



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

**SEMI-ANNUAL REPORT 2016**

**August 2016**

## **Section I Important Statements, Contents and Terms**

The board of directors (the “Board”), the board of supervisors (the “Board of Supervisors”) as well as the directors, supervisors and senior management of Lu Thai Textile Co., Ltd. (the “Company”) hereby guarantee the factuality, accuracy and completeness of the contents of the Report, and shall be jointly and severally liable for any false representation, misleading statements or material omissions in the Report.

All the directors attended the board meeting for the review of the Report.

The Company plans not to distribute cash dividends or bonus shares or convert capital reserve into share capital.

Liu Zibin, head of the Company, Zhang Hongmei, accounting head for the Report, and Zhang Keming, head of the accounting organ (head of accounting), hereby guarantee that the Financial Report carried in the Report is factual, accurate and complete.

The Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

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## Terms

Term	Meaning
Issuer, Company, the Company	Lu Thai Textile Co., Ltd.
The Board of Directors	The Board of Directors of Lu Thai Textile Co., Ltd.
The Board of Supervisors	The Board of Supervisors of Lu Thai Textile Co., Ltd.
CSRC	China Securities Regulation Commission
RMB	Renminbi
The Company Law	The Company Law of the People's Republic of China
The Securities Law	The Securities Law of the People's Republic of China
Reporting Period	1 January 2016-30 June 2016

## Section II Corporate Profile

### I Corporate information

Stock name	Lu Thai A, Lu Thai B	Stock code	000726, 200726
Changed stock name (if any)	N/A		
Stock exchange	Shenzhen Stock Exchange		
Company name in Chinese	鲁泰纺织股份有限公司		
Abbr. (if any)	鲁泰纺织		
Company name in English (if any)	LU THAI TEXTILE CO., LTD		
Abbr. (if any)	LTTC		
Legal representative	Liu Zibin		

### II Contact information

	Board Secretary	Securities Representative
Name	Qin Guiling	Zheng Weiyin, Li Kun
Address	No. 81, Songling East Road, Zichuan District, Zibo, Shandong, P.R.China	No. 81, Songling East Road, Zichuan District, Zibo, Shandong, P.R.China
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E-mail	qinguilin@lttc.com.cn	wyzheng@lttc.com.cn, likun@lttc.com.cn

### III Other information

#### 1. Ways to contact the Company

Did any change occur to the registered address, office address and their postal codes, website address and email address of the Company during the Reporting Period?

Applicable  Not applicable

The registered address, office address and their postal codes, website address and email address of the Company did not change during the Reporting Period. The said information can be found in the 2015 Annual Report.

#### 2. About information disclosure and the place where the Report is kept

Did any change occur to information disclosure media and the place where the Report is kept during the Reporting Period?

Applicable  Not applicable

The newspapers designated by the Company for information disclosure, the website designated by the CSRC for disclosing the Report and the location where the Report is placed did not change during the Reporting Period. The said information can be found in the 2015 Annual Report.

### 3. Change of the registered information

Did any change occur to the registered information during the Reporting Period?

Applicable  Not applicable

	Registration date	Registration place	Business license No.	Registration code of taxation	Organizational code
Opening registered information	2014-11-13	Zibo Administration for Industry & Commerce	370300400002843	370302613281175	61328117-5
Closing registered information	2015-12-07	Zibo Administration for Industry & Commerce	91370300613281175K	91370300613281175K	91370300613281175K
Disclosure date of the relevant announcement (if any)					

## Section III Highlights of Accounting Data and Financial Indicators

### I Major accounting data and financial indicators

Whether the Company performs any retroactive adjustments to or restatements of its accounting data of last year due to change in accounting policies or correction of accounting errors

Yes  No

	Reporting Period	Same period of last year	+/- (%)
Operating revenues (RMB)	2,831,326,773.03	2,941,835,897.16	-3.76%
Net profit attributable to shareholders of the Company (RMB)	344,641,184.73	344,521,516.72	0.03%
Net profit attributable to shareholders of the Company excluding exceptional profit and loss (RMB)	333,236,862.51	308,604,457.41	7.98%
Net cash flows from operating activities (RMB)	563,407,347.43	362,304,624.13	55.51%
Basic earnings per share (RMB/share)	0.37	0.36	2.78%
Diluted earnings per share (RMB/share)	0.37	0.36	2.78%
Weighted average return on equity (%)	5.10%	5.10%	0.00%
	As at the end of the Reporting Period	As at the end of last year	+/- (%)
Total assets (RMB)	9,021,235,390.97	9,091,170,499.22	-0.77%
Net assets attributable to shareholders of the Company (RMB)	6,508,090,698.05	6,837,113,075.58	-4.81%

