.31
Losses on change in fair value (income is listed as “-”)	42,232,550.00	25,871,562.74
Financial expense (income is listed as “-”)	43,638,077.17	12,077,809.77
Investment losses (income is listed as “-”)	-7,995,260.00	-4,698,732.84
Decrease in deferred income tax assets (increase is listed as “-”)	-9,324,014.76	-4,253,218.97
Increase in deferred income tax liabilities (decrease is listed as “-”)	-646.81	-506,862.00
Decrease of inventories (increase is listed as “-”)	167,226,399.86	-399,077,579.13
Decrease in operating receivables (increase is listed as “-”)	21,268,603.14	331,001,365.89
Increase in operating payables (decrease is listed as “-”)	-232,253,430.30	-56,595,543.18
Other		
Net cash flows arising from operating activities	991,813,130.80	781,995,946.74
2. Investment and financing activities not involving in cash flow		
Liabilities converted to capital		
Convertible bond expire within 1 year		
Fixed assets acquired under finance leases		
3. Net increase in cash and cash equivalents:		
Closing balance of cash	569,968,526.84	1,141,056,407.10
Less: Opening balance of cash	1,141,056,407.10	330,766,143.96
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	-571,087,880.26	810,290,263.14

(2) Breakdown of cash and cash equivalents

Items	Closing amount	Opening amount
1. Cash	569,968,526.84	1,141,056,407.10
Of which: Cash in hand	1,677,920.49	1,647,229.94
Callable bank deposit	547,926,027.92	1,088,511,252.30
Callable other monetary	20,364,578.43	50,897,924.86
2. Cash equivalents		
Of which: bond investment due within three months		
3. Balance of cash and cash equivalents as at 31 Dec. 2008	569,968,526.84	1,141,056,407.10

VIII. Relationship and related party transactions

1. Parent company of the Company

Name	Relationship with the Company	Type	Registered address	Legal representative	Business Nature
Lucheng Textile	Parent company	limited liability company	Xibo	Liu Shizhen	Investment of textile, power and pharmacy

(Con.)

Name	Registered Capital	Proportions of parent company's shareholding to the Company (%)	Proportions of parent company's voting right to the Company (%)	Ultimate controller of the Company	Organization Code
Lucheng Textile	63,260,000	12.4%	12.4%	Liu Shizhen	16420039-1

Note: Mr. Liu Shizhen is the first principal shareholder of Lucheng Textile, holding 21% equities, as well as ultimate controller of the Company

2. Subsidiaries of the Company

Subsidiaries	Relationship with the Company	Type	Registered place	Legal representative	Business Nature	Registered Capital	The proportion of holding shares (%)	The proportion of voting rights (%)	Organization Code
Beijing Luthai	Holding subsidiary	Limited liability company	Beijing	Liu Shizhen	Design, manufacturing and sale of clothing	5,600,000	60	60	70022622-x
Beijing Sichuang	Holding subsidiary	Limited liability company (Sino-foreign joint venture)	Beijing	Liu Shizhen	Design, manufacturing and sale of garment	35,000,000	60	60	105717748438
Luthai (Hong Kong)	Wholly-owned subsidiary	Limited liability company	Hong Kong	Liu Shizhen	Import & export trade, collection of market information, information consultation	HKD6,000,000	100	100	
Luthai Huanzhong	Wholly-owned subsidiary	Limited liability company	Zibo	Liu Shizhen	Production and sale of table, granule, capsule, oral liquid, syrup, suppository, mixture, bolus and lotion; retail	107,000,000	100	100	75353600-2

Subsidiaries	Relationship with the Company	Type	Registered place	Legal representative	Business Nature	Registered Capital	The proportion of holding shares (%)	The proportion of voting rights (%)	Organization Code
					of Chinese Traditional Patent Medicine, Chemical preparations, antibiotic, Biochemical Pharmaceuticals (excluding bacterin, blood products)				
Xinjiang Luthai	Holding subsidiary	Limited liability company	Xinjiang	Liu Shizhen	Planting, processing and sale of Economic Crops, cooking oil crops; purchase, processing and sale of cotton and cotton-by products; production and sale of cotton textile products	118,630,000	57.41	57.41	75165238-4
Lufeng Weaving & Dyeing	Holding subsidiary	Limited liability company (Joint Ventures Funded by Hongkong Macao and Taiwan)	Zibo	Liu Shizhen	Production and sale of textile and printing and dyeing products	486,160,000	75	75	76001835-0
Luqun Textile	Wholly-owned subsidiary	Limited liability company (sole corporation)	Zibo	Liu Shizhen	Sale of cotton yarn	168,220,000	100	100	76870633-4
Xinsheng Power	Wholly-owned subsidiary	Limited liability company (sole corporation)	Zibo	Liu Shizhen	Power, steam and hot water	162,435,600	100	100	61329023-1

