

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

==2010==

Shandong · Zibo

30 Mar. 2011

Section I Important Notes and Contents

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 is authentic, accurate and complete.

All directors of the Company attended the Board Meeting.

RSM China 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.....	13
Section VI Corporate Governance Structure.....	19
Section VII Brief to Shareholders' General Meeting.....	22
Section VIII Report of the Board of Directors.....	23
Section IX Report of the Supervisory Committee.....	37
Section X Significant Events.....	39
Section XI Financial Report.....	44
(I) Audit Report.....	44
(II) Financial Statements.....	45
(III) Notes to Financial Statements.....	56
Section XII Documents Available for Reference.....	148

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: RSM China 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

	2010	2009	Increase/decrease year-on-year	2008
Operating income (Yuan)	5,025,624,126.30	4,036,219,837.13	24.51%	3,921,837,350.82
Total profit (Yuan)	934,861,140.84	680,099,801.43	37.46%	608,620,277.89
Net profit attributable to shareholders of listed company (Yuan)	739,091,623.50	570,218,343.41	29.62%	512,944,678.08
Net profit attributable to shareholders of listed company after deducting non-recurring gains and losses (Yuan)	667,051,258.52	585,124,040.82	14.00%	492,350,002.83
Net cash flow arising from operation activities (Yuan)	1,206,041,098.85	991,813,130.80	21.60%	781,995,946.74
	31 Dec. 2010	31 Dec. 2009	Increase/decrease year-on-year	2008
Total assets (Yuan)	7,015,883,263.33	6,303,066,959.60	11.31%	7,091,853,104.80
Owners' equity attributable to shareholders of listed company (Yuan)	4,404,133,413.47	3,919,660,709.28	12.36%	3,541,234,661.44
Share capital (Share)	994,864,800.00	994,864,800.00	0.00%	994,864,800.00

II. Major financial index

	2010	2009	Increase/decrease year-on-year	2008
Basic earnings per share (Yuan/share)	0.74	0.57	29.82%	0.60
Diluted earnings per share (Yuan/share)	0.74	0.57	29.82%	0.60
Basis earnings per share after deducting non-recurring gain and loss (Yuan/share)	0.67	0.59	13.56%	0.58
Weighted average return on equity (%)	17.75%	15.30%	2.45%	20.80%
Weighted average return on equity after deducting non-recurring gain and loss (%)	16.02%	15.70%	0.32%	19.97%
Net cash flow per share arising from operating activities (Yuan/share)	1.21	1.00	21.00%	0.79
	31 Dec. 2010	31 Dec. 2009	Increase/decrease year-on-year	31 Dec. 2008
Net assets per share attributable to shareholders of listed company (Yuan/share)	4.43	3.94	12.44%	3.56

Items of non-recurring gains and losses

Unit: RMB Yuan

Items	Amount
Gains and losses from disposal of non-recurring asset	2,944,436.58

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	40,477,963.67
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.	37,764,445.85
Other non-operating income/expenses	-6,225,839.98
Impact on income tax	1,654,239.60
Impact on minority interest	-4,574,880.74
Total	72,040,364.98

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	741,340,623.50	572,467,343.41	4,386,959,413.47	3,900,237,709.28
Data under PRC GAAP	739,091,623.50	570,218,343.41	4,404,133,413.47	3,919,660,709.28
Items and total adjusted under IFRS				
Impact on increment of fixed assets arising from translating the USD statements into RMB statements in 1996 not recognized under IFRSs	0.00	0.00	-3,230,000.00	-3,230,000.00
Impact on increment of fixed assets arising from investment appraisal not recognized under IFRSs	531,000.00	531,000.00	-5,738,000.00	-6,269,000.00
Impact on domestic equipments tax credit recognized as deferred income under IFRSs	1,718,000.00	1,718,000.00	-8,206,000.00	-9,924,000.00
Total of difference under IFRS and PRC GAAP	2,249,000.00	2,249,000.00	-17,174,000.00	-19,423,000.00
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</p>			

	<p>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 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.</p>
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IV. Statement on changes in owners' equity attributable to parent company during the reporting period

Unit: RMB Yuan

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	1,135,356,168.72	374,429,529.19	1,418,468,702.64	-3,458,491.27	267,977,062.45	4,187,637,771.73
II. Balance at the beginning of this year	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
III. Increase/decrease of amount in this year		-4,913,363.60	54,010,956.51	436,364,466.99	-989,355.71	69,486,620.09	553,959,324.28
(I) Net profit				739,091,623.50		75,961,486.46	815,053,109.96
(II) Other comprehensive income		2,350,000.00			-989,355.71		1,360,644.29
Subtotal of (I) and (II)		2,350,000.00		739,091,623.50	-989,355.71	75,961,486.46	816,413,754.25
(III) Input an reduced capital of owners		-7,263,363.60				9,223,686.70	1,960,323.10
1. Capital input of owners						10,679,050.43	10,679,050.43
2. Others		-7,263,363.60				-1,455,363.73	-8,718,727.33
(IV) Profit distribution			54,010,956.51	-302,727,156.51		-15,698,553.07	-264,414,753.07
1. Withdrawing surplus public reserve			54,010,956.51	-54,010,956.51			
2. Distribution to owners (or shareholders)				-248,716,200.00		-15,698,553.07	-264,414,753.07
IV. Balance at the end of this period	994,864,800.00	1,130,442,805.12	428,440,485.70	1,854,833,169.63	-4,447,846.98	337,463,682.54	4,741,597,096.01

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 trading moratorium	217,923,592	21.90%				200	200	217,923,792	21.90%
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	1,333,192	0.13%				200	200	1,333,392	0.13%
II. Shares not subject to trading moratorium	776,941,208	78.10%				-200	-200	776,941,008	78.10%
1. RMB ordinary shares	452,952,028	45.53%				-200	-200	452,951,828	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%

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	Shares released in current year	Shares increased in	Shares subject to moratorium	Reason	Date of release

	at the year-begin		current year	at the year-end		
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	1,333,192	0	200	1,333,392	Lock shares held by senior executives	25% of current shares released from froze
Total	99,691,192	0	200	99,691,392	—	—

Note: Number of shares subject to trading moratorium increased in this year was shares purchased from secondary market by directors, supervisors and senior executives.

II. Issuance and listing of shares

1. Issuance of shares in the last three years

In the reporting 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 reporting period

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

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

1. As at the end of the reporting period, the Company had 127,806 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	4.12%	40,978,642		
MANULIFE GLOBAL FUND	Foreign corporation	1.25%	12,461,342		
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign corporation	0.75%	7,452,243		
Huatai Securities Co., Ltd.	State-owned corporation	0.68%	6,715,423		
Sealand Securities Co., Ltd.	State-owned corporation	0.46%	4,577,877		

ChinaAMC Income Fund	Domestic non-state-owned corporation	0.44%	4,393,476		
MACQUARIE INV MGT LTD AS RE FOR PREMIUM CN FD	Foreign corporation	0.42%	4,223,589		
AVIVA INVESTORS	Foreign corporation	0.40%	3,931,806		

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 reporting 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.

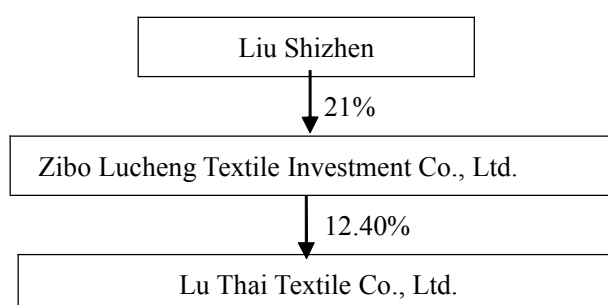
Legal representative: Liu Shizhen

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 reporting 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 reporting 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 reporting 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	40,978,642	Domestically listed foreign shares
MANULIFE GLOBAL FUND	12,461,342	Domestically listed foreign shares
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	7,452,243	Domestically listed foreign shares
Huatai Securities Co., Ltd.	6,715,423	RMB ordinary shares
Sealand Securities Co., Ltd.	4,577,877	RMB ordinary shares
ChinaAMC Income Fund	4,393,476	RMB ordinary shares
MACQUARIE INV MGT LTD AS RE FOR PREMIUM CN FD	4,223,589	Domestically listed foreign shares
AVIVA INVESTORS	3,931,806	Domestically listed foreign shares
HTHK-VALUE PARTNERS INTELLIGENT FD-CHINA B SHS FD	3,603,926	Domestically listed foreign 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	71	5 Jun. 2010	4 Jun. 2013	437,295	437,295	
Xu Zhinan	Vice Chairman of the Board	Male	81	5 Jun. 2010	4 Jun. 2013	0		
Liu Zibin	Director/General Manager	Male	46	5 Jun. 2010	4 Jun. 2013	78,290	78,290	
Fujiwara Hidetoshi	Director/Senior Consultant	Male	71	5 Jun. 2010	4 Jun. 2013	0		
Chen Ruimou	Director	Male	67	5 Jun. 2010	4 Jun. 2013	0		
Zeng Facheng	Director	Male	60	5 Jun. 2010	4 Jun. 2013	0		
Wang Fangshui	Director/Chief engineer	Male	50	5 Jun. 2010	4 Jun. 2013	123,238	123,238	
Sun Zhigang	Director	Male	49	5 Jun. 2010	4 Jun. 2013	21,604	21,604	
Qin Guiling	Director/Secretary to the Board	Female	45	5 Jun. 2010	4 Jun. 2013	124,452	124,452	
Li Zhixian	Independent director	Male	55	5 Jun. 2010	4 Jun. 2013	0		
Zhou Zhiji	Independent director	Male	48	5 Jun. 2010	4 Jun. 2013	0		
Wang Lei	Independent director	Female	41	5 Jun. 2010	4 Jun. 2013	0		
Qi Haodong	Independent director	Male	51	5 Jun. 2010	4 Jun. 2013	0		
Bi Xiuli	Independent director	Female	44	5 Jun. 2010	4 Jun. 2013	0		
Zhu Lingwen	Chairman of the Supervisory Committee	Male	59	5 Jun. 2010	4 Jun. 2013	91,438	91,638	Increase shareholding in secondary market
Liu Zilong	Supervisor	Male	43	5 Jun. 2010	4 Jun. 2013	0		
Dong Shibing	Supervisor	Male	42	5 Jun. 2010	4 Jun. 2013	5,000	5,000	
Li Tongmin	Deputy General Manager	Male	55	5 Jun. 2010	4 Jun. 2013	106,164	106,164	
Zhang Hongmei	Chief Accountant	Female	41	5 Jun. 2010	4 Jun. 2013	18,100	18,100	
Zhang Keming	Manager of Financial Dep.	Male	43	5 Jun. 2010	4 Jun. 2013	17,800	17,800	
Wu Yanzhen	Manager of Human Resource Dep.	Female	44	5 Jun. 2010	4 Jun. 2013	10,000	10,000	
Qu	Chief Auditor of Audit	Female	48	5 Jun. 2010	4 Jun. 2013	136,300	136,300	

Qingfeng	Dep.							
Zhang Jianxiang	Assistant on technology to General Manager	Male	43	5 Jun. 2010	4 Jun. 2013	18,400	18,400	
Pan Pingli	Manager of International Business Dep.	Male	43	5 Jun. 2010	4 Jun. 2013	48,296	48,296	
Bai Nianyue	Director of Chief Engineer Office	Male	45	5 Jun. 2010	4 Jun. 2013	13,715	13,715	
Yu Shouzheng	Manager of Energy Business Dep.	Male	43	5 Jun. 2010	4 Jun. 2013	13,100	13,100	
Lv Yongchen	Deputy Manager of International Business Dep.	Male	43	5 Jun. 2010	4 Jun. 2013	17,900	17,900	
Zhang Shougang	Manager of Quality Dep.	Male	41	5 Jun. 2010	4 Jun. 2013	13,100	13,100	
Wang Jiabin	Deputy Manager of Production Dep.	Male	48	5 Jun. 2010	4 Jun. 2013	13,700	13,700	
Yu Yongbin	Manager of Finishing Dep.	Male	45	5 Jun. 2010	4 Jun. 2013	15,000	15,000	
Zhang Zhanqi	Deputy General Manager of Lufeng Textile and Dye	Male	39	5 Jun. 2010	4 Jun. 2013	10,300	10,300	
Total	-	-	-	-	-	1,333,192	1,333,392	-

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 has been Chairman of the Board of the Company, and concurrently takes 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. Fujiwara Hidetoshi: 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 has been 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 has 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 has been director and Secretary to the Board of the Company, and concurrently 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 has 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 has been 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 has 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 2011, she was partner of Jun Ze Jun of Beijing law firm. Now she is partner of Deiheng Law Office.

15. Mr. Li Tongmin, Deputy General Manager of Production Dept. of the Company. He was born in 1956, graduated from technical secondary school. From Oct. 1993 to 2010, he held the post of Manager of production department 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 ever took the post of Deputy Director of the General Manager Office of the Company, and now holds post of Manager of Property Management Department 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 has acted 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 has acted 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 has acted 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 has acted 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 has acted 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 has acted as Manager of Quality Control 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: Director of Chief Engineer Office. 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 2010, he has acted 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 has acted 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.

2. Remuneration drawn from the Company by directors, supervisors and senior executives in the reporting period

Name	Title	Payment in the reporting period (RMB'0000/year)	Name	Title	Payment in the reporting period (RMB'0000/year)
Fujiwara Hidetoshi	Director, senior consultant	633.37	Liu Zilong	Supervisor	36.68
Liu Shizhen	Chairman of the Board	222.05	Li Tongmin	Deputy General Manager	97.01
Xu Zhinan	Vice Chairman of the Board	20.75	Zhang Hongmei	Chief Accountant	38.13
Liu Zibin	Director/General Manager	98.64	Zhang Keming	Manager of Financial Dep.	38.28
Chen Ruimou	Director	20.75	Wu Yanzhen	Manager of HR Dep.	38.40
Zeng Facheng	Director	1.19	Qu Qingfeng	Chief Auditor of Audit Dep.	38.19
Wang Fangshui	Director/Chief engineer	97.92	Zhang Jianxiang	Director of Technology Research & Development Center	40.64
Sun	Director	47.06	Pan Pingli	Manager of International	39.61

Zhigang				Business Dep.	
Qin Guilin	Director/ Secretary to the Board	87.86	Bai Nianyue	Manager of Basic Construction Dep.	38.51
Qi Haodong	Independent director	4.80	Yu Shouzheng	Manager of Energy Business Dep.	40.68
Li Zhixian	Independent director	4.80	Lv Yongchen	Deputy Manager of International Business Dep.	41.29
Zhou Zhiji	Independent director	4.80	Zhang Shougang	Manager of Quality Control Dep.	40.86
Wang Lei	Independent director	4.80	Wang Jiabin	Deputy Manager of Production Dep.	40.22
Bi Xiuli	Independent director	4.80	Yu Yongbin	Manager of Finishing Dep.	41.41
Zhu Lingwen	Supervisor/Manager of Layout Department	87.90	Zhang Zhanqi	Deputy General Manager of Lufeng Textile and Dye	40.40
Dong Shibing	Supervisor	36.29	Total		2028.09

Total payment drawn from the Company by directors, supervisor and senior executives was RMB 20,280,900 (before tax).

IV. Changes of directors, supervisor and senior executives

1. About changes of directors, supervisor and senior executives

In the reporting period, the Company re-electing directors and supervisors but personnel remained unchanged.

2. About changes of senior management

In the reporting period, the 1st Session of the 6th Shareholders' General Meeting of the Company made new engagement to senior management, but the senior management remained unchanged.

V. About employees

By the end of the reporting period, the Company had totally 16,019 employees at their posts. Of which 11,014 are production personnel, 528 are sales personnel, 4,079 are technicians, 73 are financial personnel and 325 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, the Policy on the Liability of Disclosing Materially Inaccurate Information in Annual Report of the Company and Rules on Management of Inner Information and Insider ; 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 reporting 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.

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	Name
Liu Shizhen	Chairman of the Board	11	10	1	
Xu Zhinan	Vice Chairman of the Board	11	4	7	
Liu Zibin	Director/General Manager	11	11	0	
Fujiwara Hidetoshi	Director/Senior Consultant	11	10	1	
Chen Ruimou	Director	11	4	7	
Zeng Facheng	Director	11	4	7	
Wang Fangshui	Director/Chief engineer	11	11	0	
Sun Zhigang	Director	11	2	9	
Qin Guilin	Director/Secretary to the Board	11	11	0	
Li Zhixian	Independent director	11	3	7	1
Zhou Zhiji	Independent director	11	3	8	
Wang Lei	Independent director	11	3	8	

Qi Haodong	Independent director	11	3	8	
Bi Xiuli	Independent director	11	2	8	1

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

2. Objection proposed by independent directors against relevant events of the Company

In the reporting period, independent directors of the Company didn't propose any objection against proposals of the Board of Directors or other proposals not related to the Board of Directors.

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

In the reporting period, the Company revised part of regulations of Articles of Association and Rules of Procedures for the Board of Directors through Shareholders' General Meeting 2009, and reviewed and revised Internal Management Rules on the Company Conducting Hedging with Financial Derivatives and Rules on Management of Related Party Transaction as well as reviewed and approved Report on Social Accountability of the Company. On 36th Session of the 5th Board of Directors, the Company reviewed and established the Policy on the Liability of Disclosing Materially Inaccurate Information in Annual Report of the Company and Rules on Management of Inner Information and Insider; the 1st Session of 6th Board of Directors revised Rules on Management of Derivatives Transaction which then put forward the accomplishment of the construction of rules on internal control.

During the reporting period, RSM China Certified Public Accountants, audit institution of the Company, issued Verification Report on Internal Control with document No. ZRYHZS 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

In the reporting period, Remuneration Committee of the Board of Directors appraised operating achievements of the Company for the year 2009 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 36th Meeting of the 5th Board of Directors dated 17 Mar. 2010.

Section VII Shareholders' General Meetings Held

During the reporting period, the Company held one shareholders' general meeting in total, i.e. the Annual Shareholders' General Meeting for 2009. The meeting was witnessed by lawyers from Deheng Law Firm, who issued a letter with their legal opinions for the meeting. Details of the meeting are as follows:

The Board of Directors of the Company proposed and convened the meeting, for which on-site voting was adopted. The notice on holding the meeting was published on 15 May 2010 in Securities Times, Shanghai Securities News and Ta Kung Pao as well as the website (www.cninfo.com.cn) designated by CSRC for information disclosure of listed companies.

The meeting was held in the Company's conference room in Banyang Villa on 4 Jun. 2010, at which ten proposals were reviewed and approved, including the 2009 Annual Report prepared by the Board of Directors, the Annual Profit Distribution for 2009, the proposal on re-election of the Board of Directors and the proposal on re-election of the Supervisory Committee.

The announcement on resolutions made at the meeting was disclosed by the Company on 5 Jun. 2010 in Securities Times, Shanghai Securities News and Ta Kung Pao as well as the website (www.cninfo.com.cn) designated by CSRC for information disclosure of listed companies.

Section VIII Report of the Board of Directors

I. Business review for the reporting period

(I) Overall performance

For the reporting period, the Company achieved operating revenue of RMB 5,025,624,100, an operating profit of RMB 907,818,000 and a net profit attributable to common share holders of RMB 739,091,600, up by 24.51%, 39.17% and 29.62% respectively as compared to 2009.

During the reporting period, main businesses and profit sources of the Company, as well as their composition, remained unchanged.

In the reporting period, due to recovery of the global economy after the financial crisis, products of the Company were sold in higher prices, which resulted in more sales income as compared to 2009. But the Company was under some pressure with its cost control due to a sharp increase in prices of ginned cotton (the main raw material for the Company's production) and a rise in the labor cost in the year. The Company increased its stock of raw cotton at the beginning of the year, which cushioned the hit by the rising prices of the raw material. However, because of the long-term export orders received by the Company, as well as the long production cycle of the Company's products, there appeared a lag between the price rise of the raw material and that of the Company's products, affecting the growth margin of the gross profit rate of the Company's products.

In the reporting period, the Company was honored as a "Chinese Textile Enterprise with Outstanding Cultural Innovations for 2010", a "Chinese Textile Enterprise with Harmonious Labor Relation for 2010", an "Enterprise with AAA Credit Grade", an "Advanced Organization in China's Textile Sector", one of the "China's Top 50 Enterprises in Fusing Informatization and Industrialization for 2010", a "Pilot Enterprise for Innovation in Shandong Province", a "Model Enterprise for Recycle Economy in Shandong Province", one of the first "Enterprises with Contribution to a Low-carbon Shandong", and one of the "Top Ten Textile Enterprises with Greatest Contribution to Shandong's Eleventh Five-Year Plan for Economic and Social Development". The Company was also given the "Award for Textile Science and Technological Contribution in Shandong's Eleventh Five-Year Plan for Economic and Social Development", the "Award for Cultural Development Model Textile Enterprise in Shandong" and other awards. All these honors and awards helped strengthened the Company's leading position in the industry.

In the reporting year, the Company achieved remarkable results in new product and technology development, as well as in the commercial application of those R&D achievements. In 2010, the Company received one "National Award for Commercial Application of Significant Scientific and Technological Findings" and the "First Prize for Scientific and Technological Progress in Shandong". Meanwhile, one of its products was labeled as one of the "National Key New Products". Four new products and technologies were recognized as scientific and technological achievements with provincial importance, of which two reached world-leading levels. In the reporting year, the Company obtained 27 patents, developed nine new products, completed 58 key programs and accomplished 305 technical innovations.

Up to now, the Company has accumulatively applied for 97 patents, of which 36 were patents for invention. As a result, 59 patents were authorized, with eight of them being patents for invention. The Company has formed a product range with natural fiber fabric as the main line, multi-functional fiber fabric as the leading power, the super wash-and-wear technology as the core and with developing multi-functional and healthy fabric as the target. 82 series of dyed fabric in hundreds and thousands of designs & colors have taken shape, which sufficiently satisfies various market demands.

In the reporting period, the Company pushed forward the brand development strategy, strengthened the influence of its brand, actively explored on-line marketing when expanding the network of tangible store marketing, and carried out effective tests and accumulated experience on marketing on line. At present, the Company has set up 36 exclusive stores (or counters) in top-grade emporiums in domestic major and medium-sized cities. In future brand generalization, the Company will implement the multi-brand development strategy, put itself in a clear position, extend multiple brands and focus on quality, and present the brand concept of “Fit Well Your Body, Your Need and Your Heart”.

(II) Main businesses and their operation status

1. Business scope: The Company is a textile enterprise that has integrated cotton growing, spinning, blanching and dyeing, weaving, after-finishing and clothes making as one comprehensive production. The leading products are the shirt-use yarn-dyed fabric and shirts. Over 80 percent of the products produced by the Company are for export, and their markets cover more than 30 countries and districts, including Japan, South Korea, America, Britain, Italy, etc. It is the largest production base of yarn-dyed fabric in the world.

2. Businesses classified according to products

Unit: RMB Ten thousand

Products	Operating income		Operating cost		Operating profit	
	2010	2009	2010	2009	2010	2009
Shirt fabric	318,832.64	250,474.19	208,028.00	173,051.18	110,804.64	77,423.01
Shirt	120,171.91	107,381.71	83,664.10	72,873.90	36,507.81	34,507.81
Ginned cotton	23,033.17	7,254.99	16,924.89	6,011.02	6,108.28	1,243.97
Chinese patented medicines	683.96	1,725.89	549.02	1,577.94	134.94	147.95
Power and steam	10,633.91	8,655.52	10,566.98	8,076.27	66.93	579.25
Others	29,206.82	28,129.68	19,328.13	18,598.78	9,878.69	9,530.90
Total	502,562.41	403,621.98	339,061.12	280,189.09	163,501.29	123,432.89

3. Markets and incomes

Unit: RMB Ten thousand

Area	2010	Proportion (%)	2009	Proportion (%)
Japan and South Korea	45,051.81	8.96	41,792.95	10.35
Hong Kong	45,228.80	9.00	33,219.41	8.23

Southeast Asia	106,270.00	21.15	92,817.08	23.00
Europe and America	103,168.20	20.53	105,195.58	26.06
Other	86,642.40	17.24	13,906.88	3.45
Domestic	116,201.20	23.12	116,690.08	28.91
Total	502,562.41	100.00	403,621.98	100.00

4. Principal suppliers and clients

During the reporting period, purchases from the top five suppliers totaled RMB 729,504,100, taking up 20.31% of the total purchase amount of the year.

During the reporting period, the sales income from the top five clients totaled RMB 1,658,066,800, taking up 32.99% of the total sales income of the year.

(III) Breakdown of the Company's assets

Unit: RMB Ten thousand

Items	2010	Proportion in total assets	2009	Proportion in total assets
Accounts receivable	15,535.44	2.21%	15,406.93	2.44%
Inventories	146,628.66	20.90%	122,949.49	19.51%
Fixed assets	364,424.01	51.94%	362,029.81	57.44%
Construction in progress	6,643.93	0.95%	7,304.54	1.16%
Short-term borrowings	86,955.72	12.39%	103,254.18	16.38%
Long-term borrowings	8,636.87	1.23%	9,261.22	1.47%

(1) The proportion of fixed assets in the total assets was up by 5.5 percentage points, which was mainly because the Company prepaid for cotton and increased its inventories.

(2) The proportion of inventories in the total assets was down by 3.99 percentage points, which was mainly due to less short-term borrowings in the year.

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

Unit: RMB Ten thousand

Items	2010	2009	Increase/decrease
Sales expense	14,093.93	13,751.69	2.49%
Administrative expense	54,542.04	33,971.92	60.55%
Financial expense	3,908.96	6,093.97	-35.86%

(1) Sales expense was up 2.49% as compared to 2009, which was mainly because the Company increased its input for on-line marketing of its brands in the year.

(2) Administrative expense was up 60.55% as compared to 2009, which was mainly because the Company increased the salaries for its employees and the R&D expense in the year.

(3) Financial expense was down 35.86% as compared to 2009, which was mainly because most borrowings were in the US dollars with a lower interest rate than Renminbi borrowings.

(V) Analysis on relevant data in the cash flow statement

Unit: RMB Ten thousand

Items	2010	2009	Increase/decrease
Net cash flows arising from operating activities	120,604.11	99,181.31	21.60%
Net cash flows arising from investing activities	-58,590.91	-16,299.61	259.46%
Net cash flows arising from financing activities	-66,308.65	-139,856.27	-52.59%

(1) Net cash flows arising from operating activities were up 21.60% as compared to 2009, which was mainly because the Company received more cash from selling products and rendering services.

(2) Net cash flows arising from investing activities were up 259.46% as compared to 2009, which was mainly because the expenditures on fixed and intangible asset acquisitions increased in the year.

(3) Net cash flows arising from financing activities were down 52.59% as compared to 2009, which was mainly because the Company repaid some debts in the year.

(VI) Discussion and analysis on important information relating to operation of the Company
In the reporting period, the utilization rate of the equipments reached 100 percent, with part of the products commissioned for third party processing. Main products such as yarn-dyed fabric and shirts were produced according to the orders. Main technicians were stable, and there wasn't any loss of main technicians. The Company received sufficient production orders in the year, but it was under some pressure with its cost control due to a sharp increase in prices of raw cotton and a rise in the labor cost. Meanwhile, despite a selling price increase in the products during the reporting year, the price increase was not timely enough due to the long production chain and the long order cycles of international clients, which slowed down the business growth of the Company.

(VII) Performance and results of the Company's controlled subsidiaries and enterprises of which the Company holds equity interests

Unit: RMB Ten thousand

Company name	Business nature	Products or services	Registered capital	Total assets	Net profit	Shareholding ratio by the Company
Beijing Lufeng Sunshine Garments Co., Ltd.	Wholesale and retail	Garments	1,000	1,247.41	21.19	100%
Beijing Sichuang Adornments Co., Ltd.	Wholesale and retail	Adornments for garments	3,500	9,401.54	18.23	60%
Xinjiang Luthai Harvest Cotton Co., Ltd	Production and sale	Ginned cotton	14,653	77,492.23	9,053.30	58.24%
Luthai (Hong Kong) Co., Ltd	Import and export trade	Market service	6 million in Hong Kong dollars	3,698.58	356.72	100%
Shanghai Luthai Textile & Garments Co., Ltd.	Wholesale and retail	Garment design and wholesale	500	500	0	100%
Lufeng Weaving & Dyeing Co., Ltd	Production and sales	Piece-dyed cloth	48,616	102,292.88	15,377.27	75%
Zibo Luqun Textile Co.,	Production	Spinning,	16,822	61,613.3	89.91	100%

Ltd	and sales	twining		9		
Zibo Xinsheng Thermal Power Co., Ltd	Production and sales	Power, steam	16,243.56	26,645.24	708.65	100%

Notes: Beijing Luthai Shirt Co., Ltd. was liquidated and disposed in the reporting year. Also in the year, the Company made an investment to Yantai Rongchang Pharmaceutical Co., Ltd. with 100% equity interests of Shandong Luthai Huanzhong Pharmaceutical Co., Ltd. in exchange for 5.55% equity interests of Yantai Rongchang Pharmaceutical Co., Ltd.. And the Company's ownership and decision-making power on assets and operation of Shandong Luthai Huanzhong Pharmaceutical Co., Ltd. thus ceased. Starting from the reporting year, the two said subsidiaries disposed are no longer consolidated by the Company.