### II Differences in accounting data under domestic and foreign accounting standards

#### 1. Differences in the net profit and the net assets disclosed in the financial reports prepared under Chinese and international accounting standards

Applicable  Not applicable

Unit: RMB

	Net profit attributable to shareholders of the Company		Net assets attributable to shareholders of the Company	
	Reporting Period	Same period of last year	Closing amount	Opening amount
According to Chinese accounting standards	344,641,184.73	344,521,516.72	6,508,090,698.05	6,837,113,075.58
Items and amounts adjusted according to international accounting standards				
Impact on domestic equipments tax credit	362,500.00	612,500.00	-691,500.00	-1,054,000.00

recognized as deferred income under international accounting standards				
According to international accounting standards	345,003,684.73	345,134,016.72	6,507,399,198.05	6,836,059,075.58

## 2. Differences in the net profit and the net assets disclosed in the financial reports prepared under Chinese and foreign accounting standards

Applicable  Not applicable

No such differences for the Reporting Period.

## 3. Reasons for the differences in accounting data under domestic and foreign accounting standards

Applicable  Not applicable

Effects of domestic equipment exempted from income tax

The Company exempted from income tax for buying domestic equipment. According to Chinese accounting standards, the income tax expenses are directly reduced which are recognized as deferred income related to assets by the international accounting standards. According to the regulations of the international accounting standards, this difference is amortized over the fixed using periods of year of the fixed assets and adjusting net income and net assets.

## III Exceptional profit and loss

Applicable  Not applicable

Unit: RMB

Item	Reporting Period	Note
Profit/loss on disposal of non-current assets (including offset asset impairment provisions)	-5,183,811.95	
Government grants charged to the profit/loss for the Reporting Period (except for the government grants closely related to the business of the Company and given at a fixed quota or amount in accordance with the State's uniform standards)	14,112,224.13	
Profit/loss on fair value changes of transactional financial assets and liabilities & investment income from disposal of transactional financial assets and liabilities as well as financial assets available for sale, except for effective hedges related to normal business operations of the Company	-2,694,651.82	
Non-operating revenue and expense other than the above	4,546,385.24	
Less: Corporate income tax	-2,743,698.15	
Minority interests (after tax)	2,119,521.53	
Total	11,404,322.22	--

Explanation of why the Company classified an item as exceptional profit/loss according to the definition in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Exceptional Profit and Loss, or reclassified any exceptional profit/loss item given as an example in the said explanatory announcement to recurrent profit/loss



Applicable  Not applicable

No such cases in the Reporting Period.

## Section IV Report by the Board of Directors

### I Overview

In the first half of 2016, affected by the macro economic environment, the textile & apparel sector saw a slow recovery in fundamentals and export with weak consumer demand. Under such circumstances, we continued to base ourselves on the reality of the industry and the Company, deepen our excellent performance management model, promote our Lu Thai Production System (LTPS) and proactively carry forward our global planning. Meanwhile, we accelerated the in-depth fusion of industrialization and informatization, pushed forward innovation as a driving force and strengthened corporate culture improvement. As a result, we managed to maintain a healthy and steady development trend.

For the Reporting Period, the Company achieved operating revenues of RMB2.831 billion, operating profit of RMB419 million, net profit attributable to the shareholders of the Company of RMB345 million and net profit attributable to the shareholders of the Company of RMB333 million after excluding the exceptional profit and loss, down 3.76%, up 2.87%, 0.03% and 7.98% respectively from the same period of last year. No changes occurred to the main business, the main profit sources and structure of the Company.

During the Reporting Period, the Company was named as “2015 Top 20 Enterprises in Chinese Printing and Dyeing Industry” by China Dyeing and Printing Industry Association, “Chinese Exports Quality and Safety Demonstration Enterprise” by State General Administration of the People’s Republic of China for Quality Supervision and Inspection and Quarantine, “Top 100 Enterprises in Chinese Garment Industry in 2015” by China National Garment Association, “The Province's Trade Union Labor Protection Demonstration Enterprise in Light Textile Industry” by Shandong Province Light Textile Industrial Trade Union Committee. “Lu Thai” trademark was rated as a famous brand of Shandong Province by Administration for Industry and Commerce of Shandong Province. Lu Thai Group was selected as China Cotton Textile Association top 100 enterprises of the main business revenues in cotton textile industry in 2015 (fourth place), and top 10 enterprises of main business revenues in yarn-dyed fabric industry (first).