3. Other related parties

Name	Relationship	Organization Code
Zibo Stanluian Cosmetics Co., Ltd. (hereinafter called "Stanluian")	Affiliated person (same chairman as the Company)	61329036-2
Zibo Taimei Ties Co., Ltd. (hereinafter called Taimei Ties)	Holding subsidiary of parent company	61329035-4
Zibo Limin Purified Water Co., Ltd. (hereinafter called Limin Purified Water)	Holding subsidiary of parent company	76575998-3
Zibo Luqun Land Co., Ltd (hereinafter called Luqun Land)	Holding subsidiary of parent company	77630667-2

4. Related party transactions

(1) Buying and selling good, providing and receiving services among the related-party

Related party	Type	Details	Pricing principle	Occurred this year		Occurred last year	
				Amount	%	Amount	%
Lucheng Textile	Purchase	Cotton	Market price	2,359,132.57	0.41	2,979,846.88	0.37
Lucheng Textile	Purchase	T-shirt, towel, sock, oil producg	Market price	2,524,923.78	100.00	2,423,091.06	100
Lucheng Textile	Purchase	electronic products, computer equipment, consumptive material of computer, high temperature materials	Market price	1,423,397.74	100.00		
Stanluian Company	Purchase	Gift box for cosmetic, lotion, washing-up liquid, Liquid soap, etc.	Market price	721,529.09	100.00	1,077,914.02	100
Taimei Ties	Purchase	Ties	Market price	89,645.30	100.00		
Luqun Land	Purchase	Commercial housing	Market price	446,809.43	100.00		
Lucheng Textile	Receiving service	Processing charges for the leg of a stocking	Market price	72,999.23	0.03	44,448.80	0.02
Taimei Ties	Receiving service	Processing charges for commodities and quilt cover	Market price	477,828.67	0.22	676,249.45	0.37
Limin Purified Water	Receiving service	Sewage disposal	Market price	5,116,127.37	100.00	4,859,791.15	100
Lucheng Textile	Borrowing	Interests paid	Loan interest rate for the corresponding period	287,625.00			
Lucheng Textile	Selling	Materials, electricity, running water and steam	Market price	199,436.38	1.22	193,632.21	0.59
Lucheng Textile	Selling	Dyed yarn, facing material and garments	Market price	842,351.71	0.03	308,280.58	0.01
Taimei Ties	Selling	Electricity, heating charges	Market price	11,804.75	0.08	11,148.05	0.05
Taimei Ties	Selling	Facing material for ties	Market price	104,395.17	100.00		
Stanluian Company	Selling	Materials, electricity, running water and heating charges	Market price	7,374.99	0.04	9,027.02	0.03
Limin Purified Water	Selling	Materials and garment	Market price	146,072.28	0.02	181,609.76	0.02
Luqun Land	Selling	Electricity	Market price	34,899.76	0.01	58,140.83	0.29

(2) Related lease

Lessor	Leaseholder	Assets lease	Amount	Starting date	Ending date	Profit from lease	Recognition basis	Influence on the Company due to the profit
Lucheng Textile	Luthai Textile	Land and building	1,687,442.81	2008-8-1	2013-12-31	482,556.00	Market pricing	Increase in charge
Lucheng Textile	Luthai Textile	Land	4,704,700.00	2008-7-1	2009-12-31	3,795,156.00	Market pricing	Increase in charge
Lucheng Textile	Luthai Textile	Land and building	1,253,600.00	2008-1-1	2013-12-31	403,440.00	Market pricing	Increase in charge
Lucheng Textile	Luqun Textile	Equipment	20,905,586.27	2009-1-1	2009-12-31	4,155,036.48	Market pricing	Increase in charge
Lucheng Textile	Luqun Textile	Rental fee for yard	328,654.70	2009-1-1	2009-12-31	200,000.00	Market pricing	Increase in charge
Lucheng Textile	Lufeng Weaving & Dyeing	Building	1,895,300.00	2009-1-1	2009-12-31	696,646.44	Market pricing	Increase in charge
Luqun Land	Luthai Textile	Rental fee for yard	4,685,000.00	2009-1-1	2009-12-31	475,200.00	Market pricing	Increase in charge
Luthai Textile	Lucheng Textile	Building	1,933,978.40	2008-7-1	2013-12-31	153,636.00	Market pricing	Increase in other operating income