II. Outlook of future development of the Company

(I) Development trends 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. 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 run, capacity of medium and low-ended dyed fabric will be relative surplus in China. But high-ended dyed fabric is still in status of demand exceeding supply. In the long run, along with stable economy, people's life and consumption in our country will continue to improve, and the demand at home and abroad for high-ended dyed fabric will also increase gradually.

(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, and the operating results have been improving on a steady basis ever since. At present, the main trouble for textile enterprises is the record high of the raw cotton price, which presents a tough challenge for the industry. As a result, the product structure of the industry will be adjusted. The process of phasing out low-ended products with low added value will be accelerated, which will provide a new opportunity for quality enterprises in the sector.

(III) Capital expenditures, sources and use plans

The Company executed another financing 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. The Production Project for 150 Thousand Ingot Top-grade Fine Combed Yarns and the Production Line Project for 50 Thousand Ingot Top-grade Ply Yarns have been put into production in 2008 and 2009 respectively. The Production Line Project for 10-million-meter Top-grade Jacquard Fabrics for Women's Wear has also been put into production in the second quarter of 2010. And the Project of Brand and Marketing Network Promotion also made some progress in the reporting period. Currently, the Company has 36 franchised shops and has set up "Lu Thai on Line" for on-line marketing.

(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. When exchange rates experienced a great fluctuation, it might cause a negative influence on the Company's export income converted to Renminbi. 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. Third, the Company properly increased imports of raw materials, equipments and spare parts to offset the influence of Renminbi appreciation on the 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. In 2010, 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. Investments in the reporting period

1. Continued use of raised proceeds carried forward to the reporting period

In 2008, the Company offered 150 million additional A-shares to the public, raising proceeds of RMB 973.5 million in total. 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 reporting period was detailed as follows:

(1) About the Production Project for 150-thousand Ingot Top-grade Fine Combed Yarns: The raised proceeds originally planned to be invested in the project was RMB 264,609,300. And RMB 4,785,400 was input during the reporting period. Up to now, the accumulative input amounts to RMB 264,609,300, accomplishing 100.00% of the planned investment. The project was put into production in Aug. 2008.

(2) About the 50-thousand Ingot Two-for-one Twisting Production Line Project: The raised proceeds originally planned to be invested in the project was RMB 40,868,300. And RMB

2,688,600 was input during the reporting period. Up to now, the accumulative input amounts to RMB 40,868,300, accomplishing 100.00% of the planned investment. The project was put into production in Jan. 2009.

(3) About the Project for Marketing Network Development: The raised proceeds originally planned to be invested in the project was RMB 200 million. And RMB 15,518,600 was input during the reporting period. Up to now, the accumulative input amounts to RMB 27,291,300, accomplishing 13.65% of the planned investment. The project is to be completed within three years. Currently, the Company has established 36 franchised shops for shirts in major domestic cities such as Beijing, Shanghai, Chongqing, Chengdu, Kunming, Zhengzhou and Jinan, all of which have officially opened up for business. The on-line marketing project launched by the Company in the reporting period is also working effectively.

(4) 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.

(5) About the Production Line Project for 10-million-meter Top-grade Jacquard Fabrics for Women's Wear: The raised proceeds originally planned to be invested in the project was RMB 145,336,900. And RMB 116,988,700 was input during the reporting period. Up to now, the accumulative input amounts to RMB 145,336,900, accomplishing 100.00% of the planned investment. The project was put into production in Jun. 2010.

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

(1) The production line project of 3 million high-class shirts was planned to be invested with RMB 66,870,000. In the reporting period, RMB 49,322,300 was invested into it, and the accumulated investment totaled to RMB 57,587,800. Part of the production line was put into trial-production in the reporting period.

(2) The technology transform project of yarn-dyed fabric was planned to be invested with RMB 381,930,000. In the reporting period, RMB 167,602,900 was invested into it, and the project is going on as scheduled.

IV. RSM China Certified Public Accountants Co., Ltd. issued standard audit report for the Company with unqualified opinion.

V. Routine work of the Board of Directors

(I) Sessions held and resolutions made by the Board in the reporting period

During the reporting period, the Board of Directors of the Company convened 11 sessions, which were detailed as follows:

1. The 35th Session of the 5th Board of Directors was convened on 5 Mar. 2010, at which 7 proposals including the Proposal on Temporarily Supplementing Current Capital with Idle Raised Funds of RMB 94 Million were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and

<http://www.cninfo.com.cn> dated 6 Mar. 2010.

2. The 36th Session of the 5th Board of Directors was convened on 17 Mar. 2010, at which 16 proposals including the Annual Report of the Board 2009 were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 19 Mar. 2010.

3. The 37th Session of the 5th Board of Directors was convened on 20 Apr. 2010, at which 3 proposals including the 1st Quarterly Report 2010 were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 21 Apr. 2010.

4. The 38th Session of the 5th Board of Directors was convened on 23 Apr. 2010, at which 2 proposals including the Proposal on Establishing Beijing Lufeng Sunshine Garment Co., Ltd. with Investment of RMB 5 Million were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 24 Apr. 2010.

5. The 39th Session of the 5th Board of Directors was convened on 14 May 2010, at which 10 proposals including the Proposal on Reelecting the Board of Directors and Nominating Candidates for the 6th Board of Directors were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 15 May 2010.

6. The 1st Session of the 6th Board of Directors was convened on 4 Jun. 2010, at which 6 proposals including the proposal on electing Mr. Liu Shizhen as the chairman of the 6th Board and electing Mr. Xu Zhinan as the deputy chairman of the 6th Board were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 5 Jun. 2010.

7. The 2nd Session of the 6th Board of Directors was convened on 16 Aug. 2010, at which 4 proposals including the Semi-annual Report of the Company were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 17 Aug. 2010.

8. The 3rd Session of the 6th Board of Directors was convened on 3 Sep. 2010, at which 2 proposals including the Proposal on Temporarily Supplementing Current Capital with Idle Raised Funds of RMB 94 Million were reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 4 Sep. 2010.

9. The 4th Session of the 6th Board of Directors was convened on 21 Oct. 2010, at which the 3rd Quarterly Report 2010 was reviewed and approved. Public notice of the resolution wasn't required, and the resolution has been recorded in the Company Management Department of Shenzhen Stock Exchange.

10. The 5th Session of the 6th Board of Directors was convened on 26 Nov. 2010, at which the Proposal on Establishing Shanghai Luthai Textile and Garment Co., Ltd. with Investment of RMB 5 Million was reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 27 Nov. 2010.

11. The 6th Session of the 6th Board of Directors was convened on 3 Dec. 2010, at which the Proposal on Purchasing the Right to Use the Production Technology Patent of Single-thread Low-torque Ring Yarn (Spinning Yarn TM) from PolyU Technology & Consultancy Company Limited was reviewed and approved. And the resolutions of the session were published on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> dated 4 Dec. 2010.

(II) 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 2009 profit distribution plan.

(III) 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 Session 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 2010 financial report.

1. In line with provisions of Management System for Derivatives Transactions of Luthai Textile Co., Ltd., the Audit Committee under the Board convened the 1st Session of the Audit Committee of the 6th Board of Directors at the conference room of the Company on 4 Jun. 2010, reviewed the Plan for Derivatives Transactions submitted by the financial department of the Company, and issued the following opinion:

The export revenue accounts for 70% of the Company's total revenue, but it is now facing the pressure from RMB appreciation. The Plan for Derivatives Transactions proposed by the financial department is an effective instrument for avoiding currency risks. By strengthening internal control, dealing with stops, and implementing risk precaution measures, the Company can improve the operation management level and make good use of its competitive advantages. With the commitment of ensuring normal operation, the Company can conduct derivatives transactions by using self-held funds, which will, with no harm to the equity of the Company and all shareholders, help the Company to avoid risks from exchange rate movement of RMB, improve the Company's capability to resist the exchange rate movement, enhance the operation level, and make full use of the Company's competitive advantage. We believe that the Plan for Derivatives Transactions is practicable and necessary, and the risks are controllable. We agree to submit the Plan for Derivatives Transactions to the 1st Session of the 6th Board of Directors for deliberation.

2. The work of the Audit Committee in the preparation of the 2010 Annual Report was mainly detailed as follows:

(1) The Audit Committee held an on-site meeting on 29 Dec. 2010, where the Committee and the Project Manager of the Company's 2010 financial audit from RSM China Certified Public Accountants Co., Ltd., through consultation, decided the overall plan for the Company's 2010 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 2010 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 RSM China 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 2010 Annual Audit was held by the Committee on 25 Jan. 2011, where the Committee reviewed the Company's financial statements to be submitted to RSM China Certified Public Accountants Co., Ltd. for audit and issued a written opinion.

(5) The 3rd Meeting on 2010 Annual Audit, as well as the 2010 Annual Work Conference, were convened by the Committee on 27 Mar. 2011, where the following proposals were approved as resolutions, namely, the audited 2010 Financial Report of the Company, the Summary Report on the Audit Conducted by RSM China Certified Public Accountants Co., Ltd. on the Company's 2010 Financial Report, and the Proposal on Renewing Employment of RSM China Certified Public Accountants Co., Ltd. as the Company's audit agency for 2011.

3. Written opinions, summary report of the annual audit, and resolutions of 2010 Work Conference on Annual Report by Audit Committee

(1) Audit Committee's written opinion on the 2010 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 Luthai 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 2010 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
25 Jan. 2011

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

According to the Rules for Audit Committee of the Board Concerning Annual Reports of Luthai 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 2010 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. 2010.

The Audit Committee is of the opinion that the Company's 2010 financial and accounting statements preliminarily audited by RSM China 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
27 Mar. 2011

(3) Resolutions made at 2010 Annual Work Conference of Audit Committee of the Board

The Audit Committee of the Board of Luthai Textile Co., Ltd. held its 2010 Annual Work Conference at Banyang Villa Meeting Room of the Company on 27 Mar. 2011. 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 2010 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 RSM China Certified Public Accountants Co., Ltd. on the Company's 2010 Financial Report was passed;

With 3 favorable votes, 0 negative votes and no abstentions, the Proposal on Renewing Employment of RSM China Certified Public Accountants Co., Ltd. as the Company's audit agency for 2011 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
27 Mar. 2011

(IV) Duty fulfillment of Remuneration Committee subordinate to the Board

1. On 16 Mar. 2010, the Remuneration Committee convened the 1st meeting in the year 2010, where the Proposal on 2009 Appraisal Results of Senior Management Personnel of Luthai Textile Co., Ltd. was put forward according to the Incentive and Disciplinary Mechanism for Senior Management Personnel of Luthai Textile Co., Ltd.. And the proposal was submitted to and passed by the 36th Session of the 5th Board on 17 Mar. 2010.

2. On 14 May 2010, according to the Incentive and Disciplinary Mechanism for Senior Management Personnel of Luthai Textile Co., Ltd., as well as the resolution of the 36th Session of the 5th Board, the Remuneration Committee convened its 2nd session in the year 2010, where the Proposal on 2009 Appraisal Results of Risk Funds of Senior Management

Personnel of Luthai Textile Co., Ltd. and the Proposal on Proposing Allowances for Independent Directors of the 6th Board were reviewed and approved.

(IV) Duty fulfillment of Remuneration Committee subordinate to the Board

1. The Nomination Committee convened the 1st Session in 2010 on 13 May 2010, at which the proposal on nominating candidates for the 6th Board of Directors and for independent directors was reviewed and approved.

The 5th Board of Directors of the Company was elected in the Annual Shareholders' General Meeting 2006 on 6 Jun. 2007. In light of relevant rules in Company Law and Articles of Association, the service term of the 5th Board expired on 5 Jun. 2010. According to rules relevant to director's office term stipulated in Company Law and Articles of Association, as well as the actual situation of the Company, the Nomination Committee under the Board nominated the list of director candidates for the 6th Board of the Company as follows: Liu Shizhen, Xu Zhinan, Liu Zibin, Wang Fangshui, Chen Ruimou, Fujiwara Hidetoshi, Sun Zhigang, Qin Guiling, and Zeng Facheng are director candidates for the 6th Board, all of whom were consecutive candidates for directors. The Nomination Committee decided that the 9 nominees held the condition and qualification to work as directors according to Company Law and Articles of Association. The nomination was reviewed and approved at the 39th Session of the 5th Board of Directors and the Annual Shareholders' General Meeting 2009 of the Company.

After its examination on jobs, education backgrounds, titles, detailed work experiences, part-time jobs, etc. of Mr. Zhou Zhiji, Mr. Li Zhixian, Mr. Qi Haodong, Ms. Bi Xiuli, the Nomination Committee nominated Mr. Zhou Zhiji, Mr. Li Zhixian, Ms. Wang Lei, Mr. Qi Haodong, and Ms. Bi Xiuli as the candidates for independent directors of the 6th Board of the Company. After its examination on jobs, education backgrounds, titles, detailed work experiences, part-time jobs, etc. of Mr. Zhou Zhiji, Mr. Li Zhixian, Ms. Wang Lei, Mr. Qi Haodong and Ms. Bi Xiuli, the Nomination Committee was of the opinion that they were not related to Luthai Textile Co., Ltd. in a way that may affect the independency of the nominees. All 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. The nomination was reviewed and approved at the 39th Session of the 5th Board and the Annual Shareholders' General Meeting 2009.

2. On 4 Jun. 2010, the Nomination Committee of the Company Board convened the 2nd Session in 2010 (the 1st Session of the Nomination Committee of the 6th Board of Directors). Nomination information at the session was as the following:

(1) Nominating Mr. Liu Shizhen as the candidate for Chairman of the Board; Nominating Mr. Xu Zhinan as the candidate for Deputy Chairman of the Board.

(2) Nominating Liu Shizhen, Liu Zibin, Zhou Zhiji, Li Zhixian, Bi Xiuli, and Qi Haodong as candidates for members of the Remuneration Committee. Nominating Li Zhixian as the candidate for Chairman of the committee.

(3) Nominating Zhou Zhiji, Qi Haodong, and Qin Guiling as candidates for members of the Audit Committee. Nominating Qi Haodong as the candidate for Chairman of the committee.

(4) Nominating Liu Shizhen, Xu Zhinan, Chen Ruimou, Fujiwara Hidetoshi, Liu Zibin, Wang Fangshui, Zeng Facheng, Sun Zhigang, Qin Guiling, Li Zhixian, Zhou Zhiji, Qi Haodong, Bi Xiuli, and Wang Lei as candidates for members of the Strategy Decision Committee. Nominating Liu Shizhen as the candidate for Chairman of the committee.

- (5) Nominating Liu Zibin as the candidate for General Manager.
- (6) Nominating Wang Fangshui and Li Tongmin as candidates for Deputy General Manager.
- (7) Nominating Zhang Hongmei as the candidate for Chief Account of the Company, Qin Guiling as the candidate for secretary of the Board, and Zheng Weiyin as the candidate for Security Affair Representative.
- (8) Nominating and engaging Zhang Hongmei, Zhang Keming, Qu Qingfeng, Yu Yongbin, Zhang Shougang, Zhang Jianxiang, Wang Jiabin, Yu Shouzheng, Zhang Zhanqi, Wu Yanzhen, Bai Nianrui, Lv Yongchen, and Pan Pingli as Senior Executives of the Company in accordance with the No.11 provision in Articles of Association.
- (9) Office term of the aforesaid personnel is 3 years according to Company Law and Articles of Association.

VI. Profit Distribution Preplan and Preplan of turning capital reserve into share capital

1. Profit distribution for the report period

The profit distribution preplan 2010 was approved at the 9th Session of the 6th Board of Directors: Based on total share capital of 994,864,800 shares as at 31 Dec. 2010, the cash dividend of RMB 2.50 (tax included) should be distributed for every 10 shares, and it tuned to be RMB 2.25 for distribution for every 10 shares after 10% personal income tax was deducted. Of which, the cash dividend to shareholders of B share should 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.) In total, RMB 248,716,200.00 should be distributed as dividends. The remaining profit available for distribution amounting to RMB 1,166,859,951.29 shall be transferred to the next accounting year for distribution.

The aforesaid profit distribution proposal shall be implemented after being reviewed and approved by the Shareholders' General Meeting 2010.

2. Cash dividends distributed in the past three years

Unit: (RMB) Yuan

Year	Cash dividend (tax included)	Net profit in annual consolidated statements attributable to shareholders of the listed company	Ratio to net profit in consolidated statements attributable to shareholders of the listed company	Annual retained profit
2009	248,716,200.00	570,218,343.41	43.62%	1,178,193,742.66
2008	198,972,960.00	512,944,678.08	38.79%	983,263,756.75
2007	187,754,304.50	459,725,146.61	40.84%	774,530,804.80
Proportion of accumulated cash dividend in recent three years to recent annual average net profit (%)				123.56%

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 reporting period, the Supervisory Committee held 6 sessions and sat in on some of the eleven board sessions of the Company.

1. The 8th Session of the 5th Supervisory Committee was convened on 17 Mar. 2010, at which four proposals were reviewed and approved, including the 2009 Annual Report & Summary of the Company, etc.. Resolutions made at the said sessions were disclosed on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> on 19 Mar. 2010.

2. The 9th Session of the 5th Supervisory Committee was convened on 20 Apr. 2010, which reviewed and approved the 1st Quarterly Report for Y2010 and issued the special audit opinions.

3. The 10th Session of the 5th Supervisory Committee was convened on 14 May. 2010, which reviewed and approved the Proposal on Nominating Supervisors for the Re-election of Supervisory Committee. Resolutions made at the session was disclosed on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> on 15 May. 2010.

4. The 1st Session of the 6th Supervisory Committee was convened on 4th Jun. 2010, which reviewed and approved the Proposal on Electing Mr. Zhu Lingwen as the Chairman of the 6th Supervisory Committee. Resolutions made at the session was disclosed on Securities Times, Shanghai Securities News, Ta Kung Pao and <http://www.cninfo.com.cn> on 5 Jun. 2010

5. The 2nd Session of the 6th Supervisory Committee was convened on 16 Aug. 2010, which reviewed and approved the Semi-annual Report for Y2010 and issued the special audit opinions.

6. The 3rd Session of the 6th Supervisory Committee was convened on 21 Oct. 2010, which reviewed and approved the 3rd Quarterly Report for Y2010 and issued the special audit opinions.

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 1st Quarterly Report, Semi-annual Report, 3rd Quarterly Report and the Auditors' Report prepared for the Company by the audit firm, and believed that the period 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. The examination and approval procedure of transferring the provisional idle raised proceeds to current capital was legal, it was also in time to reverse this capital to the special account of raised proceeds before the due date..

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

During the reporting period, the Company invested in Yantai Rongchang Pharmaceutical Co., Ltd. (hereinafter referred to as "Rongchang Pharmaceutical") with its 100% equities of Luthai Huanzhong Pharmaceutical Co., Ltd., from which the Company obtained 5.555% equities of Rongchang Pharmaceutical. This transaction had fulfilled the necessary procedures of assets assessment, audit and approval of Board of Directors, it was believed that the transaction price on equity investment is fair and reasonable.

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 all routine affiliated transaction, which had fulfilled the relevant examination and approval procedures and the duties of information disclosure, the affiliated directors all avoided the votes when the relevant votes occurred, which also were in compliance with 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. RSM China 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. Brief introduction to asset purchase, asset sale or enterprise merger in the Company in the report period.

In the report period, in order to improve the operating management of the Company's subsidiary Shandong Luthai Huanzhong Pharmaceutical Co., Ltd., and also reduce the negative effect on the Company caused by the loss of Huanzhong Pharmaceutical, the Company transferred its 100% shares of Huanzhong Pharmaceutical to Rongchang Pharmaceutical, as the consideration of equity transfer, Rongchang Pharmaceutical increased the registered capital as RMB 5 million (accounting for 5.555% of the registered capital after capital increase), thus the Company invested in Rongchang Pharmaceutical with its 100% equities of Luthai Huanzhong, from which the Company obtained 5.555% equities of Rongchang Pharmaceutical; this issue was approved on the 35th Session of the 5th Board of Directors. The capital subscription was completed on 2 Jun. 2010, on which date the net asset of Luthai Huanzhong was RMB 52.6246 million. Therefore, the Company no longer possessed the assets of Luthai Huanzhong or any controlling right such as operating decision-making right, etc.

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 "VIII. 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 reporting period, there was no new guarantee. Guarantees lasted to this period was credit guarantee provided to loan of RMB 10 million for controlling subsidiary Lufeng Weaving & Dyeing Co., Ltd. The term was from 11 Aug. 2009 to 10 Aug. 2010. the borrowing has been returned on 12 Apr. 2010 in advance. So the closing balance of guarantee was zero. For more details about the guarantees, please refer to Notes to Financial Statement "IX. Contingencies".

5. Other significant affiliated transactions

(1) Related lease

In the reporting period, the Company leased land, houses and gas station from the principal shareholder Zibo Lucheng Co., Ltd., with the leasing charge aggregating RMB 5,091,100. Meanwhile, the wholly-owned subsidiary Luqun Textile leased equipments and places from the principal 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 1,185,700. Controlling subsidiary of the Company Lufeng Weaving & Dyeing Co., Ltd. leased houses from the principal shareholder Zibo Lucheng Co., Ltd., with rent of RMB 696,600; and the principal shareholder Zibo Lucheng Co., Ltd. leased houses from the Company with rent of RMB 153,600.

(2) Related parties' capital borrowed and loaned

In the reporting period, the wholly-owned subsidiary Luqun Textile borrowed RMB 61.7 million from the principal shareholder Zibo Lucheng Co., Ltd., and borrowed RMB 4.9 million from Taimei Ties and Stanluian Company. The wholly-owned subsidiary Luthai (Hong Kong) borrowed RMB 2.5527 million from the principal shareholder' wholly-owned subsidiary Toptime International Trading Limited.

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 principal shareholder Zibo Lucheng Co., Ltd., with the leasing charge aggregating RMB 5,091,100. Meanwhile, the wholly-owned subsidiary Luqun Textile leased equipments and places from the principal 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 1,185,700. Controlling subsidiary of the Company Lufeng Weaving & Dyeing Co., Ltd. leased houses from the principal shareholder Zibo Lucheng Co., Ltd., with rent of RMB 696,600; and the principal shareholder Zibo Lucheng Co., Ltd. leased houses from the Company with rent of RMB 153,600.

There existed no trusteeship or contract in the company during the report period.

2. Significant guarantee

In the report period, there was no new guarantee. Guarantees lasted to this period was credit guarantee provided to loan of RMB 10 million for controlling subsidiary Lufeng Weaving & Dyeing Co., Ltd. The term was from 11 Aug. 2009 to 10 Aug. 2010. the borrowing has been returned on 12 Apr. 2010 in advance.

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 to 31 Dec. 2010, the shareholding subsidiary mortgaged its real assets to the bank for the borrowings.

Mortgagor	Mortgaged asset	Asset value	Borrowings gained	Term of borrowings
Xinjiang Luthai	Inventory	180,000,000.00	70,000,000.00	2010.11.24-2011.8.23
Xinjiang Luthai	Land use right	9,658,676.12	45,000,000.00	2010.9.8-2011.9.7
Total		<u>189,658,676.12</u>	<u>115,000,000.00</u>	

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 2009 promised by the Company in this year has been fulfilled in Jul. 2010; 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 engagement and disengagement of Certified Public Accountants by the Company

In the report period, the Company reengaged RSM China Certified Public Accountants as the Company's financial auditor and the annual audit fee was RMB 1.1 million.

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.

XI. Researches, interviews and visits received in the report period

Time	Place	Way of reception	Visitor	Main discussion and materials provided by the Company
8 Apr. 2010	Reception room of	Field research	Kong Jun from China	Basic information of the Company

	the Company		Jianyin Investment Securities	and revival of export
8 Apr. 2010	Reception room of the Company	Field research	Lu Jing from Guotai Asset Management Co., Ltd.	Basic information of the Company and revival of export
2 Sep. 2010	Reception room of the Company	Field research	He Shuai from GTJA Allianz Funds	Basic information of the Company

XII. Derivatives investment in the report period

In the report period, the Company conducted derivative products trade including forward settlement, forward exchange purchase and forward exchange transaction, which was detailed as follows:

(I) Position of derivatives products as at the end of the report period

As to 31 Dec. 2010, the undue financial derivative products held by the Company totaled about USD 274,617,400. Of which there were about 30 forward settlements amounted to USD 258,000,000 and about 4 forward purchases aggregated USD 16,617,400 with the due date all as 30 Jun. 2011. The two above financial derivative products took up 41.91% of net assets at the end of period.

(II) Delivery and earnings of derivatives products transactions in the report period

In 2010, the due forward financial derivative products of the Company totally equaled to USD 488,663,100, of which USD 488,663,100 was actually delivered and the loss was USD 62,111,200. The due forward settlement was USD 481,000,000, of which USD 481,000,000 was delivered as scheduled, generating loss of RMB 60,040,800, due foreign exchange amount equaled to USD 7,663,100, which was wholly delivered and caused loss of RMB 2,070,400.

(III) Analysis on risks and control measures concerning derivatives products

The Company conducted derivatives products transaction in order for hedging. And the forward settlement hedging was operated by installments, with the relevant amount not more than the planned derivatives products transactions. And all derivatives products transaction 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

Derivatives products transaction 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 Administrative System on Transaction of Derivative Products of Lu Thai Textile Co., Ltd and Plan on Derivative Products Transaction in the Next Twelve Month approved by the 1st Meeting of the 6th Board of Directors, stipulated the appropriate authorization system, and confirmed amount for hedging 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 1 year, thus, gain on change in fair value shall occur in the forward contract signed by the Company.

XIII. 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 [2011] No. 03966

To the shareholders of Lu Thai Textile Co., Ltd.

We have audited the accompanying financial statements of Lu Thai Textile Company Limited (hereinafter refers as "the Company") and its subsidiaries (hereinafter refers as "the Group") which comprise the Company's balance sheet and the consolidated balance sheet as at 31 December 2010, the Company's profit statement and the consolidated profit statement, the Company's cash flow statement and the consolidated cash flow statement, the Company's statement of changes in owners' equity and the consolidated statement of changes in owners' equity, for the year then ended, as well as the notes to the financial statements.

I. 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.

II. 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.

III. 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 of the Company and the Group as at 31 December 2010, and of its financial performance and cash flows for the year then ended in all material aspects.

RSM China Certified Public Accountants Co., Ltd.