(3) Related parties' capital borrowed and loaned

Related party	Amount borrowed and loaned	Starting date	Date due	Remark
Borrowing				
Lucheng Textile	3,000,000.00	2009-2-6	2009-6-19	Borrowed by Luqun Textile, the payment was due and repaid
Lucheng Textile	1,000,000.00	2009-8-19	2009-10-9	Borrowed by Luqun Textile, the payment was due and repaid
Lucheng Textile	1,000,000.00	2009-8-19	2009-10-20	Borrowed by Luqun Textile, the payment was due and repaid
Lucheng Textile	2,000,000.00	2009-8-28	2009-10-21	Borrowed by Luqun Textile, the payment was due and repaid
Lucheng Textile	10,000,000.00	2009-8-19	2010-1-27	Borrowed by Luqun Textile

5. Amount due to/from related parties

Items	Related parties	Closing amount	Opening amount
Accounts payable			
	Lucheng Textile	1,260,493.77	
Other payables			
	Lucheng Textile	10,287,625.00	
Total		11,548,118.77	

6. Significant contract and agreement on related transactions

(1) The Company and holding subsidiary-Lufeng Weaving & Dyeing entrusted Zibo Limin Purified Water Co., Ltd to treat productive sewage. According to production plan of the Company for the year 2009, it is forecasted that Limin Purified Water would dispose waste water 5 million ton for the Company and 1.8 million ton for Lufeng Weaving & Dyeing in 2009. Limin Purified Water will charge on disposal of waste water according to pricing standard on disposal of waste water by the state, namely is RMB 1 per ton. It is forecasted that the Company will pay RMB 5 million and Lufeng Weaving & Dyeing will pay RMB 1.8 million to Limin Purified Water.

(2) Wholly owned subsidiary of the Company-Luqun Textile hired 27 idle textile equipments like automatic roller grinding machine from Lucheng Textile with rent of RMB 346,253.04 per month, and lease term was from 1 Jan. to 31 Dec. 2009. Luqun Textile paid RMB 4,155,036.48 to Lucheng Textile for rent.

(3) Lufeng Weaving & Dyeing hired office loated in Huangjiapu Lot of Jiaowang Road from Lucheng Textile with leasehold from 1 Jan. to 31 Dec. 2009. During the leasehold, Lufeng Textile totally paid RMB 696,646.44 to Lucheng Textile for rent.

The above related transactions were reviewed and approved at the 28th Meeting of the 5th Board of Directors held on 16 Feb. 2009.

IX. Contingent Events

1. Contingent liability for providing debt guarantee and mortgage loan

(1) As at 31 Dec. 2009, credit guarantees that the Company provides the joint responsibility for the loan obtained by its holding subsidiaries are as follows:

Guaranteed party	Occurred amount of guarantee (RMB'0000)	Guarantee balance (RMB' 0000)	Date of guarantee	Beginning date of guarantee	Date due of guarantee	Type
Lufeng Weaving & Dyeing	1,000.00	1,000.00	2009.8.11	2009.8.11	2010.8.10	Guarantee for short-term loan
Xinjiang Luthai	10,000.00		2009.1.14	2009.1.14	2010.1.2	Guarantee for short-term loan
Lufeng Weaving & Dyeing	2,900.00		2009.1.6	2009.1.6	2010.1.5	Guarantee for short-term loan
Lufeng Weaving & Dyeing	2,500.00		2009.5.5	2009.5.5	2010.1.2	Guarantee for short-term loan
Lufeng Weaving & Dyeing	1,000.00		2009.1.4	2009.1.4	2009.12.3	Guarantee for short-term loan
Total	17,400.00	1,000.00				

Note: Xinjiang Luthai's loan on security with occurred amount of RMB 100 million has been refunded on 27 Nov. 2009; Lufeng Weaving & Dyeing's loans on security with occurred amount of RMB 29 million and RMB 25 has been repaid on 25 Nov. 2009 and 12 Aug. 2009 respectively.