Certified Public Accountant of China He Feng

China · Beijing

Certified Public Accountant of China Wei Qianting

28 Mar. 2011

(II) Financial Statement**Consolidated Balance Sheet****As at 31 Dec. 2010**

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	Closing balance		Opening balance	
	Consolidation	The Company	Consolidation	The Company
Current Assets:				
Monetary funds	604,175,236.37	361,992,869.89	569,968,526.84	324,783,025.04
Transactional financial assets	40,418,200.00	34,232,000.00		
Notes receivable	137,384,889.66	110,798,047.01	141,412,742.46	120,774,297.57
Accounts receivable	155,354,359.04	199,861,650.50	154,069,325.62	167,091,056.87
Accounts paid in advance	387,788,595.85	532,649,958.83	160,759,295.40	435,828,408.63
Interest receivable	1,568,105.85	1,568,105.85		
Dividend receivable		4,957,735.18		
Other accounts receivable	74,903,936.45	29,173,351.08	49,697,710.62	14,017,123.91
Financial assets purchased under agreements to resell				
Inventories	1,466,286,582.16	818,532,240.13	1,229,494,890.25	801,504,131.77
Non-current assets due within 1 year				
Other current assets				
Total current assets	2,867,879,905.38	2,093,765,958.47	2,305,402,491.19	1,863,998,043.79
Non-current assets:				
Available-for-sale financial assets				
Held-to-maturity investments				
Long-term accounts receivable				
Long-term equity investment	68,942,600.00	894,295,189.90	160,000.00	897,482,752.85
Investing property				
Fixed assets	3,644,240,059.73	2,225,236,167.82	3,620,298,059.46	2,141,043,636.81
Construction in progress	66,439,271.92	34,661,741.56	73,045,428.62	53,545,369.31
Engineering materials	1,164,182.23	1,164,182.23	11,712,153.66	11,712,153.66
Disposal of fixed assets				
Intangible assets	293,314,520.77	163,305,988.78	228,956,536.92	116,170,958.25
R&D expense				
Goodwill	20,563,803.29		20,563,803.29	
Long-term deferred expenses				
Deferred income tax assets	53,338,920.01	26,495,459.57	42,928,486.46	25,551,960.18
Other non-current assets				
Total of non-current assets	4,148,003,357.95	3,345,158,729.86	3,997,664,468.41	3,245,506,831.06
Total assets	7,015,883,263.33	5,438,924,688.33	6,303,066,959.60	5,109,504,874.85

Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

Consolidated Balance Sheet (Continued)

As at 31 Dec. 2010

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Current liabilities:				
Short-term borrowings	869,557,204.66	639,536,604.66	1,032,541,840.01	356,415,782.53
Transactional financial liabilities	1,950,713.28	1,950,713.28	61,408,150.00	50,861,900.00
Notes payable	78,598,872.76	95,746,948.58	100,969,783.06	385,837,761.77
Accounts payable	469,527,076.77	180,827,824.08	275,876,805.53	149,446,372.99
Accounts received in advance	147,284,467.21	38,437,023.40	41,441,458.66	24,231,017.36
Financial assets sold for repurchase				
Handling charges and commissions payable				
Employee's compensation payable	331,045,622.56	289,512,883.21	220,359,174.53	186,391,924.39
Tax payable	-12,806,832.19	15,139,752.22	28,682,631.04	18,959,689.49
Interest payable	4,805,148.11	4,805,148.11	490,102.22	490,102.22
Dividend payable	3,259,512.84	442,309.44	442,538.04	442,538.04
Other accounts payable	138,264,754.93	12,940,429.46	90,408,797.00	13,425,412.94
Non-current liabilities due within 1 year	69,364,725.00	69,364,725.00	157,379,900.00	157,379,900.00
Other current liabilities				
Total current liabilities	2,100,851,265.93	1,348,704,361.44	2,010,001,180.09	1,343,882,401.73
Non-current liabilities:				
Long-term borrowings	86,368,685.00	86,368,685.00	92,612,200.00	92,612,200.00
Bonds payable				
Long-term payables	9,735,560.00		9,735,560.00	
Specific payables				
Estimated liabilities				
Deferred income tax liabilities	8,908,329.73	5,134,800.00	406,802.45	
Other non-current liabilities	68,422,326.66	31,963,066.63	2,673,445.33	
Total non-current liabilities	173,434,901.39	123,466,551.63	105,428,007.78	92,612,200.00
Total liabilities	2,274,286,167.32	1,472,170,913.07	2,115,429,187.87	1,436,494,601.73
Owners' equity (or shareholders' equity)				
Paid-up capital (or share capital)	994,864,800.00	994,864,800.00	994,864,800.00	994,864,800.00
Capital reserves	1,130,442,805.12	1,127,872,338.27	1,135,356,168.72	1,125,522,201.27
Less: Treasury stock				
Specific reserves				
Surplus reserves	428,440,485.70	428,440,485.70	374,429,529.19	374,429,529.19
Provisions for general risks				
Retained profits	1,854,833,169.63	1,415,576,151.29	1,418,468,702.64	1,178,193,742.66
Foreign exchange difference	-4,447,846.98		-3,458,491.27	

Total equity attributable to owners of the Company	4,404,133,413.47	3,966,753,775.26	3,919,660,709.28	3,673,010,273.12
Minority interests	337,463,682.54		267,977,062.45	
Total owners' equity	4,741,597,096.01	3,966,753,775.26	4,187,637,771.73	3,673,010,273.12
Total liabilities and owners' equity	7,015,883,263.33	5,438,924,688.33	6,303,066,959.60	5,109,504,874.85

Legal representative: Liu Shizhen Chief Financial Officer: Zhang Hongmei Financial principal: Zhang Hongmei

Consolidated Profit Statement **As of Y2010**

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	As of Y2010		As of Y2009	
	Consolidation	The Company	Consolidation	The Company
I. Total operating revenues	5,025,624,126.30	3,868,527,068.45	4,036,219,837.13	3,235,585,224.10
Including: Sales income	5,025,624,126.30	3,868,527,068.45	4,036,219,837.13	3,235,585,224.10
Interest income				
II. Total operating cost	4,165,723,991.58	3,266,215,030.17	3,349,666,683.83	2,742,094,342.75
Including: Cost of sales	3,390,611,164.80	2,728,846,423.48	2,801,890,945.71	2,416,180,001.33
Interest expenses				
Taxes and associate charges	4,602,517.53	2,139,020.64	3,196,722.69	
Selling and distribution expenses	140,939,283.58	58,476,857.28	137,516,891.23	49,086,016.67
Administrative expenses	545,420,394.57	425,700,146.04	339,719,215.46	245,072,815.67
Financial expenses	39,089,572.40	14,457,262.45	60,939,681.31	31,543,314.48
Asset impairment loss	45,061,058.70	36,595,320.28	6,403,227.43	212,194.60
Add: Gain/(loss) from change in fair value	99,875,636.72	83,143,186.72	-42,232,550.00	-45,021,500.00
Gain/(loss) from investment	-51,957,779.29	-62,453,106.53	7,995,260.00	38,933,349.21
Including: share of profits in associates and joint ventures				
Foreign exchange gains				
III. Business profit	907,817,992.15	623,002,118.47	652,315,863.30	487,402,730.56
Add: non-operating income	49,236,386.18	29,455,180.98	37,007,258.11	8,929,847.02
Less: non-operating expense	22,193,237.49	19,180,574.49	9,223,319.98	4,182,806.91
Including: loss from non-current asset disposal	7,879,134.13	6,459,224.57	3,101,963.68	835,786.17
IV. Total profit	934,861,140.84	633,276,724.96	680,099,801.43	492,149,770.67
Less: Income tax expense	119,808,030.88	93,167,159.82	76,363,543.47	54,479,830.77
V. Net profit	815,053,109.96	540,109,565.14	603,736,257.96	437,669,939.90
Attributable to owners of the Company	739,091,623.50	540,109,565.14	570,218,343.41	437,669,939.90
Minority shareholders' income	75,961,486.46		33,517,914.55	
VI. Earnings per share				
(I) basic earnings per share	0.74		0.57	
(II) diluted earnings per share	0.74		0.57	
VII. Other comprehensive incomes	1,360,644.29	2,350,000.00	7,175,448.52	
VIII. Total comprehensive incomes	816,413,754.25	542,459,565.14	610,911,706.48	437,669,939.90

Attributable to owners of the Company	740,452,267.79	542,459,565.14	577,393,791.93	437,669,939.90
Attributable to minority shareholders	75,961,486.46		33,517,914.55	

Legal representative: Liu Shizhen Chief Financial Officer: Zhang Hongmei Financial principal: Zhang Hongmei

Cash Flow Statement
As of Y2010

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	As of Y2010		As of Y2009	
	Consolidation	The Company	Consolidation	The Company
I. Cash flows from operating activities:				
Cash received from sale of commodities and rendering of service	5,309,026,883.18	3,956,981,911.46	4,034,555,172.12	3,170,265,045.75
Tax refunds received	170,814,328.92	123,784,409.56	131,900,854.32	97,890,191.14
Other cash received relating to operating activities	91,236,030.06	78,936,087.83	50,441,405.38	44,662,066.16
Subtotal of cash inflows from operating activities	5,571,077,242.16	4,159,702,408.85	4,216,897,431.82	3,312,817,303.05
Cash paid for goods and services	3,104,418,973.90	2,616,456,301.21	2,304,686,049.12	2,100,452,745.03
Cash paid to and for employees	827,325,321.66	647,672,146.07	611,880,426.34	484,708,793.27
Various taxes paid	213,791,900.95	118,879,754.23	135,640,880.05	46,607,912.69
Other cash payment relating to operating activities	219,499,946.80	152,136,170.57	172,876,945.51	107,668,925.21
Subtotal of cash outflows from operating activities	4,365,036,143.31	3,535,144,372.08	3,225,084,301.02	2,739,438,376.20
Net cash flows from operating activities	1,206,041,098.85	624,558,036.77	991,813,130.80	573,378,926.85
II. Cash flows from investing activities:				
Cash received from disposal of investments				
Cash received from return on investments				552,121.45
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,499,178.08	3,369,951.10	2,311,218.45	2,393,421.33
Net cash received from disposal of subsidiaries or other business units	1,050,000.00	3,436,342.26		
Other cash received relating to investing activities	2,683,392.50	1,743,933.34	12,821,315.01	20,032,181.58
Subtotal of cash inflows from investing activities	7,232,570.58	8,550,226.70	15,132,533.46	22,977,724.36
Cash paid to acquire fixed assets, intangible assets and other long-term assets	516,640,342.93	386,139,066.30	177,968,633.99	98,842,799.69
Cash paid for investment	13,500,000.00	33,724,366.73	160,000.00	44,104,374.21
Net cash paid to acquire subsidiaries and other business units				
Other cash payments relating to investing activities	63,001,311.79	51,159,621.02		
Subtotal of cash outflows from investing activities	593,141,654.72	471,023,054.05	178,128,633.99	142,947,173.90

Net cash flows from investing activities	-585,909,084.14	-462,472,827.35	-162,996,100.53	-119,969,449.54
III. Cash Flows from Financing Activities:				
Cash received from capital contributions	10,679,050.43		14,071,746.36	
Including: Cash received from minority shareholder investments by subsidiaries	10,679,050.43		14,071,746.36	
Cash received from borrowings	800,207,631.71	468,551,638.99	1,305,260,011.61	410,133,954.13
Cash received from issuance of bonds				
Other cash received relating to financing activities	71,820,577.10	2,350,000.00	17,000,000.00	
Subtotal of cash inflows from financing activities	882,707,259.24	470,901,638.99	1,336,331,757.97	410,133,954.13
Repayment of borrowings	1,149,124,684.61	332,920,744.53	2,477,312,338.13	1,208,312,338.13
Cash paid for interest expenses and distribution of dividends or profit	284,258,197.58	260,175,213.66	250,582,170.83	214,619,614.83
Including: dividends or profit paid by subsidiaries to minority shareholders	7,895,080.07		12,074,650.49	
Other cash payments relating to financing activities	112,410,894.83	81,220,000.00	7,000,000.00	
Sub-total of cash outflows from financing activities	1,545,793,777.02	674,315,958.19	2,734,894,508.96	1,422,931,952.96
Net cash flows from financing activities	-663,086,517.78	-203,414,319.20	-1,398,562,750.99	-1,012,797,998.83
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-4,058,787.40	-2,681,045.37	-1,342,159.54	-321,980.33
V. Net increase in cash and cash equivalents	-47,013,290.47	-44,010,155.15	-571,087,880.26	-559,710,501.85
Add: Cash and cash equivalents at year-begin	569,968,526.84	324,783,025.04	1,141,056,407.10	884,493,526.89
VI. Cash and cash equivalents at the end of the year	522,955,236.37	280,772,869.89	569,968,526.84	324,783,025.04

Legal representative: Liu Shizhen Chief Financial Officer: Zhang Hongmei Financial principal: Zhang Hongmei

Consolidated Statement of Changes in Owners' Equity
As of Y2010

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	As of the year 2010										As of the year 2009											
	Equity attributable to owners of the Company									Minority interest	Total owners' equity	Equity attributable to owners of the Company									Minority interest	Total owners' equity
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	Others	Paid-up capital (or share capital)			Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	Others				
I. Balance at the end of the previous year	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	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		
Add: change of accounting policy																						
Correction of errors in previous periods																						
Other																						
II. Balance at the beginning of the year	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	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 the year ("-" means decrease)		-4,913,363.60			54,010,956.51		436,364,466.99	-989,355.71	69,486,620.09	553,959,324.28		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							739,091,623.50		75,961,486.46	815,053,109.96							570,218,343.41		33,517,914.55	603,736,257.96		
(II) Other comprehensive incomes		2,350,000.00						-989,355.71		1,360,644.29		7,215,239.04						-39,790.52		7,175,448.52		
Subtotal of (I) and (II)		2,350,000.00					739,091,623.50	-989,355.71	75,961,486.46	816,413,754.25		7,215,239.04					570,218,343.41	-39,790.52	33,517,914.55	610,911,706.48		

(III) Capital paid in and reduced by owners		-7,263,363.60						9,223,686.70	1,960,323.10		5,215.91					9,938,736.73	9,943,952.64
1. Capital paid in by owners								10,679,050.43	10,679,050.43							9,935,607.19	9,935,607.19
2. Amounts of share-based payments recognized in owners' equity																	
3. Others		-7,263,363.60						-1,455,363.73	-8,718,727.33		5,215.91					3,129.54	8,345.45
(IV) Profit distribution				54,010,956.51	-302,727,156.51			-15,698,553.07	-264,414,753.07			43,766,993.99	-242,739,953.99			-15,235,375.91	-214,208,335.91
1. Appropriations to surplus reserves				54,010,956.51	-54,010,956.51							43,766,993.99	-43,766,993.99				
2. Appropriations to general risk provisions																	
3. Appropriations to owners (or shareholders)					-248,716,200.00			-15,698,553.07	-264,414,753.07				-198,972,960.00			-15,235,375.91	-214,208,335.91
4. Other																	
(V) Internal carry-forward of owners' equity																	
1. New increase of capital from capital public reserves																	
2. New increase of capital from surplus reserves																	
3. Surplus reserves for making up losses																	
4. Other																	
(VI) Specific reserve																	
1. Withdrawn for the																	

period																				
2. Used in the period																				
(VII) Other																				
IV. Closing balance	994,860	1,130,412			428,440		1,854,863	-4,447,846.98	337,464	4,741,501	994,860	1,135,372			374,429		1,418,464	-3,458,491.27	267,975	4,187,673

Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

Statement of Changes in Owners' Equity
As of Y2010

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Items	As of the year 2010								As of the year 2009							
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	Total owners' equity	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	Total owners' equity
I. Balance at the end of the previous year	994,864,800.00	1,125,522,201.27			374,429,529.19		1,178,193,742.66	3,673,010,273.12	994,864,800.00	1,125,522,201.27			330,662,535.20		983,263,756.75	3,434,313,293.22
Add: change of accounting policy																
Correction of errors in previous periods																
Other																
II. Balance at the beginning of the year	994,864,800.00	1,125,522,201.27			374,429,529.19		1,178,193,742.66	3,673,010,273.12	994,864,800.00	1,125,522,201.27			330,662,535.20		983,263,756.75	3,434,313,293.22
III. Increase/ decrease of amount in the year ("-" means decrease)		2,350,137.00			54,010,956.51		237,382,408.63	293,743,502.14					43,766,993.99		194,929,985.91	238,696,979.90
(I) Net profit							540,109,565.14	540,109,565.14							437,669,939.90	437,669,939.90
(II) Other comprehensive incomes		2,350,000.00						2,350,000.00								
Subtotal of (I) and (II)		2,350,000.00					540,109,565.14	542,459,565.14							437,669,939.90	437,669,939.90
(III) Capital paid in and reduced by owners		137.00						137.00								
1. Capital paid in by owners																

	00.00	,338.27			85.70		,151.29	,775.26	00.00	,201.27			29.19		,742.66	,273.12
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Legal representative: Liu Shizhen

Chief Financial Officer: Zhang Hongmei

Financial principal: Zhang Hongmei

(III) Notes to Financial Statements

Lu Thai Textile Co., Ltd.

Notes to Financial Statements for Y2010

(All amounts in RMB Yuan unless otherwise stated)

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 2010, 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 statements have been approved for issue by the Board of Directors of the Company on 28 March 2011.

II. Basis for the preparation of financial statements

With the going-concern assumption as the basis, the Company and its subsidiaries (jointly referred to as "the Group" hereafter) prepared its financial statements in light of the actual transactions and events, as well as the Basic Standard and 38 specific standards of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 Feb. 2006, the Application Guidance of Accounting Standards for Business Enterprises, the Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (jointly referred to as "the Accounting Standards for Business Enterprises"), and the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15—General Regulations for Financial Reporting (revised in 2010) by China Securities Regulatory Commission (CSRC).

In accordance with the Accounting Standards for Business Enterprises, accounting activities of the Group were conducted on the accrual basis. Except for some financial instruments, the financial statements were prepared on the basis of historical costs. Where impairment occurred in an asset, the corresponding impairment provision was withdrawn according to relevant rules.

III. Statement of Compliance with the Accounting Standards for Business Enterprises

The financial statements for Y2010 prepared by the Group are in compliance with the requirements of the Accounting Standards for Business Enterprises, factually and completely presenting the Company's and the Group's financial positions as at 31 Dec. 2010, and operating results, cash flows and other relevant information for the year then ended. Furthermore, these financial statements, in all material respects, are also in line with relevant disclosure requirements for financial statements and notes thereof stipulated in the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15—General Regulations for Financial Reporting (revised in 2010) by CSRC.

IV. Major accounting policies and accounting estimates

1. Fiscal period

The Group'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. Recording currency

Renminbi (RMB) is the prevailing currency used in the main economic circumstances of the Company and its domestic subsidiaries. The Company and its domestic subsidiaries adopt RMB as the recording

currency. In light of the prevailing currency used in their main economic circumstances of the Company's overseas subsidiaries, they adopt the Hong Kong dollars as the recording currency. When preparing the financial statements for Y2010, the Group adopted RMB as the recording currency.

3. Accounting methods for business combinations

A business combination refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Business combinations are divided into business combinations under the same control and those not under the same control.

(1) Business combinations under the same control

A business combination under the same control is a business combination in which all the enterprises involved in the combination are ultimately controlled by the same party or parties both before and after the business combination and on which the control is not temporary. In a business combination under the same control, the party which obtains control of other enterprise(s) involved in the business combination on the combining date is the combining party, and the other enterprise(s) involved in the business combination is (are) the combined party. The "combining date" refers to the date on which the combining party obtains actual control on the combined party.

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

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under the same control, the party which obtains the control on other combining enterprise(s) on the purchase date is the acquirer, and other combining enterprise(s) is (are) the acquiree. The "acquisition date" refers to the date on which the acquirer actually obtains the control on the acquiree.

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 intermediary agency fees for auditing, legal, consulting services, etc. and other administrative expenditures incurred for the business combination, which were recorded in the profits and losses at the current period when incurred. The trading expenditures arising from the acquirer's issuance of equity or liabilities securities as the consideration for the business combination are recorded in the initial recognition amount for the equity or liabilities securities. Where an adjustment to the combination costs is likely to occur and can be measured reliably, the contingent consideration is recognized and the subsequent measurement has an influence on business reputation. The contingent consideration involved is recorded in the combination costs according to its fair value on the acquisition date. Where new or further evidence against the existing circumstances on the acquisition date occurs within 12 months after the acquisition date, which makes it necessary to adjust the contingent consideration, the combined business reputation is

adjusted accordingly. For a business combination realized by two or more transactions of exchange, in the Group's consolidated financial statements, as for the equity interests of the acquiree held by the Group before the acquisition date, they are re-measured according to their fair value on the acquisition date. The difference between their fair value and their carrying amount is recorded in investment gains for the period comprising the acquisition date. Other comprehensive incomes arising from the equity interests of the acquiree held by the Group before the acquisition date are transferred to investment gains at the current period. The combination costs are the summation of the fair value on the acquisition date of the equity interests of the acquiree held by the Group before the acquisition date and the fair value on the acquisition date of the equity interests of the acquiree acquired by the Group on the acquisition date.

The combination costs of the acquirer and the identifiable net assets obtained in the combination are both measured at their fair values on the acquisition date. 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.

As for the unrecognized deductible temporary differences of the acquiree obtained by the acquirer due to their not satisfying the recognition criteria for deferred income tax assets on the acquisition date, if new or further information within 12 months after the acquisition date shows that the relevant circumstances on the acquisition date has existed and that the economic benefits arising from the deductible temporary differences of the acquiree on the acquisition date are expected to be realized, the corresponding deferred income tax assets are recognized and the business reputation is written down in the mean time. If the business reputation is not sufficient to offset, the difference is recognized in the profits and losses at the current period. Except for the aforesaid circumstance, the recognized deferred income tax assets in relation to the business combination are recorded in the profits and losses at the current period.

4. Preparation of consolidated financial statements

(1) Ascertainment of the consolidation scope

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 consolidation scope includes the Company and all its subsidiaries. The Company's subsidiaries refer to the enterprises or entities controlled by the Company.

(2) Preparation methods for consolidated financial statements

The Group consolidates a subsidiary from the date when the Group obtains actual control over the subsidiary's net assets and production and operation decision-making and de-consolidates it from the date when such control ceases. As for a disposed subsidiary, its operating results and cash flows before the disposal date are properly included in the consolidated income statement and the consolidated cash flow statement. As for a subsidiary disposed in the current period, the opening accounts in the

consolidated balance sheet are not restated. For a subsidiary acquired in a business combination not under the same control, its operating results and cash flows after the acquisition date are properly included in the consolidated income statement and the consolidated cash flow statement, and the opening accounts and comparative accounts in the consolidated financial statements are not restated. For a subsidiary acquired in a business combination under the same control, its operating results and cash flows for the period from the beginning of the reporting period to the combination date are properly included in the consolidated income statement and the consolidated cash flow statement, and the comparative accounts in the consolidated financial statements are restated in the mean time.

In the preparation of the consolidated financial statements, where a subsidiary adopts different accounting policies or accounting periods from those of the Company, the subsidiary's financial statements are adjusted according to the Company's accounting policy and accounting periods. For a subsidiary obtained in a business combination not under the same control, its financial statements are adjusted on the basis of the fair value of its identifiable net assets on the acquisition date.

All significant balances, transactions and unrealized profits within the Group are offset in the preparation of the consolidated financial statements.

The portions in a subsidiary's shareholders' equity and net current profits and losses that are not attributable to the Company are separately presented, as minority interests and minority shareholder gains and losses respectively, under the shareholders' equity item and the net profit item in the consolidated financial statements. The portion in the subsidiary's current net gains and losses that belongs to minority interests is presented as "minority shareholder gains and losses" under the net profit item in the consolidated income statement. Where the subsidiary's losses attributable to minority shareholders exceed the portion in the subsidiary's opening owners' equity attributable to minority shareholders, minority interests are offset.

Where the Company loses control over a former subsidiary due to disposal of some equity investment or other reasons, the residual equity interests are re-measured according to the fair value on the date when such control ceases. The summation of the consideration obtained from the equity disposal and the fair value of the residual equity interests, minus the portion in the former subsidiary's net assets measured on a continuous basis from the acquisition date that is attributable to the Company according to its former shareholding ratio in the subsidiary, is recorded in the investment gains for the reporting period when the Company's control over the subsidiary ceases. Other comprehensive incomes in relation to the former equity investment in the subsidiary are transferred to the investment gains at the current period when the Company's control over the subsidiary ceases. Later on, subsequent measurement is carried out on the residual equity interests in accordance with the "Accounting Standards for Business Enterprises No.2—Long-term Equity Investment" or the "Accounting Standards for Business Enterprises No.22—Recognition and Measurement of Financial Instruments" and other relevant regulations. For more details, please refer to "10. Long-term Equity Investment" or "7. Financial Instruments" under the Note IV.

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. Foreign currency businesses and translation of foreign currency financial statements

(1) Translation of foreign currency transactions

At the time of initial recognition of a foreign currency transaction, the Group 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 are translated at the spot exchange rate on the date. Exchange differences are recorded in the profits and losses at the current period except for the following circumstances: ① Exchange differences arising from the special foreign currency borrowings for the acquisition and construction of assets eligible for capitalization are treated in accordance with the principle of borrowing cost capitalization; ② Exchange differences arising from the net investment hedging instruments in an overseas operation are recorded in other comprehensive incomes and can be recognized in the profits and losses at the current period only when the net investment is disposed; and ③ Exchange differences arising from changes in the carrying balances other than the amortized costs of foreign currency monetary items available for sale are recorded in other comprehensive incomes.

Foreign currency non-monetary items measured at historical costs are translated into RMB at the spot exchange rate on the transaction date. The foreign currency non-monetary items measured at the fair value are translated at the spot exchange rate on the fair value confirming date, from which the exchange difference is treated as change in fair value (including change in exchange rate) and recorded in the profit and loss of the current period, or treated as other comprehensive incomes and recorded in the capital reserves.

(3) Translation of foreign currency financial statements

Where the consolidated financial statements involve an overseas operation and foreign currency monetary items form in a substantial basis on the net investment in the overseas operation, exchange differences arising from exchange rate changes are recorded in the "translation difference of foreign currency statements" item under the owners' equity item; and recorded in the profits and losses at the reporting period of the disposal when the overseas operation is disposed.

The foreign currency financial statements of an overseas operation are translated in RMB in accordance with the following methods: 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. The opening retained profit is the closing retained profit as of the previous year after translation; The closing retained profit is measured and stated according to profit distribution items after translation; And the difference between the asset items and the summation of the liability and shareholders' equity items after translation, as the translation difference of foreign currency statements, is recognized in other comprehensive incomes and is presented separately under the shareholders' equity item in the balance sheet. Where an overseas operation is disposed and the Group's control on the overseas operation ceases, the foreign currency

statement translation difference in relation to the overseas operation and presented under the shareholders' equity items in the balance sheet is, all or according to the disposal rate of the overseas operation, transferred to the profits and losses at the reporting period comprising the disposal.

Foreign currency cash flows and cash flows generated by overseas subsidiaries are translated at the average exchange rate for the current period on the date when the cash flow is generated. The influence on cash due to change of exchange rate shall be presented separately under the cash flow statement.

The opening amounts and the actual amounts in the previous year are presented on the basis of the translated financial statements for the previous year.

7. Financial instruments

(1) Ascertainment of fair values of financial assets and liabilities

The "fair value" refers to the amount, at which both parties to a transaction who are familiar with the condition exchange assets or clear off debts under fair conditions. As for the financial instrument for which there is an active market, the Group determines its fair value using the quoted price in the active market. The quoted prices in the active market refer to the prices, which are easily available from the stock exchange, brokers, industry associations, pricing service institutions, etc. at a fixed term, and which represent the prices at which actually incurred market transactions are made under fair conditions. Where there is no active market for a financial instrument, the Group adopts value appraisal techniques to determine 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..

(2) Classification, recognition and measurement of financial assets

Financial assets bought in and sold out in the conventional way are recognized and de-recognized in accordance with the transaction dates. In the initial recognition, financial assets are divided into financial assets measured at fair values and whose changes are recorded in current profits and losses, held-to-maturity investments, loans and accounts receivables, and available-for-sale financial assets. In the initial recognition, a financial asset is measured at its fair value. For a financial asset measured at fair value and whose changes are recorded in current gains and losses, the relevant trading expenditures are directly recorded in the gains and losses at the current period. And the trading expenditures for the other financial assets are recorded in the initially recognized amount.

① Financial assets measured at fair values and whose changes are recorded in current profits and losses

Such financial assets include transactional financial assets and financial assets designated to be measured at fair values and whose changes are recorded in current gains and losses. The Group's financial assets measured at fair values and whose changes are recorded in current profits and losses are all transactional financial assets.

A transactional financial asset refers to a financial asset meeting any of the following requirements: (1) The purpose to acquire the financial asset is mainly for selling or repurchase of it in the near future; (2) Forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the Group may manage the combination by way of short-term profit making in the near future; and (3) Being a derivative instrument, excluding the designated derivative instruments which are effective hedging instruments,

or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments.

A transactional financial asset is subsequently measured at the fair value. The gains and losses arising from the fair value changes, as well as the dividend and interest incomes from the financial asset, are recorded in the gains and losses for the current period.

② Held-to-maturity investments

A held-to-maturity investment refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the Group holds for a definite purpose or the Group is able to hold until its maturity.

A held-to-maturity investment is subsequently measured according to the amortized cost using the actual interest rate method. The gains or losses arising from de-recognition, impairment or amortization of the investment are recorded in the profits and losses for the current period.

The actual interest rate method refers to the method by which the post-amortization costs and the interest incomes of different installments or interest expenses are calculated in light of the actual interest rates of the financial assets or financial liabilities (including a set of financial assets or financial liabilities). The actual interest rate refers to the interest rate adopted to cash the future cash flow of a financial asset or financial liability within the predicted term of existence or within a shorter applicable term into the current carrying amount of the financial asset or financial liability.

When calculating the actual interest rate, the Group predicts the future cash flow (not taking into account the future credit losses) on the basis of taking into account all the contractual provisions concerning the financial asset or financial liability. The various fee charges, trading expenses, reduced values, premiums, etc., which are paid or collected by the parties to a financial asset or financial liability contract and which form a part of the actual interest rate, are also taken into account in the determination of the actual interest rate.

③ Loans and accounts receivable

Loans and accounts receivable refer to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo amount is fixed or determinable. The financial assets defined by the Group as loans and accounts receivable include notes receivable, accounts receivable, interest receivable, dividend receivable, other receivables, etc..

Loans and accounts receivable are subsequently measured according to the amortized cost using the actual interest rate method. The gains or losses arising from de-recognition, impairment or amortization of the loans and accounts receivable are recorded in the profits and losses for the current period.

④ Available-for-sale financial assets

Available-for-sale financial assets include the non-derivative financial assets which are designated as available for sale when they are initially recognized, as well as the financial assets other than the financial assets measured at fair values and whose changes are recorded in current gains and losses, loans and accounts receivable and held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at their fair values. Impairment losses and the exchange differences of foreign currency monetary financial assets in relation to the amortized cost are recorded in the profits and losses for the current period. Other gains or losses arising from fair value changes are recognized as other comprehensive incomes and recorded in the capital reserves,

and transferred out and recorded in the profits and losses for the current period when the financial asset is de-recognized.

Interest obtained during the period of holding an available-for-sale financial asset and the cash dividends declared and distributed by an invested party are recorded in investment gains.

(3) Impairment of financial assets

For the financial assets other than the financial assets measured at fair values and whose changes are recorded in current gains and losses, the Group runs a check on their carrying amounts on every balance sheet date. Where there is any objective evidence proving that such a financial asset has been impaired, an impairment provision is made.

The Group carries out a separate impairment test for every financial asset which is individually significant. As for a financial asset which is individually insignificant, an impairment test is carried out separately or in the financial asset group with similar credit risk. Where the financial asset (individually significant or insignificant) is found not impaired after the separate impairment test, it is included in the financial asset group with similar credit risk and tested again on the group basis. Where the impairment loss is recognized for an individual financial asset, it is not included in the financial asset group with similar credit risk for an impairment test.

① Impairment of held-to-maturity investments, loans and accounts receivable

Where a financial asset measured on the basis of costs or amortized costs is impaired, the carrying amount of the said financial asset is written down to the current value of the predicted future cash flow. The amount written down is recognized as the impairment loss of the asset and is recorded in the profits and losses for the current period. Where a financial asset is recognized as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment losses as originally recognized are reversed. The reversed carrying amount of the said financial asset does not exceed the amortized cost of the said financial asset on the day of reverse under the assumption that no provision is made for the impairment.

② Impairment of available-for-sale financial assets

Where an available-for-sale financial asset is impaired, the accumulative losses arising from the decrease of the fair value of the capital reserve which is directly included are transferred out and recorded in the profits and losses for the current period. The accumulative losses transferred out are the balance obtained from the initially obtained cost of the said financial asset after deducting the principals as taken back, the amortized amount, the current fair value and the impairment loss originally recorded in the profits and losses.

Where the impairment loss has been recognized for an available-for-sale financial asset, if, within the accounting periods thereafter, there is any objective evidence proving that the value of the said financial asset has been restored and the restoration is objectively related to the events that occur after the impairment loss was recognized, the originally recognized impairment loss is reversed. The impairment losses on the available-for-sale equity instrument investments are reversed and recognized as other comprehensive incomes, and the impairment losses on the available-for-sale liability instruments are reversed and recorded in the profits and losses for the current period.

The impairment loss 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 investment and which must be settled by delivering the said equity investment, is not reversed.

(4) Recognition and measurement of financial asset transfers

Where a financial asset satisfies any of the following requirements, the recognition of it is terminated:

① The contractual rights for collecting the cash flow of the said financial asset are terminated; ② The said financial asset has been transferred and nearly all of the risks and rewards related to the ownership of the financial asset to the transferee; or ③ The said financial asset has been transferred. And the Group has ceased its control on the said financial asset though it neither transfers nor retains nearly all of the risks and rewards related to the ownership of the financial asset.

Where the Group neither transfers nor retains nearly all of the risks and rewards related to the ownership of a financial asset, and it does not cease its control on the said financial asset, it recognizes the relevant financial asset and liability accordingly according to the extent of its continuous involvement in the transferred financial asset. The term "continuous involvement in the transferred financial asset" refers to the risk level that the enterprise faces resulting from the change of the value of the financial asset.

If the transfer of an entire financial asset satisfies the conditions for stopping recognition, the difference between the amounts of the following 2 items is recorded in the profits and losses of the current period: (1) The book value of the transferred financial asset; and (2) The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in other comprehensive incomes.

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the book value of the transferred financial asset is apportioned between the portion whose recognition has been stopped and the portion whose recognition has not been stopped according to their respective relative fair value, and the difference between the amounts of the following 2 items is included into the profits and losses of the current period: (1) The summation of the consideration received from the transfer and the portion of the accumulative amount of changes in the fair value originally recorded in other comprehensive incomes which corresponds to the portion whose recognition has been stopped; and (2) The amortized carrying amounts of the aforesaid amounts.

(5) Classification and measurement of financial liabilities

In the initial recognition, financial liabilities are divided into the financial liabilities measured at fair values and whose changes are recorded in current gains and losses and other financial liabilities. Financial liabilities are initially recognized at their fair values. As for a financial liability measured at fair value and whose changes are recorded in current gains and losses, the relevant trading expense is directly recorded in the profits and losses for the current period. As for other financial liabilities, the relevant trading expenses are recorded in the initially recognized amounts.

① Financial liabilities measured at fair values and whose changes are recorded in current gains and losses

Such financial liabilities are divided into transactional financial liabilities and financial liabilities designated to be measured at fair values and whose changes are recorded in current gains and losses in the initial recognition under the same conditions where such financial assets are divided into transactional financial assets and financial assets designated to be measured at fair values and whose changes are recorded in current gains and losses in the initial recognition.

Financial liabilities measured at fair values and whose changes are recorded in current gains and losses are subsequently measured at their fair values. Gains or losses arising from the fair value changes, as well as the dividend and interest expenses in relation to the said financial liabilities, are recorded in the profits and losses for the current period.

② Other financial liabilities

As for a derivative financial liability connected to an equity instrument for which there is not quoted price in an active market and whose fair value cannot be reliably measured and which must be settled by delivering the equity instrument, it is subsequently measured on the basis of costs. Other financial liabilities are subsequently measured according to the amortized cost using the actual interest rate method. Gains or losses arising from de-recognition or amortization of the said financial liabilities are recorded in the profits and losses for the current period.

(6) De-recognition of financial liabilities

Only when the prevailing obligations of a financial liability are relieved in all or in part may the recognition of the financial liability be terminated in all or partly. Where the Group (debtor) enters into an agreement with a creditor so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it terminates the recognition of the existing financial liability, and at the same time recognizes the new financial liability.

Where the recognition of a financial liability is totally or partially terminated, the enterprise concerned shall include into the profits and losses of the current period for the gap between the book value which has been terminated from recognition and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed)

(7) Derivative instrument and embedded derivative instrument

Derivative instrument shall be initially measured at its fair value on the signing date for relevant contracts, and made the follow-up measurement at fair value. Except those are designated as hedging instrument with high effectiveness of hedging, and the gain/loss from the changes in the fair value is fixed in the recorded period by the nature of hedging relationship in accordance with the requirements of hedging accounting, gain/loss from the changes in the fair value of the other derivative instrument shall be recorded into gain/loss at current period.

Where a mixed instrument including an embedded derivative instrument fails to be designated as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses, and it can simultaneously meet the two conditions that there is no close relationship between it and the principal contract in terms of economic features and risks, as well as there is no close relationship between it and the principal contract in terms of economic features and risks. Then the embedded derivative instrument shall be separated from the mixed instrument and treated as an independent derivative instrument.

Where it is impossible to make an independent measurement when it is obtained or subsequently on the balance sheet date, the mixed instrument shall be designated entirely as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses.

(8) The offset of financial assets and financial liabilities

When the Group has the legal right to offset the confirmed financial assets and financial liabilities, and can execute this legal right now, meanwhile, the Group plans to settle them at their net amount or realize the financial assets and pay off the financial liabilities at the same time, the financial assets and financial liabilities should be listed in the balance sheet by the amount after their offset with each other. Apart from this, the financial assets and financial liabilities should be listed in the balance sheet respectively and should not offset with each other.

(9) Equity instruments

The "equity instruments" refers to the contracts which can prove that the Group holds the surplus equities of the assets after the deduction of all the debts. The transaction cost from issuance of equity instruments by the combining party in the business combination shall offset the premium income of equity instrument, if it is not enough to offset, the difference should be offset from retained profits. For other equity instruments, the consideration received in the issuance after deducting the transaction cost shall be recorded in the owners' equity.

The owners' equity decreased from the Group's various distribution (excluding the dividend distribution) to the owners of equity instruments, the Group shall not make it as the change in the fair value of equity instruments.

8. Receivables

Receivables includes account receivables and other accounts receivables.

(1) Recognition of provision for bad debts:

The Group shall test the carrying amount of receivables on the balance sheet date. Where there is any objective evidence proving that such receivables has been impaired, an impairment provision shall be made.

- ① debtor has serious financial difficult;
- ② debtor goes against the contract clause (for instance, breach of faith or overdue paying interests or principal);
- ③ debtors has a great probability of bankruptcy or other financial reorganization;
- ④ other objective evidence proving such accounts receivable has been impaired;

(2) Withdraw method of provision for bad debts

① The recognition criteria and method of individual provision for bad debts of receivables that are individually significant

The Group recognized the receivables with amount above RMB 5 million as receivables with significant single amounts.

The Group made an independent impairment test on receivables with significant single amounts, the financial assets without impairment by independent impairment test should be included in financial assets portfolio with similar credit risk to take the impairment test. Receivables was recognized with impairment should no longer be included in receivables portfolio with similar credit risk to take the impairment test.

② The recognition and method of provision for bad debts of receivables by credit risk portfolio

Recognition of credit risk portfolio

Receivables that are not individually significant and individually significant but without impairment by independent impairment test, are grouped on the basis of similarity and relevance of credit risk. This credit risk usually reflects the debtor's ability to repay all the due accounts in accordance with contract for such assets, which also are related with the measurement on future cash flow of the examined assets.

Recognition of different portfolio:

Item	Recognition of portfolio	
Aging portfolio	Provision for bad debts by aging analysis	
In the portfolio, provision for bad debts by aging analysis		
Age	Proportion of provision for bad	Proportion of provision for bad

	debts of accounts receivable (%)	debts of other accounts receivable (%)
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 Receivables with insignificant amount but being individually withdrawn the provision for bad debts
The Group made independent impairment test on receivables with insignificant amount but with the following characteristics, 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 book value so as to withdraw provision for bad debts: receivables exist dispute with the other parties or involving lawsuit and arbitration; receivables exist obvious indication showing that the debtors are likely to fail to perform the duty of repayment, etc..

(3) Reversal of provision for bad debts

If there is any objective evidence proving that the value of the said receivables has been restored, and it is objectively related to the events occurred 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. Inventory is accounted by weight average method upon receiving and giving. 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 out-gone.

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

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. The net realizable value of inventories shall be fixed on the basis of valid evidence as well as under consideration of purpose of inventories and the effect of events after balance-sheet-date.

On the balance sheet date, the inventories shall be measured according to the cost or the net realizable value, whichever is lower. If the net realizable value is lower than the cost, it shall withdraw the depreciation reserves for inventories, which was withdrawn in accordance with the balance that the cost of individual inventory item exceeding the net realizable value.

After withdrawing the depreciation reserves for inventories, if the factors, which cause any write-down

of the inventories, have disappeared, causing the net realizable value of inventories is higher than its carrying amount,

the amount of write-down shall be reversed from the original amount of depreciation reserve for inventories. 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) Recognition of investment cost

The initial cost of the long-term equity investment formed in business combination shall be ascertained in accordance with the following provisions: For the business combination under the same control, it shall regard the share of the carrying amount of the owner's equity of the combined party on the date of combination as the initial cost of the long-term equity investment. For the business combination under different control, the combination costs shall be the sum of the fair values of the assets paid, the liabilities incurred or assumed and the equity securities issued by the Company; the commission fees for audit, law services, assessment & consultancy services and other relevant expenses occurred in the business combination by the combining party, shall be recorded into current profits and losses upon their occurrence; the transaction expense from the issuance of equity securities or bonds securities which are as consideration for combination by the combining party, should be recorded as the initial amount of equity securities and bonds securities.

Besides the long-term equity investments formed by business combination, the other long-term equity investments shall be initially measured by cost, the cost is fixed in accordance with the ways of gaining, such as actual cash payment paid by the Group, the fair value of equity securities issued by the Group, the agreed value of the investment contract or agreement, the fair value or original carrying amount of exchanged assets from non-monetary assets exchange transaction, the fair value of the long-term equity investments, etc. The expenses, taxes and other necessary expenditures directly related with gaining the long-term equity investments shall also be recorded into investment cost.

(2) Follow-up measurement of long-term equity investment and recognized method of profits and losses

The long-term equity investment that the Company does not have joint control or 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 adopting the cost method; a long-term equity investment that the Company has joint control or significant influences over the invested entity shall be measured by employing the equity method; a long-term equity investment that the Company does not have control, joint control or significant influence on the invested entity, as well as its fair value can be reliably measured, it shall be accounted as financial assets available-for-sale.

Moreover, long-term equity investment adopting the cost method in the financial statements, and which the Company has control on invested entity.

① Long-term equity investment measured by adopting cost method

The price of a long-term equity investment measured by adopting the cost method shall be included at its initial investment cost, the return on investment at current period shall be recognized in accordance with the cash dividend or profit announced to distribute by the invested entity, except the announced but not distributed cash dividend or profit included in the actual payment or consideration upon gaining the investment.

② Long-term equity investment measured by adopting 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.

When measured by adopting equity method, the investment profits or losses at current period shall be the attributable share of the net profits or losses of the invested entity. The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, and in accordance with the accounting policies and accounting periods, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. For the profits and losses of unrealized insider dealing between the Group and joint-operative enterprise or co-operative enterprise, the investment profits and losses shall be recognized after the part attributable to the Group calculated by proportion of shares held being offset. However, if the losses of unrealized insider dealing between the Group and joint-operative enterprise or co-operative enterprise was attributed to the impairment losses of the transferred assets in accordance with the Accounting Standards for Enterprises No. 8— Asset Impairment, which shall not be offset. The other comprehensive profits from invested entity shall be recognized as other comprehensive profits after adjusting the book value of long-term equity investment, and then recorded into capital reserves

The Group 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. However, if the Group has the obligation to undertake extra losses, which shall be recognized as the estimated liabilities in accordance with the estimated duties and then recorded into investment losses at current period. If the invested entity realizes any net profits later, the Group 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.

For the long-term equity investment on joint-enterprise and co-operative enterprise held by the Group before the initial execution of New Accounting Standards for Enterprise as 1 Jan. 2007, if there existed the balance of debtor for equity investment related with such long-term equity investment, which shall be recorded into current profits and losses with the amount by straight-line amortization in the remained period.

③ Acquiring shares of minority interest

In the preparation for the financial statements, the balance existed between the long-term equity investment increased by acquiring shares of minority interest and the attributable net assets on the subsidiary calculated by the increased shares held since the purchase date (or combination date), the capital reserves shall be adjusted, if the capital reserves are not sufficient to offset, the retained profits shall be adjusted.

④ Disposal of long-term equity investment

In the preparation of financial statements, the Company disposed part of the long-term equity investment on subsidiaries without losing its controlling right on them, the balance between the disposed price and attributable net assets of subsidiaries by disposing the long-term equity investment shall be recorded into owners' equity; where the Company loses the controlling right by disposing part of long-term equity investment on such subsidiaries, it shall be treated in accordance with the relevant accounting policies in Note IV. 4 (2)— Method on preparation of combined financial statements.

For other ways on disposal of long-term equity investment, the balance between the book value of the disposed equity and its actual payment gained shall be recorded into current profits and losses; for the long-term equity investment measured by adopting equity method, the other comprehensive income originally recorded into owners' equity shall be transferred into current profits and losses by proportions upon the disposal. The remained equity shall be recognized as long-term equity investment or other relevant financial assets in accordance with the book value, and carried out the follow-up measurement in accordance with the above accounting policies for the long-term equity investment or financial assets. If the measurement method of remained equity is transferred from cost method to equity method, it shall be subject to retrospective adjustment in accordance with relevant rules and stipulations.

(3) Recognition basis of joint control and significant influences

The term "control" refers to the power to determine the financial and operating policies of an enterprise and obtain benefits from its operating activities of the enterprise. The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing the control power over the relevant important financial and operating decisions. The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. When ascertaining whether or not it is able to control or have significant influences on an invested entity, an enterprise shall take into consideration the invested enterprises' current convertible corporate bonds and current executable warrants held by the investing enterprise and other parties, as well as other potential factors concerning the voting rights.

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

The Group 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. Where there is sign of impairment, the Group shall estimate the recoverable amount of the long-term equity investment. Where the recoverable amount of the long-term equity investment is lower than its book value, which balance shall be withdrawn the provision for impairment and recorded into current profits and losses.

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 term "investment real estates" refers to the real estates held for generating rent and/or capital appreciation. It includes 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, the right to use any building which has

already been rented and so on.

The initial measurement of the investment real estates shall be made at its cost. For the follow-up cost of the investment real estates, where the economic benefits pertinent to this investment real estates are likely to flow into the enterprise and its cost can be reliably measured, which shall be recorded into the cost of investment real estates. The other follow-up cost shall be current profits and losses upon the occurrence.

The Group made a follow-up measurement on the investment real estate through the cost pattern, and made the depreciation and amortization by the same policies for Houses & Buildings or the use right of land.

For the details of the testing method for impairment and withdraw method for impairment provision on investment real estates, please refer to Note IV. 17— Impairment of non-current non-financial assets.

When any self-use real estate or real estate for inventory is converted to investment real estate, or investment real estate is converted to self-use real estate or real estate, the book value of the real estate prior to the conversion shall be entry value after conversion.

If an investment real estate is disposed of, or if it withdraws permanently from use and if no economic benefit will be obtained from the disposal, the recognition of it as an investment real estate shall be terminated. When the Group sells, transfers or discards any investment real estate, or when any investment real estate of the Group is damaged or destroyed, the Group shall deduct the book value of the investment real estate as well as the relevant taxes from the disposal income, and include the amount in the current profits and losses.

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.

(2) Category of fixed assets and depreciation

The initial measurement of a fixed asset shall be made at its cost after considering the effect of expected discard expenses.

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

Category of fixed assets	Useful life (Y)	Expected net salvage value	Annual depreciation rate
Housing and building	5-20	5% 10	19.00 24.50
Machinery equipments	10-13	5-10	6.92-9.50
Transportation vehicle	5	5-10	19.00-18.00
Electronic equipments and other	5	5-10	19.00-18.00

The "expected net salvage value" refers to the expected amount that the Group may obtain from the current disposal of a fixed asset after deducting the expected disposal expenses at the expiration of its expected useful life.

(3) Testing method of impairment and withdrawal method of provision for impairment on fixed assets
For details, please refer to Note IV. 17— Impairment of non-current non financial assets.

(4) Recognition basis and pricing method of fixed assets by finance lease

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. Its ownership may or may not eventually be transferred. The fixed assets by finance lease shall adopt the same depreciation policy for self-owned fixed assets. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

(5) Other explanations

The follow-up expenses related to a fixed asset, if the economic benefits pertinent to this fixed asset are likely to flow into the enterprise and its cost can be reliably measured, shall be recorded into cost of fixed assets and ultimately recognized as the book value of the replaced part; otherwise, they shall be included in the current profits and losses.

When the Group sells, transfers or discards any fixed assets, or when any fixed assets of the Group is damaged or destroyed, the Group shall deduct the book value of the fixed assets as well as the relevant taxes from the disposal income, and include the amount in the current profits and losses.

The Group shall check the useful life, expected net salvage value and depreciation method of the fixed assets at the end of the year at least, if there is any change, it shall be regarded as a change of the accounting estimates.

13. Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, borrowing costs that are eligible for capitalization before the fixed assets being ready for their intended use and other relevant costs. Construction in progress is transferred to fixed assets when the assets are ready for their intended use

For details of the testing method of impairment and withdraw method of impairment provision on construction in progress, please refer to Note IV. 17— Impairment of non-current non financial assets.

14. Borrowing costs

The borrowing costs shall include 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 an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall start to be capitalized when the asset disbursements have already incurred, the borrowing costs has already incurred and the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started; When the qualified asset under acquisition and construction or production is ready for the intended use or sale, it shall stop to be capitalized. Other borrowing costs shall be recognized as costs upon their occurrence.

The to-be-capitalized amount of interests shall be determined in light of the actual interests 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; the enterprise shall calculate and determine the to-be-capitalized amount 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.

During the period of capitalization, the exchange balance on foreign currency special borrowings shall be capitalized; the exchange balance on foreign currency general borrowings shall be recorded into current profits and losses.

The term “assets eligible for capitalization” refers to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

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 until the acquisition and construction or production of a qualified asset resume again

15. Intangible assets

(1) Intangible assets

The term "intangible asset" refers to the identifiable non-monetary assets possessed or controlled by enterprises which have no physical shape.

The intangible assets shall be initially measured according to its cost. The costs related with the intangible assets, if the economic benefits related to intangible assets are likely to flow into the enterprise and the cost of intangible assets can be measured reliably, shall be recorded into the costs of intangible assets; otherwise, it shall be recorded into current profits and losses upon the occurrence.

The use right of land gained is usually measured as intangible assets. For the self-developed and constructed factories and other constructions, the related expenditures on use right of land and construction costs shall be respectively measured as intangible assets and fixed assets. For the purchased houses and buildings, the related payment shall be distributed into the payment for use right of land and the payment for buildings, if it is difficult to be distributed, the whole payment shall be treated as fixed assets.

For intangible assets with a finite service life, from the time when it is available for use, the cost after deducting the sum of the expected salvage value and the accumulated impairment provision shall be amortized by straight line method during the service life. While the intangible assets without certain service life shall not be amortized.

At the end of period, the Group shall check the service life and amortization method of intangible assets with finite service life, if there is any change, it shall be regarded as a change of the accounting estimates. Besides, the Group shall check the service life of intangible assets without certain service life, if there is any evidence showing that the period of intangible assets to bring the economic benefits to the enterprise can be prospected, it shall be estimated the service life and amortized in accordance

with the amortization policies for intangible assets with finite service life.

(2) 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.

Expenditures for research and development shall be recorded into current profits and losses upon the occurrence.

The development expenditures for its internal research and development projects of an enterprise may be confirmed as intangible assets when they satisfy the following conditions simultaneously, otherwise, it shall be recorded into current profits and losses.

- ① It is feasible technically to finish intangible assets for use or sale;
- ② It is intended to finish and use or sell the intangible assets;
- ③ 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;
- ④ 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
- ⑤ The development expenditures of the intangible assets can be reliably measured.

If the expenditures for research and expenditures for development can not be distinguished from each other, all the expenditures for research and development shall be recorded into current profits and losses.

(3) Testing method of impairment and withdraw method of impairment provision for intangible assets

For details, please refer to Note IV. 17— Impairment of non-current non financial assets.

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 amortized averagely within benefit period.

17. Impairment of non-current non-financial assets

For the non-current non-financial assets, such as fixed assets, construction in progress, intangible assets with finite service life, investment real assets measured by cost mode as well as long-term equity investment on subsidiaries, co-operative enterprise and joint-operative enterprise, etc., are tested for impairment if there is any indication that an asset may be impaired at the balance date. If there is any sign of possible assets impairment, the Group shall estimate the recoverable amount and made the impairment tests. No matter whether there is any sign of possible assets impairment, the good will, intangible assets without certain service life, intangible assets not ready for use shall be subject to impairment test every year.

If the result of the impairment test indicates that the recoverable amount of the asset is less than its book value, a provision for impairment and an impairment loss are recognized for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The fair value of an asset shall be determined in light of the basis of the price

as stipulated in the sales agreement. Where there is no sales agreement but there is an active market of assets, the fair value of the asset shall be determined according to the price bidden by the buyer of the asset; Where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available. The disposal expenses shall include the relevant legal expenses, relevant taxes, trucking charge as well as the direct expenses for bringing the assets into a marketable state. The current value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset. A provision for asset Impairment is determined and recognized on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

For the goodwill separately listed in the financial statements, during the impairment test, the book value of this goodwill is allocated to the related asset group or groups of asset group which is expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or groups of asset group including the goodwill allocated is lower than its book value, the corresponding impairment loss is recognized. The impairment loss is first deducted from the book value of goodwill allocated to the asset group or groups of asset group, and then deducted from the book value of the remaining assets of the asset group or groups of asset group pro rata with goodwill.

Once the asset impairment loss mentioned above is recognized, it is not allowed to be reversed even if the value is recovered in the subsequent periods.

18. Revenue

(1) Revenue from selling goods

No revenue from selling goods may be recognized unless the following conditions are met simultaneously: the significant risks and rewards of ownership of the goods have been transferred to the buyer by the enterprise; the enterprise retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; the relevant amount of revenue can be measured in a reliable way; the relevant economic benefits may flow into the enterprise; and the relevant costs incurred or to be incurred can be measured in a reliable way.

(2) Revenue from providing labor services

If an enterprise can reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method on the balance sheet date. The percentage-of-completion is determined by the proportion of the costs incurred against the estimated total costs.

The outcome of a transaction concerning the providing of labor services can be measured in a reliable way, means that the following conditions shall be met simultaneously: ① The amount of revenue can be measured in a reliable way; ② The relevant economic benefits are likely to flow into the enterprise; ③ The schedule of completion under the transaction can be confirmed in a reliable way; ④ The costs incurred or to be incurred in the transaction can be measured in a reliable way.

If the Company can not 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 compensation amount for the cost of labor services shall be recognized as the revenue from providing labor service, and the cost of labor service incurred shall be as the current cost; if the cost of labor services incurred is not expected to compensate, no revenue from the providing of labor services may be recognized.

Where a contract or agreement signed between Group and other enterprises concerns selling goods and providing of labor services, if the part of sale of goods and the part of providing labor services can be distinguished from each other and can be measured respectively, the part of sale of goods and the part of providing labor services shall be treated respectively. If the part of selling goods and the part of providing labor services can not be distinguished from each other, or if the part of sale of goods and the part of providing labor services can be distinguished from each other but can not be measured respectively, both parts shall be conducted as selling goods.

(3) Royalty revenue

In accordance with relevant contract or agreement, the amount of royalty revenue should be recognized as revenue on accrual basis.

(4) Interest revenue

The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the Group's monetary fund is used by others and the actual interest rate;

19. Government subsidies

A government subsidy means the monetary or non-monetary assets obtained free by the Group from the government, but excluding the capital invested by the government as the owner of the enterprise. Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

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. The government subsidies measured at their nominal amounts shall be directly included in the current profits and losses.

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. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: 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 those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current profits and losses.

Where it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: 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; or if there is no deferred income concerned to the government subsidy, it shall be directly included in the current profits and losses.

The government capital investment is not government subsidies.

20. Deferred income tax assets and deferred income tax liabilities

(1) Current income tax

On the balance sheet date, the current income tax liabilities (or assets) incurred in the current period or prior periods shall be measured on the basis of the expected payable (refundable) amount of income tax, which is calculated according to the tax law. The taxable income which is the basis to calculate current income tax is the pre-tax accounting profits at the period after adjustment in accordance with the stipulations of relevant tax laws

(2) Deferred income tax assets and deferred income tax liabilities

The balance between the book value of deferred tax assets and deferred tax liabilities and its taxable amount, as well as the temporary difference between the book value of those unrecognized as assets and liabilities but with clear taxable amount and the taxable amount should adopt law of liabilities for balance sheet to recognize deferred income tax assets and deferred income tax liabilities.

No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill, the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). Besides, no deferred tax assets is recognized for the taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint enterprises, and the investing enterprise can control the time of the reverse of temporary differences as well as the temporary differences are unlikely to be reversed in the expected future. Otherwise, the Group should recognize the deferred income tax liabilities arising from other taxable temporary difference.

No deferred taxable assets should be recognized for the deductible temporary difference of initial recognition of assets and liabilities arising from the transaction which is not business combination, the accounting profits will not be affected, nor will the taxable amount or deductible loss be affected at the time of transaction. Besides, no deferred taxable assets should be recognized for the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises, which are not likely to be reversed in the expected future or is not likely to acquire any amount of taxable income tax that may be used for making up such deductible temporary differences. Otherwise, the Company shall recognize the deferred income tax assets arising from a deductible temporary difference basing on the extent of the amount of the taxable income that is likely to be acquired to make up such deductible temporary differences

For any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred income tax asset shall be determined to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

On the balance sheet date, the deferred income assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

The book value of deferred income tax assets shall be reviewed at each balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of the deferred income tax asset, the book value of the deferred income tax assets shall be written down. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

(3) Income tax expense

Income tax expense includes current income tax and deferred income tax.

Except the current income tax and deferred income tax, which was recognized as other comprehensive income or related with the transactions or events directly recorded in the owner's equities, should be recorded in other comprehensive income or owners' equity, and the book value of deferred income tax from business combination after adjusting the good will, the other expenses or income of current income tax and deferred income tax should be recorded into current profits and losses.

(4) The offset of income tax

When the Group has the legal right to settle with net amount, and intends to settle, purchase assets, liquidate liabilities with net amount at the same time, the current income tax assets and current income tax liabilities of the Group shall be listed by the net amount after the offset.

When the Group has the legal right to settle current income tax assets and current income tax liabilities with net amount, as well as the deferred income tax assets and deferred income tax liabilities are related with the income tax that the same taxation authority collects towards the same tax payer or different tax payer, but during every period of reversal for significant deferred income tax assets and liabilities in the future, if the tax payer intends to settle the current income tax assets and liabilities or purchase assets and liquidate liabilities with the net amount, the Group's deferred income tax assets and deferred income tax liabilities shall be listed as the net amount after offset.

21. Leasing

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. The ownership of it may or may not eventually be transferred. Except financial lease, the other leases are operating lease.

(1) The Group records the operating lease as the lessee

The rental payment from operating leases shall be recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred by a 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.

(2) The Group records the operating lease as the lessor

The rental income from operating leases shall be recorded by the lessor in the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs with large amount shall be capitalized upon the occurrence, and recorded into current profits and losses by using the recognition basis for rental income method over each period of the lease term; the initial direct costs with small amount shall be recorded into current profits and losses upon occurrence. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(3) The Group records the finance lease as the lessee

On the lease beginning date, a lessee 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. Otherwise, the initial direct costs incurred during the process of lease negotiating and signing the leasing agreement which can be included into the items of lease shall be recorded in the asset value of the current period. The balance that the minimum lease payment minus the unrecognized financing charges should be listed as

long-term liabilities and long-term liabilities due within 1 year respectively.

The unrecognized financing charges should be recorded into current financing charges measured by adopting effective interest method during the lease period. The contingent rents should be recorded into current profits and losses upon occurrence.

(4) The Group records the finance lease as the lessor

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. A lessor shall present the balances between the financial lease income minus the unrecognized financing income as long-term creditor's right and long-term creditor's right due within 1 year respectively.

The unrealized financing income should be recorded into current financing income measured by adopting effective interest method during the lease period. The contingent rents should be recorded into current profits and losses upon occurrence.

22. Employee compensation

The Group recorded the employee compensation payables as liabilities during the service period of employee.