(2) As at 31 Dec. 2009, matters that of shareholding subsidiaries of the Company makes mortgage by physical assets for bank loan.

Mortgage units	Article deposited	Original value of assets	Accumulative depreciation or accumulative amortization	Net value of assets	Obtaining loan (RMB'0000)	Loan term
Xinjiang Luthai	Inventory	48,147,769.58		48,147,769.58	6,500.00	2009.10.15-2010.10.14
Xinjiang Luthai	Land use right	12,826,051.90	2,763,029.93	10,063,021.97	4,500.00	2009.9.22-2010.9.21
Xinjiang Luthai	Inventory	107,798,543.63		107,798,543.63	5,000.00	2009.11.12-2010.11.11
Xinjiang Luthai	Land use right	31,086,818.70	7,080,886.38	24,005,932.32	6,969.00	2009.10.29-2010.8.27
Xinjiang Luthai	Machinery equipment	120,269,559.94	55,608,856.06	64,660,703.88		
Total		<u>320,128,743.75</u>	<u>65,452,772.37</u>	<u>254,675,971.38</u>	<u>22,969.00</u>	

2. Other contingent liability

As at 31 Dec. 2009, contingent liabilities arising from discount commercial acceptance

Date due	Amount
Jan. 2010	24,516,129.45
Feb. 2010	19,177,382.03
Mar.2010	16,365,013.65
Apr. 2010	19,546,607.35
May 2010	5,000,000.00
Total	<u>84,605,132.48</u>

X. Commitment events

1. Significant commitment events

As at 31 Dec. 2009, significant contracts that are signed by the Company but failed to implement are as follows:

Items	Contract amount (RMB'0000)
Extension project of machine I of stove II in Xinsheng Power	125
Xingsheng Desulphurization Project	295
Project of 10 million-meter high-grade fabrics in women's wear	6,533
Luqun clothing workshop project	693
Total	<u>7,646</u>

2. Fulfillment of prophase commitment

Items	Contract amount (RMB'0000)	Fulfillment of prophase commitment
Fundamental construction project of 50 million-meter yarn-dyed fabric	988	Implementation
Purchase of bleaching and dyeing and weaving equipment	622	Implementation
Extension project of machine I of stove II in Xinsheng Power	345	Implementation
Desulfurization project of Xinsheng Power	648	Implementation
Total	2,603	

XI. Events after balance sheet date

1 . Notes to events after balances sheet date

Item	Contents	Effect on financial position and operating results	Reason for inability to assess effect
Transfer of 100% equity of Lu Thai Huanzhong Pharmaceutical Co., Ltd.	On 5 Mar. 2010, the Proposal on Investing into Rongchang Pharmaceutical Co., Ltd. with 100% Equity of Lu Thai Huanzhong Pharmaceutical Held by the Company & Agreement Signed with Rongchang Pharmaceutical was reviewed and approved at the board meeting. The Company will transfer 100% equity of Lu Thai Huanzhong Pharmaceutical held by it to Rongchang Pharmaceutical. As consideration for the transfer of Lu Thai Huanzhong equity, the Company will obtain 5.555% equity of Rongchang Pharmaceutical. Meanwhile, registered capital of Rongchang Pharmaceutical will be increased by RMB 5 million (accounting for 5.555% of total registered capital after the investment increase).		According to the signed agreement, the said equity transfer shall take effect after registering the change with the industry and commerce administration and obtaining approval from the administrative department for foreign-invested enterprises.

2 . Note to profit distribution after balance sheet date

Items	Amount
Profit and dividend to be distributed	248,716,200.00

The profit distribution preplan 2009 was approved at the 36th meeting of the 5th Board of Directors: Based on total share capital of 994,864,800 shares as at 31 Dec. 2009, the cash dividend of RMB 2.50 (tax included) will be distributed for every 10 shares. In total, RMB 248,716,200.00 will be distributed as dividends. The aforesaid profit distribution proposal shall be implemented after being reviewed and approved by the Shareholders' General Meeting 2009.