The Group joins in the employee social security system established by the government institution in accordance with relevant rules and laws, which includes the basic retirement insurance, medical insurance and other social insurances, as well as the housing accumulation fund, and the relevant expenditures should be recorded into cost of relevant assets or current profits and losses upon the occurrence.

If an enterprise cancels the labor relationship with any employee prior to the expiration of the relevant labor contract or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, and the following conditions are met concurrently, the enterprise shall recognize the expected liabilities incurred due to the compensation for the cancellation of the labor relationship with the employee, and shall simultaneously record them into the profit or loss for the current period: the enterprise has formulated a formal plan on the cancellation of labor relationship or has brought forward a proposal on voluntary layoff and will execute it soon; and the enterprise is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal. The inside employee retirement plan is treated by adopting the same principle with the above dismissal welfare. The group would recorded the salary and the social security insurance fees paid and so on from the employee's service terminative date to normal retirement date into current profits and losses (dismissal welfare) under the condition that they meet the recognition conditions of estimated liabilities.

23. Change in major accounting policies and accounting estimates

(1) Change in accounting policies

No accounting policy changed in the Group.

(2) Change in accounting estimates

No accounting estimates changed in the Group.

24. Corrections of prior accounting errors

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

25. Critical accounting judgments and estimates

Due to the inside uncertainty of operating activity, the Group needed to make judgments, estimates and assumption on the book value of the accounts without accurate measurement during the employment of accounting policies. And these judgments, estimates and assumption were made basing on the prior experience of the senior executives of the Group, as well as in consideration of other factors. These judgments, estimates and assumption would also affect the report amount of income, costs, assets and liabilities, as well as the disclosure of contingent liabilities on balance sheet date. However, the uncertainty of these estimates were likely to cause significant adjustment on the book value of the affected assets and liabilities.

The Group would check periodically the above judgments, estimates and assumption on the basis of continuing operation. For the changes in accounting estimates only affected on the current period, the influence should be recognized at the period of change occurred; for the changes in accounting estimates affected the current period and also the future period, the influence should be recognized at the period of change occurred and future period.

On the balance sheet date, the Group needed to make judgments, estimates and assumption on the accounts in the following important items:

(1) Categorization of leasing

In accordance with Accounting Standards for Enterprises No. 21 – Leasing, the Group categorized the leasing into operating lease and finance lease. During the categorization, the management level needed to make analysis and judgment on whether all the risk and compensation related with the leased assets had been transferred to the lessee, or whether the Group had already undertaken all the risk and compensation related with the leased assets.

(2) Provision for bad debts

In accordance with the accounting policies of accounts receivable, the Group measured the losses for bad debts by adopting allowance method. The impairment of accounts receivable was based on the appraisal of the recoverability of accounts receivable. The impairment of accounts receivable was dependent on the judgment and estimates. The actual amount and the difference of previous estimates would affect the book value of accounts receivable and the withdrawal and reversal on provision for bad debts of accounts receivable during the period of estimates being changed.

(3) Provision for falling price of inventories

In accordance with the accounting policies of inventories, for the inventories that the costs were more than the net realizable value as well as out-of-date and dull-sale inventories, the Group withdrew the provision for falling price of inventories on the lower one between costs and net realizable value. Evaluating the falling price of inventories needed the management level gain the valid evidence and take full consideration of the purpose of inventories, influence of events after balance sheet date and other factors, and then made relevant judgments and estimates. The actual amount and the difference of previous estimates would affect the book value of inventories and the withdrawal and reversal on provision for bad debts of inventories during the period of estimates being changed.

(4) The fair value of financial instrument

For the financial instruments without active market, the Group recognized the fair value by various

method. These evaluation methods included discounted cash flow mode analysis, etc.. The Group needed to estimate the future cash flow, credit risk, fluctuation rate of market and relativity and other factors, as well as choose the property discount rate. Due to the uncertainty of relevant assumptions, so their changes would affect the fair value of financial instrument.

(5) Provision for impairment of non-financial non-current assets

The Group made a judgment on the non-current assets other than financial assets whether they had any indication of impairment on the balance sheet date. For the intangible assets without finite service life, other than the annual impairment test, they should be subject to the impairment test when there was any indication of impairment. For other non-current non-financial assets, which should subject to impairment test when there was indication of impairment showing that the book value can't be recoverable.

When the book value of the assets or assets portfolio was more than the recoverable amount, which was the higher one between the net amount of fair value after deducting the disposal expenses and the discounted amount of the estimated future cash flow, it means impairment incurred.

The net amount of fair value after deducting the disposal expenses should be fixed the price in the sale agreement for similar assets in the fair transaction minus the increased costs directly attributable to the assets disposal.

When estimated the discounted value of future cash flow, the Group needed to make important judgment on the output, selling price, relevant costs and the discount rate for calculating the discounted amount, etc. When estimated the recoverable amount, the Group would adopt all the available documents, including the predicts for relevant output, selling price and relevant operating costs arising from reasonable and supportive assumptions.

The Group made the impairment test on goodwill at least one time per year, which required to predict the discounted amount of the future cash flow of the assets or assets portfolio with the distributed good will, for which, the Group needed to predict the future cash flow of the assets or assets portfolio, and adopt the property discounted rate to decide the discounted amount of future cash flow.

(6) Depreciation and amortization

For the investment real estate, fixed assets and intangible assets, the Group withdrew the depreciation and amortization by adopting the straight-line method during the service life after full consideration of the salvage value. The Group checked the service life periodically so as to decide the amount of depreciation and amortization at each reporting period. The service life was fixed by the Group in accordance with the previous experience of the similar assets and the expected technical update. If there was any significant change on the previous estimates, the depreciation and amortization expenses should be adjusted.

(7) Expenditures for development

When fixing the amount of capitalization, the management level of the Group needed to make assumption on the predicted future cash flow, property discounted rate and estimated beneficiary period for relevant assets.

(8) Deferred income tax assets

Within the limit that it was likely to have sufficient taxable profits to offset the losses, the Group recognized the deferred income tax assets by all the unused tax losses, which needed the management level of the Group to estimate time and amount of the future taxable profits incurred with many judgments, as well as integrate strategy of tax payment, to decide the amount of deferred income tax assets which should be recognized.

(9) Income tax

During the routine operating activities, there were some uncertainty in the ultimate tax treatment and calculation for parts of transactions. Some accounts of such transaction could be listed as pre-tax expenditures only after the approval of taxation authorities. If there were any differences between the ultimate result of recognition for these taxation matters and their initial estimates, the differences would affect the current income tax and deferred income tax at the period of ultimate recognition.

V. Taxation

1. Main taxes and tax rate

Category of taxes	Particulars on tax rates
VAT	Calculated the output tax at 17%, 13% of taxable income and paid the VAT by the amount after deducting the deductible withholding VAT at current period.
Business tax	Paid by 3%-5% of taxable business income
Urban maintenance and construction tax	Paid at 7%, 1% of the circulating tax actually paid
Enterprise income tax	Paid at 12.5%, 15%, 16.5%, 25% of taxable income respectively

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.

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 2010.

Luthai (Hong Kong) Co., Ltd. (hereinafter refers as 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

Unit: RMB'0000

Subsidiaries	Type	Registered place	Business nature	Registered capital	Business scope	Type of corporate	Legal representative	Organization code	Actual amount of investments at the period-end	Other essential investment
Beijing LufengSunshineG Armetnt Co., Ltd. (hereinafter referred to as "Lufeng Sunshine")	Wholly-owned subsidiary	Beijing	Wholesale and retail industry	1,000	Wholesale clothing, commodity; costume designing; service of technology diffusion	Limited liability company (sole corporation)	Liu Shizhen	55488176-X	1,000	
Beijing Sichuang Apparel Co., Ltd. ("Beijing Sichuang")	Holding subsidiary	Beijing	Wholesale and retail industry	3,500	Design, manufacturing and sale of garment	Limited liability company (Sino-foreign joint venture)	Liu Shizhen	105717748438	2,100	
Luthai (Hong Kong)	Wholly-owned subsidiary	Hong Kong	Wholesale and retail industry	HKD600	Import & export trade, collection of market information, information consultation	Limited liability company	Liu Shizhen		636.66	
Shanghai Luthai Textile Co., Ltd. (Shanghai Lutai)	Wholly-owned subsidiary	Shanghai	Wholesale and retail industry	500	Design, technology R&D of textile and garment; textile and garment retail	Limited liability company (sole corporation)	Liu Shizhen	56659750-4	500	
Xinjiang Luthai Harvest Cotton Co., Ltd. ("Xinjiang Luthai")	Holding subsidiary	Xinjiang	Manufacturing	14,653	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	Limited liability company	Liu Shizhen	75165238-4	8,240.07	

Lufeng Weaving & Dyeing Co., Ltd. (Lufeng Weaving & Dyeing)	Holding subsidiary	Zibo	Manufacturing	48,616	Production and sale of textile printing and dyeing products	Limited liability company (Joint Venture)	Liu Shizhen	76001835-0	36,462.00
Zibo Luqun Textile Co., Ltd. (Luqun Textile)	Wholly-owned subsidiary	Zibo	Manufacturing	16,822	Sale of cotton yarn	Limited liability company (sole corporation)	Liu Shizhen	76870633-4	17,178.46
Zibo Xinsheng Power Co., Ltd. (Xinsheng Power)	Wholly-owned subsidiary	Zibo	Manufacturing	16,243.56	Power, steam and hot water	Limited liability company (sole corporation)	Liu Shizhen	61329023-1	17,634.07

(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		Remark
Lufeng Sunshine	100	100	Yes					
Beijing Sichuang	60	60	Yes	1,551.72				
Luthai (Hongkong)	100	100	Yes					
Shanghai Luthai	100	100	Yes					
Xinjiang Luthai	58.24	58.24	Yes	12,255.76				
Lufeng Weaving & Dyeing	75	75	Yes	19,938.89				
Luqun Textile	100	100	Yes					
Xinsheng Power	100	100	Yes					

2. New subject combined into consolidation scope in the reporting period and subject that no longer combined into consolidation scope

Subject combined into consolidation scope this reporting period and subject that no longer combined into consolidation scope.

① Subsidy that newly combined into consolidation scope

Name	Net assets at period-end	Net profit this period
Lufeng Sunshine	10,211,950.94	211,950.94
Shanghai Luthai	5,000,000.00	

② Company that no longer combined into consolidation scope

Name	Disposal of net assets per day	Net profit from year-begin to disposal date
Beijing Luthai Shirt Co., Limited (“Beijing Luthai”)		-902,969.84
Shandong Luthai Huanzhong Pharmaceutical Co., Ltd (Luthai Huanzhong)	52,624,600.96	-3,846,487.07

In the reporting period, due to cancellation, Beijing Luthai would not write into consolidation scope; Luthai Huanzhong would not write into consolidation scope. (Note VI 3)

3. Subsidiaries that no longer held for the sale of equity that loss of control in the reporting period

Name of subsidy	date of sale	Method to recognize gains and losses on disposal
Luthai Huanzhong	2 Jun. 2010	The differences of the disposal consideration deducted net asset of the disposal equity the Company owned on the subsidy at the disposal date recorded into the book value on the consolidation sheet of the Company is recognized as disposal gains and losses

(1) Luthai Huanzhong

On 2 Jun. 2010, the Group invested in Yantai Rongchang Pharmaceutical Co., Ltd. (hereinafter refer to as “Rongchang Pharmaceutical”) with 100% of holding equity of Luthai Huanzhong, from which the Company obtained 5.55% equities of Rongchang Pharmaceutical. The date of sale recognized as the date that the Group lost control on net assets, control of finance and control of business decision of Luthai Huanzhong.

① Price of disposal and cash flow

Items	Amount
Price of disposal	55,282,600.00
Cash and cash equivalences received from disposal	
Less: Cash and cash equivalences held by Luthai Huanzhong	890,120.92
Net cash income from disposal	-890,120.92

② Net assets on disposal

Items	Net assets on the disposal date	Net assets on 31 Dec. 2009
Current assets	11,768,191.42	11,606,929.98
Non-current assets	54,528,048.77	56,581,280.13
Current liabilities	13,671,639.23	11,717,122.08
Non-current liabilities		

Total	52,624,600.96	56,471,088.03
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③ Account of disposal gains and losses

Items	Amount
Price of disposal	55,282,600.00
Less: Net assets	52,624,600.96
Equity of minority shareholders of Luthai Huanzhong	
Add: Amount of other comprehensive income related with Luthai Huanzhong transfer into current gains and losses	7,215,239.03
Investment gains and losses arising from disposal	9,873,238.07

④ Income, expense and profit of Luthia Huanzhong on disposal from current period-begin to period-end

Items	Amount
Income	6,876,339.29
Less: Cost and expense	10,731,989.93
Total profit	-3,846,237.07
Less: income tax expense	250.00
Net profit	-3,846,487.07

4. Exchange rate of foreign operating entities on main reporting items

Item	Assets and liabilities	
	31 Dec. 2010	1 Jan. 2010
Luthai (Hongkong)	HKD 1 = RMB 0.8509	HKD 1 = RMB 0.8805

Item	Income, expense and cash flow items	
	2010	2009
Luthai (Hongkong)	HKD 1 = RMB 0.8657	HKD 1 = RMB 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-begin refers to 1 Jan. 2010, and the year-end refers to 31 Dec. 2010. The current period refers to the year 2010, and the last year refers to the year 2009.

1. Monetary funds

Items	Closing amount			Opening amount		
	Original currency	Exchange rate	Translated to RMB	Original currency	Exchange rate	Translated to RMB
Cash on hand:			1,713,120.64			1,677,920.49
-RMB			1,489,594.04			1,444,059.37
-USD	6,429.65	6.6227	42,581.64	26,479.68	6.8282	180,808.55
-EURO	14,867.73	8.8065	130,932.66	3,803.33	9.7971	37,261.60
-JPY	69,638.00	0.0813	5,661.57	109,638.00	0.0738	8,091.29

-HKD	9,291.64	0.8509	7,906.26	8,715.64	0.8805	7,674.12
-THB	120.19	0.2193	26.36	120.19	0.2046	24.59
-SGD	0.2	5.1191	1.02	0.2	4.8871	0.97
-GBP	445.55	10.2182	4,552.72			
-AUD	4,746.03	6.7139	31,864.37			
Bank deposit:			477,348,917.61			547,926,027.92
-RMB			362,271,637.99			469,959,879.71
-USD	16,006,883.19	6.6227	106,008,785.31	6,978,636.14	6.8282	47,651,523.33
-EURO	47,562.97	8.8065	418,863.31	926,914.51	9.7971	9,081,074.14
-JPY	10,707,985.00	0.0813	870,559.18	3,201,551.00	0.0738	236,274.47
-HKD	9,131,527.24	0.8509	7,770,016.53	23,497,324.56	0.8805	20,689,394.27
-SF	1,283.31	7.0562	9,055.29	46,692.65	6.6287	307,882.00
Other monetary fund			125,113,198.12			20,364,578.43
-RMB			112,833,505.02			4,000,000.00
-USD	1,854,158.11	6.6227	12,279,532.92	2,396,587.11	6.8282	16,364,376.12
-EURO	18.19	8.8065	160.18	20.65	9.7971	202.31
Total			604,175,236.37			569,968,526.84

Note: ① On 31 Dec. 2010, other currency of RMB 109,781,505.02 of the Group was certificate deposit of Unitex business the Group conducted in bank with a term of one year.

② Other monetary fund of RMB 3,052,000 (RMB 4,000,000 at 31 Dec. 2009) is margin deposit the Group deposited in bank for the application of acceptance bill.

③ US dollar and EURO 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.

④ On 31 Dec. 2010, the Group deposited in overseas translated into RMB 7,769,681.07 (RMB 20,687,613.41 on 31 Dec.) was monetary fund deposit of holding subsidiary Luthai (Hongkong).

2. Transactional financial assets

Item	Closing fair value	Opening fair value
Derivative financial assets	40,418,200.00	
Total	40,418,200.00	

3. Notes receivable

(1) Categories

Categories	Closing amount	Opening amount
Bank acceptance bill	29,812,440.05	7,348,990.25
Letter of credit (LC)	107,572,449.61	134,063,752.21
Total	137,384,889.66	141,412,742.46

(2) Particulars on the notes that the Company has made endorsement to other party but not yet due.

Details of the top five entities are as follows:

Entities	Date of draft	Date due	Amount	Whether terminate recognition or not	Remark
Zhejiang Bangchen Garment Co., Ltd.	12 Oct. 2010	12 Apr. 2011-	10,000,000.00	Yes	
Qingdao Haoshilai Suits Co., Ltd.	29 Sep. 2010	28 Mar. 2011-	1,200,000.00	Yes	
Qingdao Haoshilai Suits Co., Ltd.	18 Oct. 2010	18 Apr. 2011	1,050,000.00	Yes	
Wenzhoushi Baozitou Garment Co., Ltd.	27 Jul. 2010	22 Jan. 2011	1,000,000.00	Yes	
Zhejiang Tianchi Costume Co., Ltd.	6 Aug. 2010	6 Feb. 2011	600,000.00	Yes	
Total			<u>13,850,000.00</u>		

4. 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				
Accounts receivable that make provision for bad debts according to combination				
Aging combination	163,979,516.14	100.00	8,625,157.10	5.26
Subtotal of age	<u>163,979,516.14</u>	<u>100.00</u>	<u>8,625,157.10</u>	<u>5.26</u>
Accounts receivable that are not individually significant, but are assessed at individual provision for bad debts				
Total	<u>163,979,516.14</u>	<u>100.00</u>	<u>8,625,157.10</u>	<u>5.26</u>

(Con.)

Categories	Opening amount			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant accounts receivable				
Accounts receivable that make provision for bad debts according to combination				
Aging combination	162,632,516.44	100.00	8,563,190.82	5.27
Subtotal of combination	<u>162,632,516.44</u>	<u>100.00</u>	<u>8,563,190.82</u>	<u>5.27</u>
Accounts receivable which are not				

individually significant, but are assessed at individual provision for bad debts

Total	162,632,516.44	100.00	8,563,190.82	5.27
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(2) Breakdown of accounts receivable listed by aging

Items	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	161,780,518.73	98.66	160,218,732.11	98.52
1-2 years	504,312.75	0.31	819,363.89	0.50
2-3 years	227,055.05	0.14	80,083.18	0.05
Over 3 years	1,467,629.61	0.89	1,514,337.26	0.93
Total	163,979,516.14	100.00	162,632,516.44	100.00

(3) Withdrawal of provision for bad debts

Accounts receivable that make provision for bad debts by combination

In the combination, accounts receivable that make provision for bad debts by aging analysis

Aging	Closing amount			Opening amount		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	161,780,518.73	98.66	8,089,025.93	160,218,732.11	98.52	8,010,936.61
1-2 years	504,312.75	0.31	50,431.28	819,363.89	0.50	81,936.39
2-3 years	227,055.05	0.14	45,411.01	80,083.18	0.05	16,016.64
Over 3 years	1,467,629.61	0.89	440,288.88	1,514,337.26	0.93	454,301.18
Total	163,979,516.14	100.00	8,625,157.10	162,632,516.44	100.00	8,563,190.82

(4) There was no accounts receivable due from shareholders or related parties 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 (%)
OXFORD	Non-related customer	21,600,457.02	Within 1 year	13.17
TAL	Non-related customer	25,445,751.97	Within 1 year	15.52
SETA	Non-related customer	11,096,442.74	Within 1 year	6.77
Chen Feng (Jin Tan) Garments Co., Ltd.	Non-related customer	8,347,731.37	Within 1 year	5.09
PVH	Non-related customer	5,550,069.42	Within 1 year	3.38
Total		72,040,452.52		43.93

(6) Breakdown of original currency amount and exchange rate in foreign currency receivable

Item	Closing amount	Beginning amount
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	Foreign currency amount	Exchange rate	RMB (Converted)	Foreign currency amount	Exchange rate	RMB (Converted)
USD	18,985,311.84	6.6227	125,734,281.41	16,311,786.65	6.8282	111,380,584.30
Total			125,734,281.41			111,380,584.30

5. Advances to the supplier

(1) Aging analysis:

Aging	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	386,820,360.12	99.75	160,214,862.72	99.66
1-2 years	952,318.65	0.25	238,174.46	0.15
2-3 years	4,291.50	0.00	84,454.74	0.05
Over 3 years	11,625.58	0.00	221,803.48	0.14
Total	387,788,595.85	100.00	160,759,295.40	100.00

(2) The information list for the top 5supplieers

Name of suppliers	Relationship with the Company	Amount	Time for prepayment	Reason for unsettlement
Cotton and Jute Company of Xinjiang Production and Construction Corps Agriculture 1 st Division	No-related supplier	130,500,000.00	November to December of 2010	Advances to supplier
Allenberg Cotton Co.	No-related supplier	81,184,453.78	Dec. 2010	Advances to supplier
Aksu Distribution Center of XINJIANG AGRICULTURE MATERIALS (GROUP) CO LTD	No-related supplier	16,939,700.00	November to December of 2 010	Advances to supplier
Shanghai Huahui Fashion Fabric Project Development Co., Ltd.	No-related supplier	14,317,900.00	September 2010	Advances to supplier
Cotton and Jute Company of Xinjiang Production and Construction Corps	No-related supplier	14,239,102.00	October to Dec ember of 2010	Advances to supplier
Total		257,181,155.78		

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

(4) Breakdown of original currency amount and exchange rate in foreign advances to suppliers

Items	Closing amount			Beginning amount		
	Foreign currency amount	Exchange rate	RMB (Converted)	Foreign currency amount	Exchange rate	RMB (Converted)
USD	13,469,517.71	6.6227	89,204,574.94	17,394,078.09	6.8282	118,770,244.02
JPY	1,248,006.00	0.0813	101,462.89	227,500.00	0.0738	16,789.50
EURO	232,081.81	8.8065	2,043,828.47	236,918.56	9.7971	2,321,114.83

SF	21,500.25	7.0562	151,710.06	233,345.90	6.5938	1,538,636.20
Total			<u>91,501,576.36</u>			<u>122,646,784.55</u>

6. Interest receivable

Item	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
Profit of security deposit		1,568,105.85		1,568,105.85
Total		<u>1,568,105.85</u>		<u>1,568,105.85</u>

7. Other accounts receivable

(1) Listed by category

Category	Closing amount			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant accounts and individually make provision for bad debts				
Other accounts receivable make provision for bad debts by combination				
Aging combination	86,541,977.33	100.00	11,638,040.88	13.45
Subtotal of combination	<u>86,541,977.33</u>	<u>100.00</u>	<u>11,638,040.88</u>	<u>13.45</u>
Individually not significant accounts but individually make provision for bad debts				
Total	<u>86,541,977.33</u>	<u>100.00</u>	<u>11,638,040.88</u>	<u>13.45</u>

(Con.)

Categories	Opening amount			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant accounts and individually make provision for bad debts				
Other accounts receivable that make provision for bad debts by combination				
Aging combination	59,600,205.74	100.00	9,902,495.12	16.61
Subtotal of combination	<u>59,600,205.74</u>	<u>100.00</u>	<u>9,902,495.12</u>	<u>16.61</u>
Individually not significant accounts but individually make provision for bad debts				

Total	<u>59,600,205.74</u>	<u>100.00</u>	<u>9,902,495.12</u>	<u>16.61</u>
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(2) Listed by aging

Items	Closing balance		Beginning balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	53,721,988.43	62.08	25,544,733.25	42.86
1-2 years	2,277,153.70	2.63	5,495,836.41	9.22
2-3 years	4,386,244.59	5.07	4,922,160.28	8.26
Over 3 years	26,156,590.61	30.22	23,637,475.80	39.66
Total	<u>86,541,977.33</u>	<u>100.00</u>	<u>59,600,205.74</u>	<u>100.00</u>

(3) Provision for bad debts

Other accounts receivable that make provision for bad debts by combination

In the combination, other accounts receivable that make provision for bad debts by aging analysis

Aging	Closing amount			Opening amount		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	53,721,988.43	62.08	2,686,099.42	25,544,733.25	42.86	1,277,236.67
1-2 years	2,277,153.70	2.63	227,715.36	5,495,836.41	9.22	549,583.64
2-3 years	4,386,244.59	5.07	877,248.92	4,922,160.28	8.26	984,432.07
Over 3 years	26,156,590.61	30.22	7,846,977.18	23,637,475.80	39.66	7,091,242.74
Total	<u>86,541,977.33</u>	<u>100.00</u>	<u>11,638,040.88</u>	<u>59,600,205.74</u>	<u>100.00</u>	<u>9,902,495.12</u>

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

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

Name	Relationship with the Company	Amount	Aging	Proportion to total other receivables (%)
Export refund tax receivable	Governmental export rebates	31,615,865.42	Within 1 year	36.53
Tianhong State Own Assets Investment and Business Co., Ltd.	Advance payment of operating funds for county government due to Xinjiang Luthai's restructuring	19,000,289.40	Within 1 year, more than 3 years	21.95
Bureau of Finance of Zichuan District of Zibo	Refundable export rebates by local government	2,665,685.60	2 to 3 years, more than 3 years	3.08
Petroleum And Natural Gas Transport Corporation Of China	Advance construction payment for project of cotton field drip irrigation	1,300,000.00	More than 3 years	1.50
Advances receivable on	Water rate	1,055,502.16	Within 1 year	1.22
Total		<u>55,637,342.58</u>		<u>64.29</u>

(6) Breakdown of original currency amount and exchange rate in foreign other accounts receivable

Item	Closing amount	Opening amount
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	Foreign currency amount	Exchange rate	RMB (converted)	Foreign currency	Exchange rate	RMB (converted)
USD	49,174.50	6.6227	325,667.96	13,575.17	6.8282	92,693.98
Total			325,667.96			92,693.98

8. Inventories

(1) Categories

Items	Closing amount		
	Book balance	Falling price reserve	Net book value
Raw materials	599,859,604.27		599,859,604.27
Goods in process	396,281,904.02		396,281,904.02
Merchandise inventory	485,213,444.26	42,509,987.73	442,703,456.53
Consigned materials for processing	27,441,617.34		27,441,617.34
Total	1,508,796,569.89	42,509,987.73	1,466,286,582.16

(Con.)

Items	Opening 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

(2) Changes in provision for falling price of inventory

Items	Opening amount	Provided in current period	Decrease this period		Closing amount
			Written back	Written off	
Raw materials	326,645.83			326,645.83	
Goods in process	22,696.46			22,696.46	
Merchandise inventory	45,046,370.16	16,374,017.58	8,676,989.84	10,233,410.17	42,509,987.73
Total	45,395,712.45	16,374,017.58	8,676,989.84	10,582,752.46	42,509,987.73

(3) Provision for falling price of inventory

Items	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	Recovery of price in the market	1.79%
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Note: At the end of period, due to quality problem in raw yarn and dyed yarn on some completed goods and long aging for some shirt and fabric, inventory cost shall over net realizable value, then make provision for inventory falling price according to its differences.

(4) At the end of period, inventory balance for loans guarantee was RMB 1,800 million and received RMB 700 million of short-term bank borrowings.

9. Long-term equity investment

(1) Category

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
Investment in joint venture enterprises				
Investment in other enterprises				
Other equity investment	160,000.00	68,782,600.00		68,942,600.00
Less: provision for impairment of long-term equity investment				
Total	<u>160,000.00</u>	<u>68,782,600.00</u>		<u>68,942,600.00</u>

(2) Breakdown of long-term investment

Name of invested entities	Accounting method	Initial investment cost	Opening amount	Increase/decrease	Closing amount
Zibo Chengshun Heating Co., Ltd. (hereinafter refer to as “Chengshun Heating”)	Cost method	160,000.00	160,000.00		160,000.00
Zibo Limin Walling Material Co., Ltd. (Limin Walling)	Cost method	1,500,000.00		1,500,000.00	1,500,000.00
Rongchang Pharmacy	Cost method	55,282,600.00		55,282,600.00	55,282,600.00
Gaoqing Hongqiao Power Co., Ltd. (Hongqiao Power)	Cost method	12,000,000.00		12,000,000.00	12,000,000.00
Total			<u>160,000.00</u>	<u>68,782,600.00</u>	<u>68,942,600.00</u>

(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	Name of invested entities
Chengshun Heating	2	2				
Limin Walling	15	15				
Rongchang Pharmacy	5.555	5.555				

Hongqiao Power	20.68	20.68
Total		

Note: According to articles of association stimulated in Hongqiao Thermo, the Company didn't sent representatives to the Board of Directors of Hongqiao Thermo, then the Company has no significant impact on Hongqiao Thermo by adopted cost method to accounting.