XII. Other significant events

a) Assets and liabilities measured by fair value

Items	Initial	Profit and loss from change in fair value in 2009	Accumulative change in fair value included into equity	Impairment this year	Closing amount
Financial liabilities					
Financial assets measured by fair value and of which change recorded into profit and loss of the current period (excluding derivative financial assets)					
Derivative financial liabilities	19,175,600.00	-42,232,550.00			61,408,150.00
Subtotal of financial liabilities	19,175,600.00	-42,232,550.00			61,408,150.00

XIII. Notes to the financial statements of parent company

a) Accounts receivable

(1) Breakdown of accounts receivable listed by categories

Categories	Closing amount			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant accounts receivable	122,306,751.98	69.14	7,063,878.38	72.12
Accounts receivable which are not individually significant, but are assessed at high risk level through credit risk combination				
Other non-material receivables	54,578,597.51	30.86	2,730,414.24	27.88
Total	176,885,349.49	100.00	9,794,292.62	100.00

(Con.)

Categories	Opening amount			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant accounts receivable	77,173,554.17	53.24	3,858,677.71	53.24
Accounts receivable which are not individually significant, but are assessed at high risk level through credit risk combination				

Other non-material receivables	67,778,496.39	46.76	3,388,924.82	46.76
Total	144,952,050.56	100.00	7,247,602.53	100.00

Accounts receivable with significant single amount refer to accounts receivable that the closing balance is over RMB 5 million.

(2) Withdrawal of provision for bad debts at the period-end

Withdrawal of provision for bad debts of accounts receivable which single amount is significant or single amount is not significant but its impairment test is individually made:

Contents	Book amount	Provision for bad debts	Proportion	Reason
Beijing Sichuang	33,356,703.06	2,616,375.93	5%、10%	Note IV.8 (2)
Lufeng Weaving & Dyeing	26,440,903.18	1,322,045.16	5%	Note IV.8 (2)
TAL APPAREL LIMITED	18,232,580.72	911,629.04	5%	Note IV.8 (2)
OXFORD PRODUCTS (INTERNATIONAL) LIMITED	13,962,497.64	698,124.88	5%	Note IV.8 (2)
Chen Feng (Jin Tan) Garments Co., Ltd.	13,298,666.45	664,933.32	5%	Note IV.8 (2)
SETA TEKSTIL HALIT ZIYA TURKKAN SOK.	10,951,149.77	547,557.49	5%	Note IV.8 (2)
PHILLIPS VANHEUSEN SHIRT GROUP	6,064,251.16	303,212.56	5%	Note IV.8 (2)
Total	122,306,751.98	7,063,878.38		

Breakdown of accounts receivable listed by aging and withdrawal of bad debts

Aging	Closing amount			Opening amount		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	157,884,846.60	89.26	7,894,242.33	144,952,050.56	100.00	7,247,602.53
1-2 years	19,000,502.89	10.74	1,900,050.29			
Total	176,885,349.49	100.00	9,794,292.62	144,952,050.56	100.00	7,247,602.53

(3) Accounts receivable written off actually in the reporting period

Name of entities	Nature	Amount	Reason	Occurred due from related transaction or not
Arrears of consumptions on POS	Consumer payment	1,450.00	Irrecoverable payment	No
Total		1,450.00		

(4) There was no accounts receivable due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

(5) The information list for the top 5 customers:

Customers	Relationship with the Company	Amount	Aging	Proportion to total accounts receivable (%)
Beijing Sichuang	Holding subsidiary	33,356,703.06	Within 1 year, 1-2 years	18.86
Lufeng Weaving & Dyeing	Holding subsidiary	26,440,903.18	Within 1 year	14.95
TAL APPAREL LIMITED	Trade debtors	18,232,580.72	Within 1 year	10.31
OXFORD PRODUCTS (INTERNATIONAL) LIMITED	Trade debtors	13,962,497.64	Within 1 year	7.89
Chen Feng (Jin Tan) Garments Co., Ltd.	Trade debtors	13,298,666.45	Within 1 year	7.52
Total		105,291,351.05		59.53

(6) Accounts receivable from related parties

Customers	Relationship with the Company	Amount	Proportion to total accounts receivable (%)
Beijing Sichuang	Holding subsidiary	33,356,703.06	18.86
Lufeng Weaving & Dyeing	Holding subsidiary	26,440,903.18	14.95
Total		59,797,606.24	33.81

2. Other receivables

(1) Breakdown of other receivables listed by categories

Categories	Closing amount			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant other receivables				
Other receivables which are not individually significant, but are assessed at high risk level through credit risk combination				
Other non-material other receivables	15,404,172.50	100.00	1,387,048.59	100.00
Total	15,404,172.50	100.00	1,387,048.59	100.00

(Con.)

Categories	Opening amount			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant other receivables	46,538,501.01	74.15	4,169,950.28	74.34
Other receivables which are not				

individually significant, but are assessed at high risk level through credit risk combination

Other non-material other receivables	16,223,991.04	25.85	1,439,515.55	25.66
Total	62,762,492.05	100.00	5,609,465.83	100.00

Other receivables with significant single amount refer to ones that the closing balance is over RMB 5 million.

(2) Withdrawal of provision for bad debts at the period-end

Aging	Closing amount			Opening amount		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	11,480,080.82	74.53	574,004.04	38,792,887.95	61.81	1,939,644.40
1-2 years	1,706,815.97	11.08	170,681.60	12,190,751.64	19.43	1,219,075.16
2-3 years	228,197.57	1.48	45,639.51	10,829,094.66	17.25	2,165,818.93
Over 3 years	1,989,078.14	12.91	596,723.44	949,757.80	1.51	284,927.34
Total	15,404,172.50	100.00	1,387,048.59	62,762,492.05	100.00	5,609,465.83

(3) Closing amount of other receivables has decreased by 75.46% compared with opening amount, which was caused by withdrawal of payment in the reporting period.

(4) There was no other receivable due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

(5) The information list for the top 5 customers:

Name	Relationship with the Company	Amount	Aging	Proportion to total other Receivables (%)
Export rebates tax	Export rebates tax receivable	4,500,775.67	Within 1 year	29.22
Bureau of Land and Resources of Zibo City, Zichuan Branch	Prepayment for land purchases	1,216,500.00	Within 1 year	7.90
Zibo Lu Sha Real Estates Development Co., Ltd.	Prepayment for house purchase fund	1,038,056.35	Over 3 years	6.74
Mirror Media (Beijing) Limited Advertising Co., Ltd.	Prepayment for advertising expense	450,000.00	Within 1 year	2.92
Payment for staff quarters	Prepayment for staff quarters	378,000.00	Within 1 year	2.45
Total		7,583,332.02		49.23

(6) Other receivables from related parties

Customers	Relationship with the Company	Amount	Proportion to total other receivables (%)
Luthai Zhonghuan	Wholly-owned subsidiary	20,000.00	0.13
Total		20,000.00	0.13

3. Long-term equity investment

Name of invested entities	Accounting method	Initial investment cost	Opening amount	Increase/decrease	Closing amount
Beijing Luthai	Cost method	3,360,000.00	3,360,000.00		3,360,000.00
Beijing Sichuang	Cost method	21,000,000.00	9,934,085.00	11,065,915.00	21,000,000.00
Xinjiang Luthai	Cost method	65,176,335.24	48,071,961.03	17,104,374.21	65,176,335.24
Xinsheng Power	Cost method	176,340,737.93	176,340,737.93		176,340,737.93
Lufeng Weaving & Dyeing	Cost method	364,620,000.00	364,620,000.00		364,620,000.00
Luqun Textile	Cost method	171,784,550.00	171,784,550.00		171,784,550.00
Luthai Huanzhong	Cost method	88,834,529.68	60,000,000.00	28,834,529.68	88,834,529.68
Luthai (Hong Kong)	Cost method	6,366,600.00	6,366,600.00		6,366,600.00
Total		897,482,752.85	840,477,933.96	57,004,818.89	897,482,752.85

(Con.)

Name of invested entities	Proportions of shareholding (%)	Proportions Of voting rights (%)	Provision for impairment	Impairment provision withdrawn in the current period	Cash dividends
Beijing Luthai	60	60			
Beijing Sichuang	60	60			5,065,915.00
Xinjiang Luthai	57.41	57.41			17,104,374.21
Xinsheng Power	100	100			
Lufeng Weaving & Dyeing	75	75			
Luqun Textile	100	100			
Luthai Huanzhong	100	100			
Luthai (Hong Kong)	100	100			
Total					22,170,289.21

4. Operating income and operating cost

(1) Operating income and operating cost

Items	Occurred this year	Occurred last year
Income from main operation	3,069,989,678.89	3,056,990,890.08
Other operating income	165,595,545.21	217,326,305.79
Total operating income	3,235,585,224.10	3,274,317,195.87
Cost of main operation	2,298,880,428.96	2,350,648,192.28
Other operating cost	117,299,572.37	183,028,395.58
Total operating cost	2,416,180,001.33	2,533,676,587.86