10. Fixed assets

(1) Breakdown of fixed assets

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
I. Cost	5,535,026,910.84	469,043,510.70	158,046,577.82	5,846,023,843.72
Including: House and building	1,528,210,391.16	96,929,946.87	47,033,378.34	1,578,106,959.69
Machinery equipment	3,886,508,756.65	351,803,333.11	101,125,904.07	4,137,186,185.69
Transportation vehicles	51,667,982.15	10,860,481.91	3,294,733.08	59,233,730.98
Electronic equipment and other	68,639,780.88	9,449,748.81	6,592,562.33	71,496,967.36
II. Depreciation		Increase this period	Provided this period	
Accumulated depreciation	1,908,322,691.07	353,947,414.77	98,797,910.12	2,163,472,195.72
Including: House and building	334,799,123.76	70,576,780.33	14,183,776.81	391,192,127.28
Machinery equipment	1,492,619,368.19	273,081,213.76	78,735,154.38	1,686,965,427.57
Transportation vehicles	33,810,506.10	3,942,434.22	2,739,303.99	35,013,636.33
Electronic equipment and other	47,093,693.02	6,346,986.46	3,139,674.94	50,301,004.54
III. Total net book value	3,626,704,219.77			3,682,551,648.00
Including: House and building	1,193,411,267.40			1,186,914,832.41
Machinery equipment	2,393,889,388.46			2,450,220,758.12
Transportation vehicles	17,857,476.05			24,220,094.65
Electronic equipment and other	21,546,087.86			21,195,962.82
IV. Total provision for impairment loss	6,406,160.31	34,209,198.06	2,303,770.10	38,311,588.27
Including: House and building	98,456.34	6,902,565.96	98,456.34	6,902,565.96
Machinery equipment	6,086,179.16	26,850,174.27	2,084,217.68	30,852,135.75
Transportation vehicles	160,866.53	26,600.00	78,111.13	109,355.40
Electronic equipment and other	60,658.28	429,857.83	42,984.95	447,531.16
V. Total book value	3,620,298,059.46			3,644,240,059.73
Including: House and building	1,193,312,811.06			1,180,012,266.45
Machinery equipment	2,387,803,209.30			2,419,368,622.37
Transportation vehicles	17,696,609.52			24,110,739.25
Electronic equipment and other	21,485,429.58			20,748,431.66

Note: Depreciation this period was RMB 353,947,414.77, and original price of fixed assets transferred in this period was RMB 166,682,908.16.

(2) Fixed assets leased by operating lease

Items	Original book value	Remake
House and building	1,026,010.62	1,113,670.29
Total	1,026,010.62	1,113,670.29

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

Items	Reason	Expected time for completion	Book value
Luqun Spinning workshop	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2011	51,012,227.87
Luqun Spining and Dressmaking workshop	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2011	30,788,833.35
Comprehensive building 3 rd factory of spinning	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2011	7,303,125.00
Main factory building of 6# boiler of Xinsheng Power	Ongoing inspection, surveying, verification to application procedures by Housing authorities	2011	4,174,565.93
Total			93,278,752.15

Note: The Group recognized RMB 34,209,198.06 of impairment losses on fixed assets this period, of which due to providing provision for differences of book value of part of assets that are to be changed and part of old equipment over recovery amount.

11. Construction in process

(1) Breakdown of construction in process

Items	Closing amount			Opening amount		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Lu Thai Industry Park	98,572.48		98,572.48	1,274,882.42		1,274,882.42
Other small projects	9,257,174.02		9,257,174.02	13,290,593.95		13,290,593.95
50 million-meter yarn-dyed fabric				3,516,943.40		3,516,943.40
Twisting plant project	361,654.00		361,654.00	25,243,565.54		25,243,565.54
Piece dyeing project	8,008,750.13		8,008,750.13	737,191.85		737,191.85
Spinning project of Xinjiang Luthai	2,880,200.43		2,880,200.43	40,000.00		40,000.00
Power plant	19,383,509.14		19,383,509.14	7,538,641.42		7,538,641.42

Items	Closing amount			Opening amount		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
expansion project						
Double twisting plant project				487,819.62		487,819.62
Production line project of 3000000-piece high-grade shirts	457,988.01		457,988.01	8,265,467.62		8,265,467.62
150000-ingot high-grade combing yarn project				3,882,747.07		3,882,747.07
50000-ingot double-twist project				8,349,379.59		8,349,379.59
Project of 10 million-meter high-grade fabrics in women's wear				418,196.14		418,196.14
Yarn dyed fabric reconstruction project	25,991,423.71		25,991,423.71			
Total	66,439,271.92		66,439,271.92	73,045,428.62		73,045,428.62

(2) Profiles of main construction in progress and changes

Name of project	Budget (RMB'000 0)	Opening amount	Increase in 2010	Transferred to fixed assets this year	Other decrease this year	Closing amount
	980	1,274,882.42		1,176,309.94		98,572.48
Lu Thai Industry Park	3,600	13,290,593.95	8,408,988.58	12,442,408.51		9,257,174.02
Other small projects	27,007	3,516,943.40		3,516,943.40		
50 million-meter yarn-dyed fabric	11,921	25,243,565.54		24,881,911.54		361,654.00
Twisting plant project	2,600	737,191.85	24,983,080.41	17,711,522.13		8,008,750.13
Piece dyeing project	1,330	40,000.00	10,781,722.35	7,941,521.92		2,880,200.43
Spinning project of Xinjiang Luthai	3,100	7,538,641.42	24,989,385.13	13,144,517.41		19,383,509.14
Power plant expansion project	6,300	487,819.62		487,819.62		
Double twisting plant project	6,687	8,265,467.62	49,322,344.31	57,129,823.92		457,988.01
Production line project of 3000000-piece high-grade	26,461	3,882,747.07	1,746,112.90	5,628,859.97		

shirts					
150000-ingot high-grade combing yarn project	4,086	8,349,379.59	1,366,100.31	9,715,479.90	
50000-ingot double-twist project	14,534	418,196.14	12,487,593.76	12,905,789.90	
project of 10 million-meter high-grade fabrics in women's wear	38,193		25,991,423.71		25,991,423.71
Yarn dyed fabric reconstruction project		73,045,428.62	160,076,751.46	166,682,908.16	66,439,271.92

(Con.)

Name of project	Accumulative amount of capitalization of interest	Including: amount of capitalization of interest this year	Interest capitalizatio n rate this year (%)	Proportion of Engineering input to budget (%)	Progress (%)	Sources
Lu Thai Industry Park				98	98	Other
Other small projects				98	98	Other
50 million-meter yarn-dyed fabric				100	100	Other
Twisting plant project				99	99	Other
Piece dyeing project				96	96	Other
Spinning project of Xinjiang Luthai				81	81	Other
Power plant expansion project				80	80	Other
Double twisting plant project				100	100	Other
Production line project of 3000000-piece high-grade shirts				93	93	Other
150000-ingot high-grade combing yarn project				100	100	Fund raised
50000-ingot double-twist project				100	100	Fund raised
project of 10 million-meter high-grade fabrics in women's wear				100	100	Fund raised
Yarn dyed fabric reconstruction project				45	45	Other
Total						

(3) Progress of main construction in process

Items	Progress	Remark
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Yarn dyed fabric reconstruction project

45%

Progress of project was measured at the proportion of actual cost to contract estimated cost

12. Engineering material

Item	Opening amount	Increase in 2010	Decrease in 2010	Closing balance
Specific equipment	11,712,153.66	277,918,074.28	288,466,045.71	1,164,182.23
Total	11,712,153.66	277,918,074.28	288,466,045.71	1,164,182.23

13. Intangible assets

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
I. Cost	252,761,833.49	87,294,564.50	14,940,753.08	325,115,644.91
Land use right	173,828,868.33	53,378,922.50		227,207,790.83
Land use right of Xinsheng Power	12,155,433.14			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	33,915,642.00		46,119,859.94
Luqun Textile-land use right	39,632,561.00			39,632,561.00
Luthai Huanzhong-land use right	8,064,419.82		8,064,419.82	
II. Accumulative amortization	23,805,296.57	8,891,874.41	896,046.84	31,801,124.14
Land use right	18,393,919.05	7,178,359.69		25,572,278.74
Land use right of Xinsheng Power	1,915,906.30	507,343.32		2,423,249.62
Water use right				
Luthai Huanzhong-drug concession				
Luthai Huanzhong-non-patent technology				
Lufeng Weaving & Dyeing-land use right	759,080.51	369,479.20		1,128,559.71
Luqun Textile-land use right	1,840,343.87	836,692.20		2,677,036.07
Luthai Huanzhong-land use right	896,046.84		896,046.84	
III. Accumulative provision for impairment		280,000.04	280,000.04	
Land use right				
Land use right of Xinsheng Power				

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
Water use right		280,000.04	280,000.04	
Luthai Huanzhong-drug concession				
Luthai Huanzhong-non-patent technology				
Lufeng Weaving & Dyeing-land use right				
Luqun Textile-land use right				
Luthai Huanzhong-land use right				
IV. Total book value	228,956,536.92			293,314,520.77
Land use right	155,434,949.28			201,635,512.09
Land use right of Xinsheng Power	10,239,526.84			9,732,183.52
Water use right	280,000.04			
Luthai Huanzhong-drug concession	5,599,999.96			
Luthai Huanzhong-non-patent technology	996,333.26			
Lufeng Weaving & Dyeing-land use right	11,445,137.43			44,991,300.23
Luqun Textile-land use right	37,792,217.13			36,955,524.93
Luthai Huanzhong-land use right	7,168,372.98			

Note: ① Amortization amount was RMB 8,891,874.41 in this period.

② As at 31 Dec. 2010, book value of Xinjiang Luthai was RMB 9,658,676.12 (RMB 34,068,954.29 at 31 Dec. 2009). The ownership of intangible assets was controlled due to Xinjiang Lutai mortgaged land use right with the net book value of RMB 9,658,676.12 for bank loans of RMB 45,000,000. Please refer to Note VIII. 17/18 for details. In 2010, the amortization amount of the said land use right was RMB 404,345.85.

14. Goodwill

(1) Breakdown of goodwill

Name of invested entity	Opening balance	Increase in 2010	Decrease in 2010	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 test method provision for impairment on goodwill

Please refer to Note IV. 17.

15. Deferred income tax assets / Deferred income tax liabilities

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

① Deferred income tax confirmed

Item	Closing amount		Opening amount	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Provision for impairment	17,429,250.73	101,084,773.98	10,941,874.02	66,298,274.11
Change on gains and losses of fair value	292,606.99	1,950,713.28	8,947,566.25	61,408,150.00
Accumulated depreciation	1,070,116.02	5,577,350.64	75,695.56	504,637.07
Unrealized gross profit on inventories	12,396,298.84	82,641,992.28	12,494,164.40	83,294,429.33
Payroll payable	8,909,733.76	57,334,371.75	10,469,186.23	69,314,721.84
Deferred income	13,240,913.67	65,748,881.33		
Total	53,338,920.01	314,338,083.26	42,928,486.46	280,820,212.35

② Deferred income tax liabilities confirmed

Items	Closing amount		Opening amount	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Accumulated depreciation	2,226,979.73	13,496,846.85	406,802.45	2,465,469.39
Change on gains and losses of fair value	6,681,350.00	40,418,200.00		
Total	8,908,329.73	53,915,046.85	406,802.45	2,465,469.39

(2) Breakdown of unconfirmed deferred income tax assets

Items	Closing amount	Opening amount
Deductible temporary differences		167,725.37
Deductible losses		39,570,763.48
Total		39,738,488.85

16. Breakdown of assets impairment

Items	Opening amount	Withdrawal this year	Decrease this year		Closing amount
			Written back	Written off	
(1) Bad debt reserve	18,465,685.94	2,874,832.86		1,077,320.82	20,263,197.98
(2) Provision for falling price of inventory	45,395,712.45	16,374,017.58	8,676,989.84	10,582,752.46	42,509,987.73
(3) Provision for impairment of fixed assets	6,406,160.31	34,209,198.06		2,303,770.10	38,311,588.27
(4) Provision for impairment of intangible assets		280,000.04		280,000.04	
Total	70,267,558.70	53,738,048.54	8,676,989.84	14,243,843.42	101,084,773.98

17. Assets with restricted ownership and use right

Items	Closing amount	Reason
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Items	Closing amount	Reason
Assets used for guarantee	299,440,181.14	
Inventory	109,781,505.02	Trade financing borrowings
Fixed assets	180,000,000.00	Short-term loan mortgage
Intangible assets	9,658,676.12	Short-term loan mortgage
Total	299,440,181.14	

18. Short-term loan

Items	Closing amount	Opening amount
Secured loan	106,783,162.91	
Mortgage loan	115,000,000.00	229,690,000.00
Guaranteed loan		10,000,000.00
Credit loan	647,774,041.75	792,851,840.01
Total	869,557,204.66	1,032,541,840.01

Note: For category of mortgage assets of mortgage loan, please refer to Note VII. 8 and Note VII. 13.

For category of secured assets of secured loan, please refer to Note VII. 1.

19. Transactional financial liabilities

Items	Closing fair value	Opening fair value
Derivative financial liabilities	1,950,713.28	61,408,150.00
Total	1,950,713.28	61,408,150.00

20. Notes payable

Category	Closing amount	Opening amount
Bank acceptance bill	60,368,263.58	28,820,100.80
Trade acceptance bill	18,230,609.18	72,149,682.26
Total	78,598,872.76	100,969,783.06

Note: Amount due on the next accounting period was RMB 78,598,872.76.

21. Accounts payable

(1) Listed by aging

Items	Closing amount	Opening amount
Within 1 year	461,001,689.25	264,848,696.55
1-2 years	2,279,274.10	6,881,994.72
2-3 years	3,995,261.08	868,922.49
Over 3 years	2,250,852.34	3,277,191.77
Total	469,527,076.77	275,876,805.53

(2) Listed by content

Items	Closing amount
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Items	Closing amount
Purchase loan	442,290,350.02
Construction and equipment account	20,260,596.56
Other	6,976,130.19
Total	<u>469,527,076.77</u>

(3) For accounts payable due to shareholders entities or related parties with more than 5% (including 5%) of the voting shares of the Company, please refer to Note VIII.5.

(4) Foreign currency balance included in accounts payable listed as follows

Items	Closing amount			Opening amount		
	Foreign currency amount	Exchange rate	RMB (converted)	Foreign currency amount	Exchange rate	RMB (converted)
USD	738,540.12	6.6227	4,891,129.65	1,150,180.96	6.8282	7,853,665.64
JPY	59,072,010.00	0.0813	4,802,554.41	1,809,072.00	0.0738	133,509.51
EUR	82,560.43	8.8065	727,068.42	54,330.00	9.7971	532,276.44
SF	107,283.50	7.0562	757,013.83	40,360.00	6.6287	266,125.77
Total			<u>11,177,766.31</u>			<u>8,785,577.36</u>

22. Advance from customer

(1) Listed by aging

Items	Closing amount	Opening amount
Within 1 year	144,296,845.42	39,326,731.19
1-2 years	1,362,183.54	1,390,192.13
2-3 years	993,857.75	367,031.41
Over 3 years	631,580.50	357,503.93
Total	<u>147,284,467.21</u>	<u>41,441,458.66</u>

(2) Listed by content

Item	Closing amount
Advance from client	147,284,467.21
Total	<u>147,284,467.21</u>

(3) There were no advances from customers due to shareholders entities or related parties with more than 5% (including 5%) of the voting shares of the Company.

(4) Foreign currency balance included in accounts payable

Item	Closing amount			Opening amount		
	Foreign currency amount	Exchange rate	RMB (converted)	Foreign currency amount	Exchange rate	RMB (converted)
USD	5,239,756.64	6.6227	34,701,336.29	1,526,698.64	6.8282	10,424,603.63
Total			<u>34,701,336.29</u>			<u>10,424,603.63</u>

23. Payroll payable

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
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Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
I. Wage, bonus, allowance and subsidiaries	204,494,331.63	806,152,795.10	695,758,349.37	314,888,777.36
II. Employee welfare		37,572,178.87	37,572,178.87	
III. Social insurance	1,846,198.70	164,967,969.44	165,902,943.34	911,224.80
Endowment insurance	244,517.58	35,759,583.10	35,950,504.37	53,596.31
Medical insurance	1,157,719.69	114,411,751.17	114,871,519.61	697,951.25
Insurance against injuries at work	217,276.18	8,371,525.18	8,470,957.25	117,844.11
Insurance for unemployment	120,584.05	3,602,847.67	3,711,848.75	11,582.97
Maternity insurance	106,101.20	2,822,262.32	2,898,113.36	30,250.16
IV. Housing fund	3,255,465.48	13,155,962.99	16,400,445.75	10,982.72
V. Expense for labor union and expense for education of employees	10,763,178.72	14,983,778.96	10,512,320.00	15,234,637.68
Total	220,359,174.53	1,036,832,685.36	926,146,237.33	331,045,622.56

Note: ① There were no payroll payable fell into arrears.

② Explanation on distribution time and amount

Estimated distribution time	Amount
2011	284,572,974.17
2012	25,354,821.67
2013	21,117,826.72

③ List of non-monetary welfare the Group provided for employees

Form	Amount	Measurement basis
Self-made products	2,116,329.22	Fair value and relevant tax
Purchased goods	2,322,885.50	Fair value and relevant tax
Total	4,439,214.72	

24. Tax payable

Items	Closing amount	Opening amount
VAT	-46,646,893.99	-2,645,709.16
Business tax	97,931.77	307,941.13
Urban maintenance and construction tax	1,307,302.45	165,085.98
Enterprise income tax	24,129,401.21	27,024,578.42
Personal income tax	2,291,067.05	732,854.03
Stamp tax	303,213.63	620,280.31
Property tax	2,655,862.46	1,313,808.63
Use tax of land	2,050,983.67	1,050,219.98
Education surtax	625,059.98	86,210.01

Items	Closing amount	Opening amount
Local tax for education	379,239.58	27,361.71
Total	-12,806,832.19	28,682,631.04

25. Interest payable

Items	Closing amount	Opening amount
Long-term and short-term borrowing interests payable	4,805,148.11	490,102.22
Total	4,805,148.11	490,102.22

26. Dividends payable

Name	Closing amount	Opening amount	Reason of unpaid over 1 year
Minority shareholders' dividends paid by subsidiaries	2,817,203.40		
Individual shareholders' dividends paid by the Group	442,309.44	442,538.04	Cash dividends individual haven't withdrew for previous years
Total	3,259,512.84	442,538.04	

27. Other payables

(1) Listed by aging

Items	Closing amount	Opening amount
Within 1 year	79,573,570.20	37,756,104.08
1-2 years	14,156,710.72	26,163,398.67
2-3 years	24,135,953.85	8,907,217.05
Over 3 years	20,398,520.16	17,582,077.20
Total	138,264,754.93	90,408,797.00

(2) For other payables due to shareholders entities or related parties with more than 5% (including 5%) of the voting shares of the Company, please refer to Note VIII. 5 Accounts receivable on related parties.

(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	12,346,868.40	Receiving contracting fees in locus contractus	No
Cotton and Jute Company	11,925,000.00	Received earnest money for Sale Contract	No
Total	24,271,868.40		

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

Name	Closing amount	Nature or contents
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Lucheng Textile	47,988,147.00	Flow borrowings
Contracting fees in locus contractus	12,346,868.40	Contracting fees in locus contractus
Cotton and Jute Company	11,925,000.00	Earnest money for Cotton Sale Contract
Total	<u>72,260,015.40</u>	

(5) Foreign currency balance included in other accounts payable listed as follows:

Item	Closing amount			Opening amount		
	Foreign currency amount	Exchange rate	RMB (converted)	Foreign currency amount	Exchange rate	RMB (converted)
USD	82,480.25	6.6227	546,241.98	82,921.13	6.8282	566,202.08
Total			<u>546,241.98</u>			<u>566,202.08</u>

28. Non-current liabilities due within 1 year

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

Item	Closing amount	Opening amount
Long-term borrowing due within 1 year	69,364,725.00	157,379,900.00
Total	<u>69,364,725.00</u>	<u>157,379,900.00</u>

(2) Long-term borrowing due within 1 year

① Breakdown of long-term borrowing due within one year

Item	Closing amount	Opening amount
Credit loan	69,364,725.00	157,379,900.00
Total	<u>69,364,725.00</u>	<u>157,379,900.00</u>

② 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	26 Mar. 2009	29 Mar. 2011	1LIBOR+1	USD	4,000,000.00	26,490,800.00		
Zibo Zichuan Subbranch								
China								
Construction Bank Corporation	26 Mar. 2007	26 Dec. 2011	3LIBOR+1	USD	1,650,000.00	10,927,455.00		
Zibo Zichuan Subbranch								
Societe Generale Private Banking	22 Jun. 2010	22 Dec. 2011	COF+120bps	USD	2,400,000.00	15,894,480.00		
Wuhan								
China	29 Mar.	29 Nov.	3LIBOR+2.5	SF	900,000.00	6,350,580.00		

Construction	2007	2011						
Bank Corporation								
Zibo Zichuan								
Subbranch								
Societe Generale								
Private Banking	2010-9-29	2011-9-29	COF+120bps	USD	800,000.00	5,298,160.00		
Wuhan								
Subbranch								
Bank of China								
Limited Zibo	16 Jan.	15 Jan.	3LIBOR+1.01	USD			6,300,000.00	43,017,660.00
Zichuan	2007	2010						
Subbranch								
Bank of China								
Limited Zibo	23 Mar.	22 Mar.	3LIBOR+1.01	USD			3,500,000.00	23,898,700.00
Zichuan	2007	2010						
Subbranch								
Bank of China								
Limited Zibo	20 Apr.	19 Apr.	3LIBOR+1.01	USD			2,800,000.00	19,118,960.00
Zichuan	2007	2010						
Subbranch								
China								
Construction								
Bank Corporation	26 Mar.	26 Dec.	3LIBOR+1	USD			1,200,000.00	8,193,840.00
Zibo Zichuan	2007	2010						
Subbranch								
China								
Construction								
Bank Corporation	19 Jun.	18 Jun.	LIBOR+1.4	USD			7,000,000.00	47,797,400.00
Zibo Zichuan	2008	2010						
Subbranch								
Total							<u>64,961,475.00</u>	<u>142,026,560.00</u>

29. Long-term loan

① Category of long-term loan

Item	Closing amount	Opening amount
Credit loan	155,733,410.00	249,992,100.00
Less: Long-term loan due within 1 year (Note VII 28)	69,364,725.00	157,379,900.00
Total	86,368,685.00	92,612,200.00

② 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

Societe Generale								
Private Banking	22 Jun. 2010	22 Jun. 2012	COF+120bps	USD	3,600,000.00	23,841,720.00		
Wuhan Subbranch								
Societe Generale								
Private Banking	29 Sep. 2010	28 Sep. 2012	COF+120bps	USD	3,200,000.00	21,192,640.00		
Wuhan Subbranch								
China								
Construction								
Bank Corporation	5 Mar. 2007	5 Mar. 2013	3LIBOR+1.7	EURO	2,000,000.00	17,613,000.00	2,500,000.00	24,492,750.00
Zibo Zichuan								
Subbranch								
China								
Construction								
Bank Corporation	26 Mar. 2007	25 Mar. 2013	3LIBOR+1.01	USD	2,250,000.00	14,901,075.00	3,900,000.00	26,629,980.00
Zibo Zichuan								
Subbranch								
China								
Construction								
Bank Corporation	29 Mar. 2007	28 Mar. 2013	3LIBOR+2.5	SF	1,250,000.00	8,820,250.00	2,150,000.00	14,176,670.00
Zibo Zichuan								
Subbranch								
China								
Construction								
Bank Corporation	30 Mar. 2009	29 Mar. 2011	1LIBOR+1	USD			4,000,000.00	27,312,800.00
Zibo Zichuan								
Subbranch								
Total						86,368,685.00		92,612,200.00

30. Long-term accounts payable

(1) Category

Item	Closing amount	Opening amount
Power bonds payable	9,735,560.00	9,735,560.00
Less: The part that due within 1 year		
Total	9,735,560.00	9,735,560.00

(2) 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	9,735,560.00			9,735,560.00	

31. Other non-current liabilities

Items	Content	Closing amount	Opening amount
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Deferred income	Subsidy from local government 补	65,748,881.33	
Other	贴	2,673,445.33	2,673,445.33
Total		68,422,326.66	2,673,445.33

Of which, breakdown of deferred income is as follows:

Items	Closing amount	Opening amount
Subsidy from local government that related to assets	65,748,881.33	
Including: Land subsidies	65,748,881.33	
Total	65,748,881.33	

32. Share capital

Items	Opening amount		Increase/decrease (+, -)				Closing amount		
	Amount	Proportion	Issuance of new shares	Bonus	Capitalization of capital reserve	Other	Sub-total	Amount	Proportion
I. Shares subject to trading moratorium									
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 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	1,333,192	0.13%		200	200	1,333,392	0.13%
II. Shares not subject to moratorium	776,941,208	78.10%		-200	-200	776,941,008	78.10%
1. RMB ordinary shares	452,952,028	45.53%		-200	-200	452,951,828	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%

33. 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
Including: capital received from investors	1,065,164,874.44			1,065,164,874.44
Other comprehensive income		2,350,000.00		2,350,000.00
Other capital reserve	70,191,294.28	137.00	7,263,500.60	62,927,930.68
Including: Recovery of capital reserve under original system	62,970,334.44		48,261.57	62,922,072.87
Total	1,135,356,168.72	2,350,137.00	7,263,500.60	1,130,442,805.12

Note: ① Other comprehensive income increased RMB 2,350,000 in 2010, due to capital received on technology of energy-saving and reform. In accordance with regulation of Interim Method on Management of Financial Reward Fund on Technology of Energy-saving and Reform stipulated by State Development and Reform Commission under Ministry of Finance, the said income recorded into capital reserve.

② Other capital reserve increased RMB 137.00 in 2010, due to scattered dividends the Company recovered. While other capital reserve decreased RMB 7,263,500.60, due to the transfer of Luthai Huanzhong and cancellation of capital reserve of Beijing Luthai which undertook relevant carry forward.

34. Surplus reserve

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
Statutory surplus reserve	371,087,956.61	54,010,956.51		425,098,913.12
Discretionary surplus reserve	3,341,572.58			3,341,572.58

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
Total	374,429,529.19	54,010,956.51		428,440,485.70

Note: According to regulations of Company Laws, Articles of Association, the Company appropriating statutory surplus reserve at 10% profit after tax. When the accumulated statutory surplus reserve amounted over 50% of registration capital, then appropriation ceased.

35. Retained profit

(1) Change in retained profit

Items	Amount in 2010	Amount in 2009	Proportion of withdraw or distribution
Retained profit as at 31 Dec. 2009 before adjustment	1,418,468,702.64	1,090,990,313.22	
Adjustment: Total retained profit as at 1 Jan. 2010 (increase "+", decrease "-")			
Retained profit as at 1 Jan. 2010 after adjustment	1,418,468,702.64	1,090,990,313.22	
Add: Net profit attributable to owners of parent company in 2010	739,091,623.50	570,218,343.41	
Recovery of losses with surplus reserve			
Other transfer-in			
Less: appropriating statutory surplus reserve	54,010,956.51	43,766,993.99	10%
Appropriating discretionary surplus reserve			
Common share dividend payable	248,716,200.00	198,972,960.00	0.25 yuan/share
Closing retained profit	1,854,833,169.63	1,418,468,702.64	

(2) Note to profit distribution

In accordance with proposal of shareholders general meeting 2009 held on 4 Jun. 2010, the Company distributed at RMB 0.25 yuan/share (tax included), which was RMB 248,716,200.0 measured at issued capital shares of 994,864.8 million.

(3) Retained reserve withdrew on subsidiaries in the reporting period

Name	Withdrawal amount in 2010	Amount attributable to parent company
Lufeng Sunshine	21,195.09	21,195.09
Beijing Sichuang	18,232.85	10,939.71
Luthai (Hongkong)	356,719.36	356,719.36
Xinjiang Luthai	9,053,299.57	5,272,641.67
Lufeng Weaving and Dyeing	15,377,265.60	11,532,949.20
Luqun Textile	89,905.92	89,905.92
Xinshen Power	666,168.94	666,168.94
Total	25,582,787.33	17,950,519.89

36. Operating income and operating cost

(1) Operating income and operating cost

Items	Occurred this year	Occurred last year
Income from main operation	4,766,226,631.34	3,827,054,199.11
Other operating income	259,397,494.96	209,165,638.02
Total operating income	5,025,624,126.30	4,036,219,837.13
Cost of main operation	3,221,507,648.52	2,666,204,782.76
Other operating cost	169,103,516.28	135,686,162.95
Total operating cost	3,390,611,164.80	2,801,890,945.71

(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	3,188,326,356.60	2,080,280,022.83	2,504,741,922.62	1,730,511,827.63
Shirt	1,201,719,139.29	836,641,032.99	1,073,817,067.09	728,738,962.22
Cotton	230,331,705.42	169,248,919.12	72,549,910.73	60,110,230.27
Drugs	6,839,609.41	5,490,183.33	17,258,871.35	15,779,389.80
Power and steam	106,339,112.16	105,669,841.75	86,555,207.37	80,762,730.96
Other	32,670,708.46	24,177,648.50	72,131,219.95	50,301,641.88
Subtotal	4,766,226,631.34	3,221,507,648.52	3,827,054,199.11	2,666,204,782.76
Less: Internal offset amount				
Total	4,766,226,631.34	3,221,507,648.52	3,827,054,199.11	2,666,204,782.76

(3) Turnover from the top five customers

Term	Total turn over from the top five customers	Proportion of current operating income (%)
2010	1,658,066,811.51	32.99
2009	1,278,026,242.46	31.66

37. Business tax and surcharge

Items	Occurred this year	Occurred last year
Business tax	76,585.12	28,962.48
City maintenance and construction tax	2,449,506.94	1,725,887.93
Education surtax	1,548,761.91	1,167,661.79
Local education surcharge	527,663.56	274,210.49
Total	4,602,517.53	3,196,722.69

Note: Please refer to Note V. 1 “Main tax and tax rate” for details about all business tax and surcharges.