(2) Main business (categories by product)

Name of products	Occurred this year		Occurred last year	
	Operating income	Operating cost	Operating income	Operating cost
Yarn-dyed fabric	2,200,831,800.48	1,686,133,033.13	2,229,548,931.89	1,730,686,565.07
Shirt	869,157,878.41	612,747,395.83	827,441,958.19	619,961,627.21
Total	3,069,989,678.89	2,298,880,428.96	3,056,990,890.08	2,350,648,192.28

(3) Turnover from top 5 clients:

Name of clients	Operating income	Portion in total turnover (%)
OXFORD PRODUCTS (INTERNATIONAL) LIMITED	352,459,781.24	10.89
Chen Feng (Jin Tan) Garments Co., Ltd.	259,140,609.26	8.01
TAL APPAREL LIMITED	283,532,879.86	8.76
KUSAK TEKSTIL PAZARLAMA A.S.	122,548,157.11	3.79
KARIN INTERNATIONAL CORPORATION	78,873,894.98	2.44
Total	1,096,555,322.45	33.89

5. Investment income

(1) Breakdown of investment income

Items	Occurred this year	Occurred last year
Long-term equity investment income measured by cost method	22,170,289.21	552,121.45
Investment income during holding tradable financial assets (liabilities)	16,763,060.00	
Total	38,933,349.21	552,121.45

Note: There exists no major limitation to repatriation of investment income.

(2) Long-term equity investment income measured by cost method

Invested entities	Occurred this year	Occurred last year	Reason in change
Beijing Sichuang	5,065,915.00	552,121.45	Cash dividend
Xinjiang Luthai	17,104,374.21		Cash dividend
Total	22,170,289.21	552,121.45	

6. Supplementary information to consolidated cash flow statement

Items	2009	2008
1. Net profit adjusted to cash flow of operation:		
Net profit	437,669,939.90	490,152,711.26
Plus: Asset impairment provision	212,194.60	4,033,988.88
Fixed asset depreciation, gas and petrol depreciation, production goods depreciation	193,210,421.68	182,077,272.23
Amortization of intangible assets	4,637,123.16	6,858,739.81
Amortization of long-term deferred expenses		
Loss on disposal of fixed assets, intangible assets and other long-term assets (income is listed as “-”)	-1,070,795.06	-4,876,795.57
Loss on retirement of fixed assets (income is listed as “-”)	835,786.17	3,602,526.06
Losses on change in fair value (income is listed as “-”)	45,021,500.00	5,840,400.00
Financial expense (income is listed as “-”)	19,664,680.35	-27,429,900.51
Investment losses (income is listed as “-”)	-38,933,349.21	-552,121.45
Decrease in deferred income tax assets (increase is listed as “-”)	-16,208,646.32	5,293,898.51
Increase in deferred income tax liabilities(decrease is listed as “-”)		
Decrease of inventories (increase is listed as “-”)	166,694,044.41	-338,345,874.34
Decrease in operating receivables (increase is listed as “-”)	131,286,367.47	155,496,625.71
Increase in operating payables (decrease is listed as “-”)	-369,640,340.30	279,864,957.74
Other		
Net cash flows arising from operating activities	<u>573,378,926.85</u>	<u>762,016,428.33</u>
2. Investment and financing activities not involving in cash flow		
Liabilities converted to capital		
Convertible bond expire within 1 year		
Fixed assets acquired under finance leases		
3. Net increase in cash and cash equivalents:		
Closing balance of cash	324,783,025.04	884,493,526.89
Less: Opening balance of cash	884,493,526.89	177,334,931.66
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	<u>-559,710,501.85</u>	<u>707,158,595.23</u>

7. Supplementary information

1. Details of non-recurring gain/loss of current period

Items	Amount	Remark
Gain/loss from disposal of non-current capital	-1,549,036.94	
Refunding and exemption of taxes in excess of authority or without official approval documents		
Government subsidies accounted into current income account (except for those government subsidies closely related to the Company's business, and received at national statutory standard and amount)	20,687,797.51	
Capital adoption fee collected from non-financial organizations and accounted into current gain/loss		
Gain/loss from differences between the cost of enterprise merger and the fair value of recognizable net asset of the invested entities		
Gain/loss from non-monetary assets		
Gain/loss from commissioned investment or assets		
Asset impairment provisions provided for force-majeure		
Gain/loss from debt reorganization		
Enterprise reorganizing expenses, such as employee placement fee and integration fee		
Gain/loss from trade departing from fair value		
Current net gain/loss of subsidiaries under same control from beginning of term till date of consolidation		
Gain/loss generated by contingent liabilities without connection with main businesses		
Gain/loss from change of fair value of transactional asset and liabilities, and investment gains from disposal of transactional financial assets and liabilities and sellable financial assets, other than valid period value instruments related to the Company's common businesses	-34,237,290.00	
Restoring of receivable account impairment provision tested individually		
Gain/loss from commissioned loans		
Gain/loss from change of fair value of investment property measured at fair value in follow-up measurement		
Influence of one-time adjustment made on current gain/loss account according to the laws and regulations regarding tax and accounting		
Consigning fee received for consigned operation		
Other non-business income and expenditures other than the above	8,645,177.56	
Other gain/loss items satisfying the definition of nonrecurring gain/loss account		
Subtotal	<u>-6,453,351.87</u>	
Influenced amount of income tax	8,124,299.45	
Influenced amount of minor shareholders' equity (after tax)	328,046.09	
Total	<u><u>-14,905,697.41</u></u>	

Note: Date mentioned above table, "+" shows profit or income, "-" shows loss or expenditure

1. Difference in net assets and net profit under IAS and PRC GAAP

(1) Difference in net profit and net asset in the financial statement disclosed as per IFRS and PRC GAAP

Items	Net profit attributable to parent company		Net assets attributable to parent company	
	Amount this year	Amount last year	Closing amount	Opening amount
	Data under PRC GAAP	570,218,343.41	512,944,678.08	3,919,660,709.28
Increase of fixed assets arising from translating the USD statements into RMB statements in 1996 not recognized under IFRSs			-3,230,000.00	-3,230,000.00
Influence on the current period due to that asset appraisal appreciation of fixed assets investment under the IFRS is not be recognized	531,000.00	531,000.00	-6,269,000.00	-6,800,000.00
Impact of tax deductible of domestic equipment recognized as deferred income under IFRS	1,718,000.00	1,718,000.00	-9,924,000.00	-11,642,000.00
Data under IAS	572,467,343.41	515,193,678.08	3,900,237,709.28	3,519,562,661.44

2. Return on equity and earnings per share

Profit as of reporting period	Year	Weighted average return on equity	EPS (RMB/share)	
			Basic	Diluted
Net profit attributable to common shareholders of the Company	2009	15.30%	0.57	0.57
	2008	20.80%	0.60	0.60
Net profit attributable to common shareholders of the Company	2009	15.70%	0.59	0.59
	2008	19.97%	0.58	0.58

Note: (1) Weighted average return on equity

$$\text{Weighted average return on equity} = P_0 / (E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0 \pm E_k \times M_k \div M_0)$$

Of which: P_0 refers to Net profit attributable to common shareholder of the Company or net profit after deducting non-recurring gains and losses attributable to common shareholder of the Company; NP refers to net profit attributable to common shareholders of the Company; E_0 refers to net assets at the period-begin attributable to common shareholders of the Company; E_i refers to net assets increased due to issuance of new share or debts for equity swap or attributable to common shareholders of the Company; E_j refers to net assets decreased due to repurchased or dividends in cash or attributable to common shareholders of the Company; M_0 refers to the number of months during the report period; M_i refers to the number of months from the next month when net assets increased to the end of the report period; M_j refers to the number of months from the next month when net assets decreased to the end of the report period; E_k refers to change of increase/decrease of net assets due to other transaction events; M_k refers to the number of months from the next month when other net assets changed the end of the report period.

(2) As for basic earnings per share and diluted earnings per share, please refer to Note VII. 44.

SECTION XII. DOCUMENTS AVAILABLE FOR REFERENCE

1. Accounting statements carried with personal signatures and seals of legal representative, Chief Financial Officer and Financial Principal.
2. Original of Auditors' Report carried with the seal of Certified Public Accountants as well as personal signatures of certified public accountants.
3. Originals of all documents and manuscripts of Public Notices of the Company disclosed publicly on Securities Times, Shanghai Securities News and Ta Kung Pao.

**Board of Directors of
Lu Thai Textile Co., Ltd.**
19 Mar. 2010

Chairman of the Board:-----