38. Sales expense

Items	Occurred this year	Occurred last year
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Items	Occurred this year	Occurred last year
Transport charges	30,310,643.93	30,474,988.34
Payroll	27,138,899.34	29,465,519.87
Market expense	15,141,702.48	17,199,795.36
Advertisement expense	12,686,301.52	7,814,023.70
Port surcharge	5,144,176.22	5,397,458.50
Copy right fee	3,721,467.71	3,486,176.13
Marketing expense for agency	3,459,733.87	2,691,365.93
Lease rent	3,331,282.48	2,374,557.38
Inspection fee	3,321,490.62	2,346,987.77
Patent fee	2,284,255.38	3,748,935.00
Other	34,399,330.03	32,517,083.25
Total	140,939,283.58	137,516,891.23

39. Administration expenses

Item	Amount in 2010	Amount in 2009
R&D expense	189,901,695.58	143,838,792.79
Remuneration	176,831,136.79	61,884,412.59
Depreciation cost	24,992,893.62	24,635,276.67
Taxes	22,307,074.47	21,307,238.45
Warehouse charges	14,249,684.12	10,149,241.73
Decoration and repair charges	9,532,489.81	1,761,208.41
Amortization of intangible assets	8,669,994.01	7,781,741.50
Labor union expenditure	8,126,647.09	6,282,367.32
Premium	7,765,864.78	5,445,406.23
Transportation charges	7,152,763.77	5,724,691.50
Others	75,890,150.53	50,908,838.27
Total	545,420,394.57	339,719,215.46

40. Financial expenses

Item	Amount in 2010	Amount in 2009
Interest expenses	41,386,231.13	55,304,561.41
Less: Interest income	4,251,498.35	4,826,055.01
Less: Capitalized amount of interest		
Profits and losses on exchange	-7,826,495.22	1,541,597.95
Less: Capitalized amount of profits and losses on exchange		
Others	9,781,334.84	8,919,576.96
Total	39,089,572.40	60,939,681.31

41. Asset impairment losses

Item	Amount in 2010	Amount in 2009
Bad debt loss	2,874,832.86	860,861.20
Loss on falling price of inventory	7,697,027.74	5,076,183.99
Loss on impairment of fixed assets	34,209,198.06	466,182.24
Loss on impairment of intangible assets	280,000.04	
Total	45,061,058.70	6,403,227.43

42. Gain from change in fair value

Resource generating income from change in fair value	Amount in 2010	Amount in 2009
Transactional financial assets	40,418,200.00	
Of which: gain from change in fair value of derivative financial instrument	40,418,200.00	
Transactional financial liabilities	59,457,436.72	-42,232,550.00
Total	99,875,636.72	-42,232,550.00

43. Investment income

Item	Amount in 2010	Amount in 2009
Invest income arising from disposal of long-term equity investment	10,153,411.58	
Investment income arising from disposal of transactional financial asset	-62,111,190.87	7,995,260.00
Others		
Total	-51,957,779.29	7,995,260.00

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

44. Non-operating income

Item	Amount in 2010	Amount in 2009	Amount recorded into non-recurring profits and losses of the current period
Profit from disposal of non-current assets	670,159.13	1,552,926.74	670,159.13
Of which: Profit from disposal of fixed assets	670,159.13	1,552,926.74	670,159.13
Government subsidies (for details, please refer to the following statement: breakdown of government subsidies)	40,477,963.67	20,687,797.51	40,477,963.67
Others	8,088,263.38	14,766,533.86	8,088,263.38
Total	49,236,386.18	37,007,258.11	49,236,386.18

Of which: breakdown of government subsidies:

Item	Amount in 2010	Amount in 2009	Explanation
Support fund	10,000,000.00		Conference Memorandums [2005] No.33 of People's

Item	Amount in 2010	Amount in 2009	Explanation
Local support fund	4,091,875.00		Government of Zibo Municipality Notice on Printing and Distributing Management Method for Key Economic Parks in Gaoqing County (Gao-Cai-Fa [2002] No.28) of People's Government of Gaoqing County and Supplementary Agreement Signed between People's Government of Gaoqing County, the Management Committee of Economic Development District of Gaoqing County, and the Company
Subsidies for Transferring Xinjiang Cotton Yarn to Warehouses out of Xinjiang	5,060,000.00		The Circular on Printing and Distributing the Notice on Temporary Management Method for Subsidies for Transferring Xinjiang Cotton Yarn to Warehouses Out of Xinjiang (Cai-Jian [2008] No. 396)of the Ministry of Finance
Subsidies for transporting Xinjiang Cotton Yarn out of Xinjiang	1,710,500.00		Notice on Printing and Distributing Temporary Management Method for Subsidies for Transporting Xinjiang Cotton Yarn out of Xinjiang (Cai-Jian [2009] No. 561)of the Ministry of Finance
Special funds for Science and Technology Support Plan	4,960,000.00		Notice on Issuing Funds Budget of the Program (Project) of National Scientific and Technology Support Plan of Y2009 (Guo-Ke-Fa-Cai [2009] No.682)of the Ministry of Science and Technology
Funds for technology information	4,000,000.00		Reply by General Office of National Development and Reform Commission for the Special Project of Establishing Innovation Capability of Enterprise Technology Centers in 2009 (Fa-Gai-Ban-Gao-Ji [2009] No.2234) of the General Office of National Development and Reform Commission
Awards for Science and Technology Innovation	280,000.00		Notification on Rewarding Entities and Individuals with Outstanding Contribution to Science and Technology Activities Such as National Standards Drafting Activity in 2009 (Zi-Gao-Xin-Guan-Fa [2010] No.33)of the Management Committee of Zibo National High-tech Industrial Development Zone, the Notice on Granting Awards for Science and Technology Innovation Prize of China Textile Industry Commission in 2010 (Zhong-Fang-Xie-Jiang-Ban [2010] No.5) of China Textile Industry Committee, Reward Method for Science and Technology of Shandong Province of the Department of Science and Technology of Shandong Province, and Proposed Awarded Candidates and Project

Item	Amount in 2010	Amount in 2009	Explanation
Progress Reward in Science and Technology	200,000.00		Announcement of Science and Technology Prize of Shandong Province in 2009 of the Department of Science and Technology of Science and Technology Notification on Rewarding Science and Technology Prize of High-tech Industrial Development Zone in 2010 (Zi-Gao-Xin-Guan-Fa [2010] No.36)of the Management Committee of Zibo National High-tech Industrial Development Zone, Notification on Rewarding the Enterprise Technology R&D Center in High-tech Industrial Development Zone in 2009 (Zi-Gao-Xin-Guan-Fa [2010] No.35) of the Management Committee of Zibo National High-tech Industrial Development Zone, and Decision of People's Government of Zibo Municipality on Science and Technology Rewards of Zibo Municipality in 2009 (Zi-Zheng-Fa [2010] No.25) of People's Government of Zibo Municipality
Funds for environment management	2,000,000.00		Notice on Issuing Budget Target of Funds of Provincial Air Pollution Treatment Project in 2009 (Zi-Cai-Qi-Zhi 2009 No.38)of Zibo Finance Bureau
Funds for environment management	1,000,000.00		Notice on Issuing Budget Target of Funds of Provincial Air Pollution Treatment Project in 2008 (Lu-Cai-Jian-Zhi [2008] No.151)of Shandong Province Finance Bureau
Funds for environment management	400,000.00		Notice on Issuing Special Funds for Provincial Environment Protection in 2010 (Zi-Cai-Qi-Zhi [2010] No.65)of Zibo Finance Bureau
Funds for finance rewards	1,300,000.00		Decision on Rewarding Some Enterprises and Projects in 2008 (Chuan-Wei [2009] No.22)of the Office of Zichuan District Committee of CCP
Import discount interest	1,162,000.00		Notice on Allotting Funds for Import Discount Interest of Y2008 (Lu-Ji-Dian-Han-Zi [2010] No.2)of the Import & Export Office for Mechanical and Electrical Products of Shandong Province
Import discount interest	246,600.00		Notice on Issuing the Budget Target of Funds of Import Products Discount Interest in 2009 (Lu-Cai-Qi-Zhi [2010] No.52)of the Office of Shandong Province Finance Bureau
Discount interest on loan of reemployment	652,215.00		Notice on Allotting Funds for Discount Interest Project of Employment and Reemployment Loans of Y2008 and Y2009 (A-Di-Cai-She [2010] No.198)of the Finance Bureau of Aqsu District

Item	Amount in 2010	Amount in 2009	Explanation
Rewarding Funds for Using Foreign Capital	790,000.00		Implementation Opinion on Strengthening Financial Support Policies to Promote Fast and Stable Development of International Economy and Trade of the Office (Lu-Cai-Qi [2009] No.32)of Shandong Province Finance Bureau
Special Funds for Industrial Design	500,000.00		Notice on Announcing the 1 st Batch of Industrial Design Centers of Shandong Province (Lu-Jing-Xin-Ji-Zi [2010] No.243)of the Office of Shandong Economic and Information Committee
Funds for development of new industries and key industries	400,000.00		Notice on Submitting the Project of Special Funds for Development of Provincial New Industries and Key Industrials (Lu-Jing-Xin-Han-Zi [2010] No.164)of the Office of Shandong Economic and Information Committee
Reward funds for advanced entities and individuals	350,000.00		Announcement on Rewarding Excellent Talents and Innovation Teams in Zibo Municipality (Zi-Wei [2010] No.109)of the Office of Zibo Municipal Party Committee, Announcement on Rewarding Entities and Individuals with Outstanding Contribution to Science and Technology Activities Such as National Standard Drafting Activity in 2009 (Zi-Gao-Xin-Guan-Fa [2010] No.33)of the Management Committee of High-tech Industrial Development Zone of Zibo Municipality, Announcement on Rewarding Advanced Entities and Advanced Individuals in Cooperation Between Enterprises and Universities for Training Talents (Lu-Jing-Mao-Pei-Zi [2009] No.505)of Shandong Economic and Information Committee / Shandong Provincial Education Department / Employee Education Office of Shandong Province, and the Decision on Rewarding Some Enterprises and Projects of Y2009 (Chuan-Wei [2010] No.29) of the Office of Zichuan District Committee of CCP
Internship subsidies	150,655.00		Explanation on Allotting Living Cost Subsidies for College Interns in Xinjiang Luthai Company of Human Labor and Social Security Bureau of Awat County
Apprentice subsidies	27,000.00		Implementation Opinion on Underemployed University Graduates form Zibo Municipality Engaging in Employment and Apprentice (Zi-Ren-Fa [2008] No.87)of Human Resource Bureau of Zibo Municipality / Finance Bureau of Zibo Municipality / Labor and Social Security Bureau of Zibo Municipality

Item	Amount in 2010	Amount in 2009	Explanation
Reward funds for excellent innovation teams	100,000.00		Decision on Rewarding Excellent Talents and Innovation Teams and the 3 rd Bath of Excellent Talents of Zichuan (Chuan-Wei [2010] No.108)of Zichuan District Committee of CCP
Funds for energy saving and transform	100,000.00		Notice on Forwarding the Project Plan of Reforming the 2 nd Batch of Energy-saving Technologies in Shandong Province in 2010 of Shandong Economic and Information Committee (Zi-Jing-Xin-Jie-Zi [2010] No.23)of the Office of Zibo Municipality Economic and Information Committee
Subsidies for export credit premium	100,000.00		Notice on Providing Premium Subsidies For Enterprises Involved in Export Credit Insurance (Zi-Zheng-Ban-Zi [2009] No.96)of the General Office of People's Government of Zibo Municipality
Reward funds for patents	79,000.00		Notice on Printing and Distributing Management Method for Special Funds for Patent Development of Shandong Province (Lu-Cai-Jiao [2009] No.36)of Shandong Province Finance Bureau and Intellectual Property Office of Shandong, and Patent Subsidies and Rewarding Methods of High-tech Industrial Development Zone of Zibo Municipality of the Science and Technology Bureau of High-tech Industrial Development Zone of Zibo Municipality
Rewards for advanced entities in energy-saving and consumption reduction	20,000.00		Announcement on Rewarding Advanced entities and Advanced Individuals in Energy-saving and Consumption Reduction in 2009 (Chuan-Zheng-Fa [2010] No.19)of the Office of People's Government of Zichuan District
Subsidies for Clean Production	20,000.00		Notice on Issuing Subsidies for Clean Production Audit (Zi-Cai-Qi-Zhi [2010] No.74)of Zibo Finance Bureau and Zibo Environmental Protection Bureau
Subsidies for overseas patent application	20,000.00		Notice on Declaring Subsidies of Y2010 for Special Funds for Overseas Patent Application (Cai-Ban-Jian [2010] No.42)of the Office of the Ministry of Finance
Reward funds for clean production	20,000.00		Announcement on Audit and Acceptance of Voluntary Activities of Clean Production in 2009 (Zi-Jing-Mao-Jie-Zi [2010] No.12)of Zibo Municipal Economic and Trade Committee and Zibo Finance Bureau
Subsidies for patent	18,000.00		Notice on Applying Patent Subsidies for the 1 st Half year of Y2010 (Zi-Guan-Ban-Fa [2009] No.60)of the

Item	Amount in 2010	Amount in 2009	Explanation
development			Management Committee of the High-tech Industrial Development Zone of Zibo Municipality
Rewards for Independent Innovation	10,000.00		Reward Method for Encouraging Independent Innovation of Zichuan District of People's Government of Zichuan District
Subsidies for Transferring Xinjiang Cotton Yarn to Warehouses out of Xinjiang		4,050,000.00	The Circular on Printing and Distributing the Notice on Temporary Management Method for Subsidies for Transferring Xinjiang Cotton Yarn to Warehouses Out of Xinjiang (Cai-Jian [2008] No. 396)of the Ministry of Finance
Subsidies for thoroughbred crops and direct agricultural subsidies for wheat		533,255.78	Notice on Establishing the Leading Work Group for the Project of Subsidies for Thoroughbred Crops in Awat and Integrated Direct Agricultural Subsidies for Wheat (Wa-Zheng-Fa (2009) No.23)of People's Government of Awat County
Funds of reemployment loan discount interest		360,800.00	Reply on Application from Xinjiang Lutai Fengshou Cotton Industry Co., Ltd. for Loan Discount Interest of Reemployment Base of the Municipality (A-Di-Cai-She (2009) No.97)of the Finance Bureau of Aqsu Region
Subsidies for social insurance		696,742.20	Request for Application for Social Insurance Subsidies for Distressed Enterprises of the County (Wa-Ren-Lao-Zi [2009] No.10), Request for Application for Social Insurance Subsidies for Distressed Enterprises in May 2009 (Wa-Ren-Lao-Zi [2009] No.25), Request for Application for Social Insurance Subsidies for Distressed Enterprises in Jul. 2009 (Wa-Ren-Lao-Zi (2009) No.28), and Request for Application for Social Insurance Subsidies for Distressed Enterprises in Aug. 2009 (Wa-Ren-Lao-Zi (2009) No.35) of the Human Labor and Social Security Bureau of Awat County
Special funds for "Enrich people and Strengthen the County by Technology"		100,000.00	The Distribution Plan of Awat County Science & Technology Bureau on Special Funds for "Enrich people and Strengthen County by Technology" of the Science and Technology Bureau of Awat County
Appropriation for energy-saving		200,000.00	Notice on Applying for Alternative Project of "Three 30-item on Energy-saving" (The 2 nd Batch) (Zi-Jing-Mao-Jie-Zi (2008)_ No.50)of Zibo Finance Bureau

Item	Amount in 2010	Amount in 2009	Explanation
Import and export discount interest		2,832,629.26	Notice on Implementing the Project of Funds for Import Discount Interest at the end of 2007 (Zi-Ji-Dian-Jin-Chu-Zi (2008) No.13)of the Import & Export Office for Mechanical and Electrical Products of Zibo Municipality, and Notice on Issuing Budget Target of Funds for Import Discount Interest in 2009 (Lu-Cai-Qi-Zhi (2008) No.105)of Shandong Province Finance Bureau
Rewards in Science and Technology		30,000.00	Decision on Rewards in Science and Technology of Zibo Municipality in 2007-2008 (Zi-Zheng-Fa [2009] No.14)of People's Government of Zibo Municipality
Funds for commendation and reward		890,000.00	Decision on Rewarding Some Enterprises and Projects in 2008 (Chuan-Wei [2009] No.22)of Zichuan District Committee of CCP and People's Government of Zichuan District
Special subvention for patent development in Shandong Province		3,000.00	Management Method of Special Funds for Patent Development in Shandong Province (Lu-Cai-Jiao [2006] No.23)of Shandong Province Finance Bureau and Intellectual Property Office of Shandong
Funds for brand development of enterprises		200,000.00	Notice on Printing and Distributing Temporary Management Method of Funds for Brand Development of Enterprises in Zibo Municipality (Zi-Zheng-Ban-Fa [2007] No.41)of the General Office of People's Government of Zibo Municipality
Subvention and rewards for patents		25,000.00	Method for Subsidizing and Rewarding Patents of High-tech Industrial Development Zone of Zibo Municipality(Zi-Guan-Ban-Fa [2009] No.60) printed and distributed by the Management Committee of Zibo High-tech Industrial Development Zone
Progress rewards in science and technology		120,000.00	Announcement on Progress Prize in Science and Technology and Reward in Technology Invention in 2009 (Zi-Gao-Xin-Guan-Fa [2009] No.62)of the Management Committee of High-tech Industrial Development Zone in Zibo Municipality
The first prize for innovation of enterprise technology R&D centers		200,000.00	Notice on Appraisal and Reward on Enterprise Technology R&D Centers in High-tech Industrial Development Zone in 2008 (Zi-Gao-Xin-Guan-Fa [2009] No.63)of the Management Committee of High-tech Industrial Development Zone of Zibo Municipality

Item	Amount in 2010	Amount in 2009	Explanation
Reward funds for drafting national standards or industrial standards		190,000.00	Notification on Rewarding Entities with Outstanding Contribution to Science and Technology Innovation Activities Such as National Standards Drafting Activity in 2008 (Zi-Gao-Xin-Guan-Fa [2009] No.64)of the Management Committee of Zibo National High-tech Industrial Development Zone
Rewards related to scientific and technological reward above the provincial level		210,000.00	Notification on Rewarding Entities with Outstanding Contribution to Science and Technology Innovation Activities Such as National Standards Drafting Activity in 2008 (Zi-Gao-Xin-Guan-Fa [2009] No.64)of the Management Committee of Zibo National High-tech Industrial Development Zone
Shandong Governor quality award in 2009		100,000.00	Circular on Issuing Budget Target of Funds for Governor Award in 2009 (Lu-Cai-Jian-Zhi [2009] No.292)of Shandong Province Finance Bureau
The national science & technology support programs -- 2009-rewards for production of starch size and replacing PVA applied key technology		470,000.00	Notice on Issuing Funds Budget for the National Science & Technology Program in 2009 (Guo-Ke-Fa-Cai [2009] No.682)of the Ministry of Science and Technology
Rewards for promoting the development of strong economic division		200,000.00	Several Rules on Promoting the Development of Strong Economic Division (Chuan-Fa [2008] No.10)of People's Government of Zichuan District under Zichuan Committee of CCP
Rewards for energy-saving and emission reduction		1,816,021.27	Rewards for energy-saving and emission reduction by the Management Committee of Economic Development Zone of Gaoqing County
Import discount interest		464,100.00	Notice on Issuing Budget Target of Funds for Import Discount Interest in 2007 (Lu-Cai-Qi-Zhi [2008] No.105)of Shandong Province Finance Bureau
Government rewards		6,996,249.00	Notice on Printing and Distributing Management Method for Key Economic Parks in Gaoqing County (Gao-Zheng-fa [2002] No.28)of People's Government of Gaoqing County

Item	Amount in 2010	Amount in 2009	Explanation
Amortization of deferred income	710,118.67		Amortization of deferred income of the current period
Total	<u>40,477,963.67</u>	<u>20,687,797.51</u>	

45. Non-operating expenses

Item	Amount in 2010	Amount in 2009	Amount recorded into non-recurring profits and losses of the current period
Loss from disposal of non-current assets	7,879,134.13	3,101,963.68	7,879,134.13
Of which: Loss from disposal of fixed assets	7,879,134.13	3,101,963.68	7,879,134.13
Expenditure for penalty	15,692.91	52,630.73	15,692.91
Expenditure for compensation	1,460,496.78	4,333,306.95	1,460,496.78
Expenditure for external donation	12,479,217.50	1,152,914.26	12,479,217.50
Other	358,696.17	582,504.36	358,696.17
Total	<u>22,193,237.49</u>	<u>9,223,319.98</u>	<u>22,193,237.49</u>

46. Income tax expenses

Item	Amount in 2010	Amount in 2009
Income tax calculated by tax law and relevant provisions of current period	121,716,937.15	85,687,558.23
Adjustment of deferred income tax	-1,908,906.27	-9,324,014.76
Total	<u>119,808,030.88</u>	<u>76,363,543.47</u>

47. Basic earnings per share and diluted earnings per share

For the Company, the basic earnings per share shall be calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public. In accordance with the specific terms and clauses of the issuance contract, the number of newly issued ordinary shares shall be calculated and decided as of the date of receivable consideration (generally the date of issuance of stocks).

Based on net profit attributable to ordinary shareholders of the Company of the current period, numerators of diluted earnings per share shall be determined after adjusting the following factors: (1) Interests of diluted potential ordinary shares recognized as expenses at the current period; (2) Incomes or expenses arising from the transfer of diluted potential ordinary shares; and (3) Income tax influence related to the aforesaid adjustment.

Denominators of diluted earnings per share equal to the sum of the following two items: (1) The weighted average number of ordinary shares issued by the parent company in basic earning per share; and (2) The weighted average number of ordinary shares which are newly added due to the transfer of the assumed diluted potential ordinary shares to ordinary shares.

When calculating the weighted average number of increased ordinary shares resulted from that the diluted potential ordinary shares convert into ordinary shares already issued, the diluted potential ordinary shares issued in prior periods shall be supposed to be converted at the beginning of the current period. The diluted potential ordinary shares issued in the current period shall be supposed to be converted on the date of issuance.

(1) Basic earnings per share and diluted earnings per share of each period

Profits of the reporting period	Amount in 2010		Amount in 2009	
	Basic earning per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholder of ordinary shares of the Company	0.74	0.74	0.57	0.57
Net profit attributable to shareholders of ordinary shares of the Company after deducting non-recurring gains and losses	0.67	0.67	0.59	0.59

(2) Process of calculating basic earnings per share and diluted earnings per share

In the reporting period, there's no diluted potential ordinary share. Therefore, diluted earnings per share equal to basic earnings per share.

① When basic earnings per share are being calculated, the net profits attributable to shareholders of ordinary shares are:

Item	Amount in 2010	Amount in 2009
Net profits attributable to shareholders of ordinary shares of the current period	739,091,623.50	570,218,343.41
Of which: net profits attributable to sustainable operation	739,633,405.40	570,218,343.41
Net profits attributable to terminated operation	-541,781.90	
Net profits attributable to shareholders of ordinary shares of the Company after deducting non-recurring profits and losses	667,051,258.52	585,124,040.82
Of which: net profits attributable to sustainable operation	667,690,595.48	585,124,040.82
Net profits attributable to terminated operation	-639,336.96	

② While basic earnings per share are being calculated, the denominator is the average weighted number of ordinary shares issued publicly, and the calculation is as the following:

Item	RMB Yuan	
	Amount in 2010	Amount in 2009
Ordinary shares publicly issued at the beginning of the period	994,864,800.00	994,864,800.00
Add: Weighted average number of ordinary shares issued at the current period		
Less: Weighted average number of ordinary share repurchased at the current period		

Weighted average number publicly issued at the end of the period	994,864,800.00	994,864,800.00
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48. Other comprehensive incomes

Item	Amount in 2010	Amount in 2009
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		
Subtotal		
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		
Subtotal		
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		
Subtotal		
4. Difference from translating of foreign currency financial statements	-989,355.71	-39,790.52
Less: Net amount of disposing overseas business and transferred to current gain/loss		
Subtotal	-989,355.71	-39,790.52
5. Others	2,350,000.00	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		
Subtotal	2,350,000.00	7,215,239.04
Total	1,360,644.29	7,175,448.52

49. Notes to the cash flow statement

(1) Other cash received related with operating activities

Item	Amount in 2010	Amount in 2009
Government grants	72,327,845.00	20,687,797.51
Collection of employee's payment	4,761,259.50	4,430,225.65
Compensation	3,736,317.66	1,928,722.03
Penalty	1,058,287.09	1,254,120.20

Item	Amount in 2010	Amount in 2009
Withdrawing borrowing by employees, reserve funds and deposits	2,022,242.29	182,879.67
Others	7,330,078.52	21,957,660.32
Total	91,236,030.06	50,441,405.38

(2) Other cash paid related to operating activities

Item	Amount in 2010	Amount in 2009
Freight and miscellaneous charges	44,435,090.18	56,497,820.45
Rental fees and management cost for shoppe	14,154,578.71	14,141,183.44
Rental fees	9,536,670.03	6,333,299.12
Advertising expenses	10,636,000.00	5,712,599.35
Fees for business trip and office	13,438,202.43	4,299,643.04
Insurance premium	12,057,336.41	3,752,693.63
Bank's service charge	4,153,158.09	3,246,553.67
Commodity inspection fee	4,918,509.62	3,069,404.38
Payment of royalty	3,500,682.86	2,616,347.49
Disclosure fees for auditing consulting	1,890,582.08	2,244,434.07
Fixture and fitting fare	10,779,671.08	1,150,524.87
Charge for water and power	603,556.92	899,376.56
External donation	12,479,217.50	1,152,914.26
others	76,916,690.89	67,760,151.18
Total	219,499,946.80	172,876,945.51

(3) Other Cash received related to investing activities

Item	Amount in 2010	Amount in 2009
Interest income	2,683,392.50	4,826,055.01
Investment income from transactional financial assets (liabilities)		7,995,260.00
Total	2,683,392.50	12,821,315.01

(4) Other cash paid for investing activities

Item	Amount in 2010	Amount in 2009
Disposal of transactional financial assets (liabilities)	62,111,190.87	
Disposal of investment over Luthai Huanzhong Pharmaceutical Co., Ltd.	890,120.92	
Total	63,001,311.79	

(5) Other cash received related to financing activities

Item	Amount in 2010	Amount in 2009
Investment from minority shareholders received in advance by subsidiaries	317,877.10	
Borrowed accounts of related entities	69,152,700.00	17,000,000.00
Received funds for energy-saving and transform	2,350,000.00	

Item	Amount in 2010	Amount in 2009
Total	71,820,577.10	17,000,000.00
(6) Other cash paid related to financing activities		
Item	Amount in 2010	Amount in 2009
Settlement accounts paid by subsidies to minority shareholders	2,290,894.83	
Accounts returned to related entities	28,900,000.00	7,000,000.00
Certificates of fixed deposits due over 3 months	81,220,000.00	
Total	112,410,894.83	7,000,000.00

50. Supplementary information to consolidated cash flow statement

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

Item	Amount in 2010	Amount in 2009
1. Net profit adjusted to cash flow of operation:		
Net profit	815,053,109.96	603,736,257.96
Plus: Asset impairment provision	45,061,058.70	6,403,227.43
Fixed asset depreciation, gas and petrol depreciation, production goods depreciation	353,947,414.77	347,328,708.27
Amortization of intangible assets	8,891,874.41	8,003,621.90
Amortization of long-term deferred expenses		
Loss on disposal of fixed assets, intangible assets and other long-term assets (income is listed as "-")	7,217,455.28	-517,379.38
Loss on retirement of fixed assets (income is listed as "-")	-8,480.28	2,066,416.32
Losses on change in fair value (income is listed as "-")	-99,875,636.72	42,232,550.00
Financial expense (income is listed as "-")	22,370,477.44	43,638,077.17
Investment losses (income is listed as "-")	51,957,779.29	-7,995,260.00
Decrease in deferred income tax assets (increase is listed as "-")	-10,410,433.55	-9,324,014.76
Increase in deferred income tax liabilities (decrease is listed as "-")	8,501,527.28	-646.81
Decrease of inventories (increase is listed as "-")	-233,905,967.19	167,226,399.86
Decrease in operating receivables (increase is listed as "-")	28,926,055.82	21,268,603.14
Increase in operating payables (decrease is listed as "-")	208,314,863.64	-232,253,430.30
Other		
Net cash flows arising from operating activities	1,206,041,098.85	991,813,130.80

2. Investment and financing activities not involving in cash flow

Liabilities converted to capital

Convertible bond expire within 1 year

Item	Amount in 2010	Amount in 2009
Fixed assets acquired under finance leases		
3. Net increase in cash and cash equivalents:		
Closing balance of cash	522,955,236.37	569,968,526.84
Less: Opening balance of cash	569,968,526.84	1,141,056,407.10
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	-47,013,290.47	-571,087,880.26

(2) Information related to acquisition or disposal of subsidiaries and other operating entities in the reporting period

Item	Amount in 2010	Amount in 2009
I. Information related to acquisition of subsidiaries other operating entities:		
1. Prices for acquiring subsidiaries and other operating entities		
2. Cash and cash equivalents paid to acquire subsidiaries and other operating entities		
Less: Cash and cash equivalents held by subsidiaries and other operating entities		
3. Net amount of cash paid to acquire subsidiaries and other operating entities		
4. Net assets of subsidiaries acquired		
Of which: Current assets		
Non-current assets		
Current liabilities		
Non-current liabilities		
II. Information related to disposal of subsidiaries and other operating entities		
1. Prices for disposing subsidiaries and other operating entities	55,282,600.00	
2. Cash and cash equivalents received by disposing subsidiaries and other operating entities		
Less: Cash and cash equivalents held by subsidiaries and other operating entities	890,120.92	
3. Net amount of cash received by disposing subsidiaries and other related operating entities	-890,120.92	
4. Net assets of subsidiaries disposed	52,624,600.96	
Of which: Current assets	11,768,191.42	
Non-current assets	54,528,048.77	
Current liabilities	13,671,639.23	
Non-current liabilities		

(3) Composition of cash and cash equivalents

Item	Closing amount	Opening amount
I. Cash	522,955,236.37	569,968,526.84
Of which: cash in hand	1,713,120.64	1,677,920.49
Bank deposits available for payment at any time	479,817,717.52	547,926,027.92
Other monetary capital available for payment at any time	41,424,398.21	20,364,578.43
Accounts deposited in the Central Bank available for payment		
Accounts deposited in other financial institutions		
Accounts borrowed in other financial institutions		
II. Cash equivalents		
Of which: Bond investment due with 3 months		
III. Balance of cash and cash equivalents at the period-end	522,955,236.37	569,968,526.84

VIII. Related parties and related transactions

1. Parent company of the Company

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

For details, please refer to Note VI. I. Subsidiaries

3. Other related parties of the Group

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)	Controlled subsidiary of the parent company	61329035-4
Zibo Limin Purified Water Co., Ltd. (hereinafter called Limin Purified Water)	Controlled subsidiary of the parent company	76575998-3
Zibo Luqun Land Co., Ltd (hereinafter called Luqun Land)	Controlled subsidiary of the parent company	77630667-2
Dongtai International Development CO., Ltd. (hereafter called Dongtai International)	Wholly-owned subsidiary of the parent company	

4. Transactions of related parties

(1) Related transactions of purchasing goods, providing and receiving labor service

① Transactions of purchasing goods or receiving labor service

Related party	Content of related transaction	Pricing principle and decision procedure of related transaction	Amount in 2010		Amount in 2009	
			Amount	Proportion to amounts of similar transactions (%)	Amount	Proportion to amounts of similar transactions (%)
Lucheng Textile	Cotton	Market price			2,359,132.57	0.41
Lucheng Textile	T-shirt, towel, sock, oil product	Market price	4,585,475.22	100.00	2,524,923.78	100.00
Lucheng Textile	electronic products, computer equipment, consumptive material of computer, high temperature materials	Market price	1,938,935.44	100.00	1,423,397.74	100.00
Stanluian Company	Gift box for cosmetic, lotion, washing-up liquid, Liquid soap, etc.	Market price	1,019,235.55	100.00	721,529.09	100.00
Taimei Ties	Ties	Market price	149,642.73	100.00	89,645.30	100.00
Luqun Property	Commercial housing	Market price			446,809.43	100.00
Lucheng Textile	Processing charges for the leg of a stocking	Market price	180,273.06	0.07	72,999.23	0.03
Taimei Ties	Processing charges for commodities and quilt cover	Market price	687,568.56	0.27	477,828.67	0.22
Limin Purified Water	Sewage disposal	Market price	5,524,644.00	100.00	5,116,127.37	100.00

② Related transactions of providing goods or services

Related party	Content of related transaction	Pricing principle and decision procedure of related transaction	Amount in 2010		Amount in 2009	
			Amount	Proportion to amounts of similar transactions (%)	Amount	Proportion to amounts of similar transactions (%)
Lucheng Textile	Materials, electricity, running water and steam	Market price	255,473.73	2.70	199,436.38	1.22
Lucheng Textile	Dyed yarn, facing material and garments	Market price	624,751.76	0.02	842,351.71	0.03
Taimei Ties	Electricity, heating charges	Market price	12,269.10	0.14	11,804.75	0.08
Taimei Ties	Facing material for ties	Market price			104,395.17	100.00
Stanluian Company	Materials, electricity, running water and heating charges	Market price	8,450.42	0.09	7,374.99	0.04
Limin Purified Water	Materials and garment	Market price	147,992.88	0.01	146,072.28	0.02
Luqun Property	Electricity	Market price			34,899.76	0.01

(2) Related lease

① When the Group is the lessor:

Name of the lessor	Name of the lessee	Category of the leasing asset	Beginning leasing date	End leasing date	Basis for recognizing leasing income	Leasing income recognized of the current year
Luthai Textile	Lucheng Textile	Housing and buildings	2008-7-1	2013-12-31	Market price	153,636.00

② When the Group is the lessee:

Name of the lessee	Name of the lessor	Category of the leasing asset	Beginning leasing date	End leasing date	Pricing basis for leasing fee	Leasing fee recognized of the current year
Lucheng Textile	Luthai Textile	Land	2010-1-1	2012-12-31	Market price	3,795,156.00
Lucheng Textile	Luthai Textile	Gas station	2008-8-1	2013-12-31	Market price	482,556.00
Lucheng Textile	Luthai Textile	Yard	2010-1-1	2010-6-30	Market price	200,000.00
Luqun Property	Luthai Textile	Land and housing	2010-7-1	2010-12-31	Market price	854,808.00
Lucheng	Luthai	Yard	2010-7-1	2010-12-31	Market price	210,000.00

Name of the lessee	Name of the lessor	Category of the leasing asset	Beginning leasing date	End leasing date	Pricing basis for leasing fee	Leasing fee recognized of the current year
Textile	Textile					
Lucheng Textile	Luthai Textile	Land and housing	2008-1-1	2013-12-31	Market price	403,440.00
Luqun Property	Luthai Textile	Land	2010-1-1	2010-12-31	Market price	330,912.00
Lucheng Textile	Lufeng Weaving & Dyeing	Housing	2010-1-1	2012-12-31	Market price	696,646.44
Lucheng Textile	Luqun Textile	Yard	2010-1-1	2010-12-31	Market price	200,000.00
Lucheng Textile	Luqun Textile	Equipment	2010-1-1	2012-12-31	Market price	4,155,036.48

(3) Capital borrowed and loaned of related parties

Related party	Amount borrowed and loaned	Starting date	Due date	Remark
Borrowing:				
Lucheng Textile	61,700,000.00	2010-2-1	2011-2-1	Borrowed by Luqun Textile; RMB 10 million of last period and RMB 14 million of the current period were repaid
Taimei Ties	2,500,000.00	2010-2-1	2011-2-1	Borrowed by Luqun Textile; The payment was completely repaid
Stanluian Company	2,400,000.00	2010-2-1	2011-2-1	Borrowed by Luqun Textile; The payment was completely repaid
Dongtai International	2,552,700.00	2010-10-13	2011-10-13	Borrowed by Luthai (Hong Kong)

(4) Remuneration for key management staff

Interval of annual remuneration	Amount in 2010	Amount in 2009
Total amount	RMB 20,280,900	RMB 12,553,300
Of which: (The number of people in each interval)		
Above RMB 200,000	25	23
RMB 150,000-200,000		
RMB 100,000-150,000		
Below RMB 100,000	6	8

5. Receivables and payables of related parties

Payables and accounts received in advance of related parties

Name	Closing amount	Opening amount
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Name	Closing amount	Opening amount
Payables		
Lucheng Textile		1,260,493.77
Total		1,260,493.77
Other payables		
Lucheng Textile	47,988,147.00	10,287,625.00
Dongtai International	2,552,700.00	
Total	50,540,847.00	10,287,625.00

IX. Contingencies

As at 31 Dec. 2010, physical assets pledged by controlled subsidiaries for the purpose of acquiring bank loans

Entity	Pledged asset	Asset value	Acquired loan	Term of borrowing
Xinjiang Luthai	Inventory	180,000,000.00	70,000,000.00	2010.11.24-2011.8.23
Xinjiang Luthai	Land-use right	9,658,676.12	45,000,000.00	2010.9.8-2011.9.7
Total		189,658,676.12	115,000,000.00	

X. Commitments

1. Significant commitments

Item	Closing amount	RMB Ten thousand Opening amount
Commitments signed but hasn't been recognized in financial statements		
- Commitment for constructing and purchasing long-term assets	1,979	7,646
Total	1,979	7,646

2. Fulfillment of prior commitments

Item	Contracted amount (RMB Ten thousand)	Fulfillment of prior commitments
Commitment for constructing and purchasing long-term assets	7,646	Fulfilled

XI. Events after the balance sheet date

Explanation on profit distribution after the balance sheet date

Item	Amount
Profits or dividends to be distributed	

On 28 Mar. 2011, the profit distribution preplan 2010 was approved at the 36th Session of the 5th Board of Directors: 10% legal surplus shall be withdrawn on the basis of the audited net profit of Y2010. Thereafter, based on total share capital of 994,864,800 shares as at 31 Dec. 2010, the cash dividend of

RMB [] (tax included) will be distributed for every 10 shares. In total, RMB [] will be distributed as dividends. The aforesaid profit distribution proposal shall be implemented after being reviewed and approved by the Shareholders' General Meeting 2010.

XII. Explanation on other significant event

Assets and liabilities measured by fair value

Item	Opening amount	Profits and losses on changes in fair value of the current period	Accumulated changes in fair value recorded into equity	Impairment of withdrawal of the current period	Closing amount
Transactional financial assets					
Financial assets measured by fair value and of which changes recorded into profit and loss of the current period (excluding derivative financial assets)					
Derivative financial assets		40,418,200.00			40,418,200.00
Financial assets available for sale					
Subtotal of financial assets		40,418,200.00			40,418,200.00
Transactional financial liabilities	61,408,150.00	59,457,436.72			1,950,713.28

VIII. Notes to major items in financial statements of the Company

1. Accounts receivable

(1) Accounts receivable listed by category

Category	Closing amount			
	Book balance		Bad debt provisions	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with single significant amount and are individually allotted for bad debt provisions				
Accounts receivable allotted in combination for bad debt provisions				
Aging combinations	211,422,918.84	100.00	11,561,268.34	5.47
Subtotal of combinations	211,422,918.84	100.00	11,561,268.34	5.47
Accounts receivable with insignificant amount and are				

individually allotted for bad debt provisions				
Total	211,422,918.84	100.00	11,561,268.34	5.47

(Con)

Category	Opening amount			
	Book balance		Bad debt provisions	
		Proportion		Proportion
	Amount	(%)	Amount	(%)
Accounts receivable with single significant amount and are individually allotted for bad debt provisions				
Accounts receivable allotted in combination for bad debt provisions				
Aging combinations	176,885,349.49	100.00	9,794,292.62	5.54
Subtotal of combinations	176,885,349.49	100.00	9,794,292.62	5.54
Accounts receivable with insignificant amount and are individually allotted for bad debt provisions				
Total	176,885,349.49	100.00	9,794,292.62	5.54

(2) Accounts receivable listed by aging

Item	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	195,181,041.23	92.32	157,884,846.60	89.26
1-2 years	14,461,592.47	6.84	19,000,502.89	10.74
2-3 years	1,780,285.14	0.84		
Total	211,422,918.84	100.00	176,885,349.49	100.00

(3) Withdrawal of bad debt provisions

Accounts receivable allotted in combination for bad debt provisions

Accounts receivable allotted for bad debt provision by aging analysis method in combinations:

Aging	Closing amount			Opening amount		
	Book balance		Bad debt provisions	Book balance		Bad debt provisions
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	195,181,041.23	92.32	9,759,052.06	157,884,846.60	89.26	7,894,242.33
1-2 years	14,461,592.47	6.84	1,446,159.25	19,000,502.89	10.74	1,900,050.29
2-3 years	1,780,285.14	0.84	356,057.03			
Total	211,422,918.84	100.00	11,561,268.34	176,885,349.49	100.00	9,794,292.62

(4) There were no accounts receivable due from shareholders with more than 5% (including 5%) of the

voting shares of the Company.

(5) Top 5 entities in amount of accounts receivable

Name of entity	Relation to the Company	Amount	Term	Proportion to total accounts receivable (%)
Lufeng Weaving & Dyeing	Controlled subsidiary	59,268,092.94	With 1 year	28.03
Beijing Sichuang	Controlled subsidiary	29,459,150.15	1-3 years	13.93
OXFORD	Non-related client	21,275,629.16	With 1 year	10.06
TAL	Non-related client	17,973,729.23	With 1 year	8.50
SETA	Non-related client	10,962,221.80	With 1 year	5.18
Total		<u>138,938,823.28</u>		<u>65.72</u>

(6) Amount in original currency of foreign-currency accounts receivables and discounted exchange rate

Item	Closing amount			Opening amount		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
USD	24,961,745.58	6.6227	165,314,152.48	18,161,141.74	6.8282	124,007,908.00

2. Other receivables

(1) Other receivable listed by category

Category	Closing amount			
	Book balance		Bad debt provisions	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with single significant amount and are individually allotted for bad debt provisions				
Other receivables allotted in combination for bad debt provisions				
Aging combinations	31,413,836.00	100.00	2,240,484.92	7.13
Subtotal of combinations	<u>31,413,836.00</u>	<u>100.00</u>	<u>2,240,484.92</u>	<u>7.13</u>
Other receivables with insignificant amount and are individually allotted for bad debt provisions				
Total	<u>31,413,836.00</u>	<u>100.00</u>	<u>2,240,484.92</u>	<u>7.13</u>

(Con)

Category	Opening amount			
	Book balance		Bad debt provisions	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with single significant amount and are individually allotted for bad debt provisions				
Other receivables allotted in combination for bad debt provisions				
Aging combinations	15,404,172.50	100.00	1,387,048.59	9.00
Subtotal of combinations	15,404,172.50	100.00	1,387,048.59	9.00
Other receivables with insignificant amount and are individually allotted for bad debt provisions				
Total	15,404,172.50	100.00	1,387,048.59	9.00

(2) Other receivables listed by aging

Item	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	27,466,355.49	87.44	11,480,080.82	74.53
1-2 years	917,585.18	2.92	1,706,815.97	11.08
2-3 years	1,335,599.65	4.25	228,197.57	1.48
Over 3 years	1,694,295.68	5.39	1,989,078.14	12.91
Total	31,413,836.00	100.00	15,404,172.50	100.00

(3) Withdrawal of bad debt provisions

Other receivables allotted in combination for bad debt provisions

Other receivables allotted for bad debt provision by aging analysis method in combinations:

Aging	Closing balance			Opening balance		
	Book balance		Bad debt provisions	Book balance		Bad debt provisions
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	27,466,355.49	87.44	1,373,317.77	11,480,080.82	74.53	574,004.04
1-2 years	917,585.18	2.92	91,758.52	1,706,815.97	11.08	170,681.60
2-3 years	1,335,599.65	4.25	267,119.93	228,197.57	1.48	45,639.51
Over 3 years	1,694,295.68	5.39	508,288.70	1,989,078.14	12.91	596,723.44
Total	31,413,836.00	100.00	2,240,484.92	15,404,172.50	100.00	1,387,048.59

(4) There were no other receivables due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

(5) Top 5 entities in amount of other receivables

Name of entity	Relation to the	Amount	Term	Proportion to
----------------	-----------------	--------	------	---------------

				Company		total amount of other receivables (%)
Tax reimbursement for export		Payable reimbursement for export	tax	17,371,599.51	With 1 year	55.30
Zibo Luxia Real Estates Development Co., Ltd.	Prepaid house purchase fund			956,985.05	Over 3 years	3.05
Payment for staff quarters		Advanced repurchase fund for staff quarters		770,431.73	With 1 year, 1-2 years	2.45
International Department	Business	Advanced air freight for export		662,945.35	With 1 year	2.11
Zibo Custom		Deposit for import equipment		373,928.60	With 1 year	1.19
Total				20,135,890.24		64.10

(6) Amount in original currency of other receivables of foreign currency and discounted exchange rate

Item	Closing amount			Opening amount		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
USD	34,174.50	6.6227	226,327.46	11,444.67	6.8282	78,146.50

3. Long-term equity investment

(1) Categories of long-term equity investment

Item	Opening amount	Increase in the current period	Decrease in the current period	Closing amount
Investment on subsidiaries	897,482,752.85	32,224,366.73	92,194,529.68	837,512,589.90
Investment on joint ventures				
Investment on associated enterprises				
Other equity investments		56,782,600.00		56,782,600.00
Less: Impairment provisions for long-term equity investment				
Total	897,482,752.85	89,006,966.73	92,194,529.68	894,295,189.90

(2) Breakdown of long-term equity investments

Invested entity	Accounting method	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	21,000,000.00		21,000,000.00
Xinjiang Luthai	Cost	65,176,335.24	65,176,335.24	17,224,366.73	82,400,701.97

	method				
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	88,834,529.68	-88,834,529.68	
Luthai (Hong Kong)	Cost method	6,366,600.00	6,366,600.00		6,366,600.00
Lufeng Sunshine	Cost method	10,000,000.00		10,000,000.00	10,000,000.00
Shanghai Luthai	Cost method	5,000,000.00		5,000,000.00	5,000,000.00
Rongchang Pharmacy	Cost method	55,282,600.00		55,282,600.00	55,282,600.00
Limin Wall Material	Cost method	1,500,000.00		1,500,000.00	1,500,000.00
Total			<u>897,482,752.85</u>	<u>-3,187,562.95</u>	<u>894,295,189.90</u>

(Con)

Invested entity	Shareholding proportion over invested entity (%)	Proportion of voting rights over invested entity (%)	Explanation on inconformity between shareholding proportion and voting right proportion over invested entity	Impairment provisions	Withdrawn impairment provisions of the current period	Cash dividends of the current period
Beijing Luthai						
Beijing Sichuang	60	60				4,957,735.18
Xinjiang Luthai	58.24	58.24				17,224,366.73
Xinsheng Power	100	100				
Lufeng Weaving & Dyeing	75	75				
Luqun Textile	100	100				
Luthai Huanzhong						
Luthai (Hong	100	100				

Kong)			
Lufeng	100	100	
Sunshine			
Shanghai	100	100	
Luthai			
Rongchang	5.555	5.555	
Pharmacy			
Limin Wall	15	15	
Material			
Total			22,182,101.91

4. Operating income and operating cost

(1) Operating income and operating cost

Item	Amount in 2010	Amount in 2009
Income from main operation	3,678,752,464.62	3,069,989,678.89
Other operating income	189,774,603.83	165,595,545.21
Total operating income	3,868,527,068.45	3,235,585,224.10
Cost of main operation	2,593,033,308.95	2,298,880,428.96
Other operating cost	135,813,114.53	117,299,572.37
Total operating cost	2,728,846,423.48	2,416,180,001.33

(2) Main business (categorized by product)

Product name	Amount in 2010		Amount in 2009	
	Operating income	Operating cost	Operating income	Operating cost
Yarn-dyed fabric	2,677,556,658.42	1,880,293,697.07	2,200,831,800.48	1,686,133,033.13
Shirt	1,001,195,806.20	712,739,611.88	869,157,878.41	612,747,395.83
Total	3,678,752,464.62	2,593,033,308.95	3,069,989,678.89	2,298,880,428.96

(3) Operating income from the top 5 clients of the Company

Year	Total operating income from the top 5 clients	Proportion to operating incomes at the same period (%)
2010	1,207,287,285.45	31.21
2009	1,096,555,322.45	33.89

5. Investment income

(1) Breakdown of investment income

Name of invested unit	Amount in 2010	Amount in 2009
Long-term equity investment income measured by cost method	22,182,101.91	22,170,289.21
Long-term equity investment income measured by equity method		

Name of invested unit	Amount in 2010	Amount in 2009
Investment income arising from disposal of long-term equity investment	-33,475,587.42	
Investment income generated during the period of holding transactional financial assets		
Investment income generated during the period of holding held-to-maturity investment		
Investment income generated during the period of holding financial assets available for sale		
Investment income arising from disposal of transactional financial assets (liabilities)	-51,159,621.02	16,763,060.00
Investment income arising from held-to-maturity investment		
Investment income arising from financial assets available for sale		
Other		
Total	-62,453,106.53	38,933,349.21

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

(2) Long-term equity investment income measured by cost method

Invested entity	Amount in 2010	Amount in 2009
Beijing Sichuang	4,957,735.18	5,065,915.00
Xinjiang Luthai	17,224,366.73	17,104,374.21
Total	22,182,101.91	22,170,289.21

6. Supplementary information to consolidated cash flow statement

Item	Amount in 2010	Amount in 2009
1. Net profit adjusted to cash flow of operation:		
Net profit	540,109,565.14	437,669,939.90
Plus: Asset impairment provision	36,595,320.28	212,194.60
Fixed asset depreciation, gas and petrol depreciation, production goods depreciation	203,815,714.61	193,210,421.68
Amortization of intangible assets	5,604,005.47	4,637,123.16
Amortization of long-term deferred expenses		
Loss on disposal of fixed assets, intangible assets and other long-term assets (income is listed as "-")	6,055,099.66	-1,070,795.06
Loss on retirement of fixed assets (income is listed as "-")		835,786.17
Losses on change in fair value (income is listed as "-")	-83,143,186.72	45,021,500.00
Financial expense (income is listed as "-")	483,290.29	19,664,680.35
Investment losses (income is listed as "-")	62,453,106.53	-38,933,349.21
Decrease in deferred income tax assets (increase is listed as "-")	-943,499.39	-16,208,646.32

Item	Amount in 2010	Amount in 2009
Increase in deferred income tax liabilities(decrease is listed as “-”)	5,134,800.00	
Decrease of inventories (increase is listed as “-”)	-16,142,244.15	166,694,044.41
Decrease in operating receivables (increase is listed as “-”)	157,950,475.25	131,286,367.47
Increase in operating payables (decrease is listed as “-”)	-293,414,410.20	-369,640,340.30
Other		
Net cash flows arising from operating activities	624,558,036.77	573,378,926.85
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	280,772,869.89	324,783,025.04
Less: Opening balance of cash	324,783,025.04	884,493,526.89
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	-44,010,155.15	-559,710,501.85

XIV. Supplementary information

1. Details of non-recurring gain/loss of current period

Item	Unit: RMB Yuan	
	Amount in 2010	Amount in 2009
Gain/loss from disposal of non-current capital	2,944,436.58	-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)	40,477,963.67	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	37,764,445.85	-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	-6,225,839.98	8,645,177.56
Other gain/loss items satisfying the definition of nonrecurring gain/loss account		
Subtotal	<u>74,961,006.12</u>	<u>-6,453,351.87</u>
Influenced amount of income tax	-1,654,239.60	8,124,299.45
Influenced amount of minor shareholders' equity (after tax)	4,574,880.74	328,046.09
Total	<u>72,040,364.98</u>	<u>-14,905,697.41</u>

Note: As for numbers in items of non-recurring gains and losses, “+” shows profit or income, “-” shows loss or expenditure

The recognition of items of non-recurring gains and losses of the Group is in line with Explanatory Public Notice on Information Disclosure of Companies Publicly Issuing Securities No.1 – Non-recurring Gains and Losses (Zheng-Jian-Hui-Gong-Gao [2008] No.43).

2. 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

Item	Net profits		Net assets	
	Amount in 2010	Amount in 2009	Closing amount	Opening amount
Data under PRC GAAP	739,091,623.50	570,218,343.41	4,404,133,413.47	3,919,660,709.28
Increase of fixed assets arising from translating the USD statements into RMB statements in 1996 not recognized under IFRS			-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	-5,738,000.00	-6,269,000.00
Impact of tax deductible of domestic equipment recognized as deferred income under IFRS	1,718,000.00	1,718,000.00	-8,206,000.00	-9,924,000.00
Data under IFRS	741,340,623.50	572,467,343.41	4,386,959,413.47	3,900,237,709.28

3. Return on equity and earnings per share

Profit as of reporting period	Weighted average return on equity	EPS (RMB/share)	
		Basic	Diluted
Net profit attributable to shareholders of ordinary shares of the Company	17.75%	0.74	0.74
Net profit attributable to shareholders of ordinary shares after deducting non-recurring gains and losses	16.02%	0.67	0.67

Note: For details about calculation of EPS and diluted EPS, please refer to Note VII. 47.

4. Explanation on change in major items in consolidated financial statements of the Group and the reason

(1) As at 31 Dec. 2010, the closing amount of transactional assets was RMB 40,418,200.00, with an

increase of RMB 40,418,200.00 over the opening amount, mainly due to the change in fair value of transactional financial assets.

(2) As at 31 Dec. 2010, the closing amount of prepayments was RMB 387,788,595.85, with an increase of 141.22% over the opening amount, mainly due to the increase of prepayments for purchasing cotton.

(3) As at 31 Dec. 2010, the closing amount of interests receivable was RMB 1,568,105.85, with an increase of RMB 1,568,105.85 over the opening amount, mainly due to the increase of interests of receivable bank deposit savings.

(4) As at 31 Dec. 2010, the closing amount of other receivables was RMB 74,903,936.45, with an increase of 50.72% over the opening amount, mainly due to the increase of receivable tax reimbursement for export.

(5) As at 31 Dec. 2010, the closing amount of engineering funds was RMB 1,164,182.23, with a decrease of 90.06% over the opening amount, mainly due to the increase of special equipments used in the current period.

(6) As at 31 Dec. 2010, the closing amount of transactional financial liabilities was RMB 1,950,713.28, with a decrease of 96.82% over the opening amount, mainly due to the disposal of due transactional financial liabilities.

(7) As at 31 Dec. 2010, the closing amount of accounts payable was RMB 469,527,076.77, with an increase of 70.19% over the opening amount, mainly due to the increase of payable payments for unginned cotton.

(8) As at 31 Dec. 2010, the closing amount of accounts received in advance was RMB 147,284,467.21, with an increase of 255.40% over the opening amount, mainly due to the increase of accounts receivable in advance of ginned cotton.

(9) As at 31 Dec. 2010, the closing amount of payable remuneration was RMB 331,045,622.56, with an increase of 50.23% over the opening amount, mainly due to the increase of withdrawn year-end bonuses and performance rewarding funds for senior executives at the period-end.

(10) As at 31 Dec. 2010, the closing amount of taxes payable was RMB -12,806,832.19, with a decrease of 144.65% over the opening amount, mainly due to the increase of input tax of VAT payable.

(11) As at 31 Dec. 2010, the closing amount of interests payable was RMB 4,805,148.11, with an increase of 880.44% over the opening amount, mainly due to the increase of pre-withdrawn interests.

(12) As at 31 Dec. 2010, the closing amount of dividends payable was RMB 3,259,512.84, with an increase of 636.55% over the opening amount, mainly due to the increase of unpaid dividends by Beijing Sichuang, the subsidiary.

(13) As at 31 Dec. 2010, the closing amount of other payables was RMB 138,264,754.93, with an increase of 52.93% over the opening amount, mainly due to the increase of payable come-and-go borrowings of Lucheng Textile.

(14) As at 31 Dec. 2010, the closing amount of non-current liabilities due within 1 year was RMB 69,364,725.00, with a decrease of 55.93% over the opening amount, mainly due to the decrease of long-term borrowings due within 1 year.

(15) As at 31 Dec. 2010, the closing amount of deferred income tax liabilities was RMB 8,908,329.73, with a decrease of 2089.84% over the opening amount, mainly due to the increase of deferred income tax liabilities arising from transactional financial assets.

(16) As at 31 Dec. 2010, the closing amount of other non-current liabilities was RMB 68,422,326.66, with an increase of 2459.33% over the opening amount, mainly due to the increase of deferred income.

(17) The amount in 2010 of business tax and surcharges was RMB 4,602,517.53, with an increase of 43.98% over the amount in 2009, mainly because the Company has withdrawn city maintenance and construction tax and educational surtax since 1 Dec. 2010 in light of the Notice of the State Department on Integrating the System of City Maintenance and Construction Tax and Educational Surtax for Foreign-funded Enterprises and Individuals.

(18) The amount in 2010 of administration expenses was RMB 545,420,394.57, with an increase of 60.55% over the amount in 2009, mainly due to the increase of remuneration expenditure and R&D expenses of the current period.

(19) The amount in 2010 of financial expenses was RMB 39,089,572.40, with a decrease of 35.86% over the amount in 2009, mainly because borrowings of the current period were mainly in USD, of which the interest rate was lower than borrowings in RMB.

(20) The amount in 2010 of losses of assets impairment was RMB 45,061,058.70, with an increase of 603.72% over the amount in 2009, mainly due to the impairment of withdrawn inventories and fixed assets of the current period.

(21) The amount in 2010 of income from change in fair value was RMB 99,875,636.72, with an increase of 336.49% over the amount in 2009, mainly because the disposal of transactional financial liabilities resulted in settlement of originally recognized income from change in fair value, as well as the change in fair value of transactional financial asset.

(22) The amount in 2010 of invest income was RMB -51,957,779.29, with a decrease of 749.86% over the amount in 2009, mainly resulted from loss in investment of financial assets (liabilities).

(23) The amount in 2010 of non-operating income was RMB 49,236,386.18, with an increase of 33.05% over the amount in 2009, mainly due to the increase of government subsidies of the current

period.

(24) The amount in 2010 of non-operating expense was RMB 22,193,237.49, with an increase of 140.62% over the amount in 2009, mainly due to the increase of donation expense and loss in disposal of fixed assets.

(25) The amount in 2010 of income tax expense was RMB 119,808,030.88, with an increase of 56.89% over the amount in 2009, mainly due to the increase of total profits and income tax expenses of the current period.

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.**
30 Mar. 2011

Chairman of the Board:-----