During the Reporting Period, the Company continually carried out scientific research and innovation, constantly developed new technologies and processes, increased customer promotion and service, made researches on customized service for each key customer in domestic and foreign markets, and regularly organized new product order meeting and review meeting, and also held new product design and development seminars with business segments and brand promotion centers from time to time. With the end-market’s continuously increased demand for leisure products, the Company utilized advantage resources to intensify the development of jeans, casual washing products, and market acceptance and customer recognition substantially increased. During the Reporting Period, 28 patents were declared and accepted, of which 23 patents were authorized. The Company also participated in enacting 1 industry standard. Up to now, it altogether won 44 prizes in the national and provincial level, including 1 first prize and 2 second prizes of National Scientific and Technological Awards and 8 first prizes at the provincial stage. 341 patents were applied and accepted, of which 234 were authorized; the Company also participated in or took charge of enacting 29 standards.

The Company popularizes the results of market services upgrading year to enhance the brand influence. The Company took full advantage of its Milan Office in Italy and the subsidiary in America to internationalize its creativity and design, established communication mechanism with strategic customers, and participated in the pre-trend planning actively and offered extended design services. The Company established a direct connection with designers of key customers through the market promotion conferences convened in Britain, Turkey, and continued to strengthen communication with designers of key customers in America and Asia so as to promote closer cooperation between the two sides and to recommend natural fiber series of new products to customers. Through New York and Milan promotion conferences and Shanghai fabric promotion conferences, it communicated adequately with customers of OXFORD, TAG, TMW, SEIDENSTICKER United States, Itochu, PVH and so on, and maintained a good relationship of cooperation. During Reporting Period, the Company designed 1568 patterns for key customers, provided 7368 colors, and completed the 2017 spring and summer trend of design including a total of 100 series, 3751 colors.

During the Reporting Period, the Company continued promoting the brand-building and marketing network construction. Beijing Lutai Youxian E-Commerce Co., Ltd, a subsidiary of Lu Thai (“UTAILOR Jun Yi” high-end custom platform (www.utailor.com.cn)), took advantage of the Company’s manufacturing technology in the whole industry chain and quality guarantee and so on, and adopted “place order online and conduct measurement by visiting the customers” O2O mode. With convenient booking and order by Utailor, Vshop, Jingdong flagship stores and 400 calls and other means, it provides consumers with tailor-made service for high-quality shirt .Since “UTAILORE”, one of its high-end men’s clothing was pushed to the market, the number of customers and to re-purchase rate of old customers is rising consistently. Now, its business covers the first-tire cities, including Beijing, Shanghai, Shenzhen and Guangzhou, which paves the way for the promotion of its garment brands.

At the current stage, Lu Thai, with natural fabric as its flagship, multi-component functional fiber fabric as its spearhead, wash-and-wear non-ironing technology as its core competency, the latest consumption trend as its guidance and internationalized industrial manufacturing as its basis, is sparing every effort to attain a global integrated development, so as to ensure its leading position in the yarn-dyed shirt fabric sector.

## II Analysis of main business

### Overview:

For the Reporting Period, operating revenues, operating costs and selling expenses decreased 3.76%, 9.17% and 9.15% respectively on a year-on-year basis; and administrative expenses, finance costs and the corporate income tax went up 9.78%, 119.59% and 32.68% respectively from a year earlier. Finance costs increased 119.59% mainly due to the increased net exchange loss caused by exchange rate fluctuations. The corporate income tax grew 32.68% mainly due to the increased total profit of the Company and Lu Feng, the changes in the tax policy and the fact that the R&D expenses were not allowed for quarterly over-deduction in the calculation of the taxable income amount for the Reporting Period. Net cash flows from operating activities went up 55.51% mainly due to the 24.63% decrease in the cash paid for goods and services. Net cash flows from investing activities dropped 271.78% mainly because of the 177.57% increase in the cash paid to acquire fixed assets. Net cash flows from financing activities were up 22.17%. And net increase in cash and cash equivalents fell 55.01% mainly owing to the 271.78% drop in the net cash flows from investing activities.

### YoY changes in major financial data

Unit: RMB

	Reporting Period	Same period of last year	YoY +/-%	Main reason for change
Operating revenues	2,831,326,773.03	2,941,835,897.16	-3.76%	
Operating costs	1,937,399,591.08	2,133,022,201.07	-9.17%	
Selling expenses	88,709,663.50	97,645,409.00	-9.15%	
Administrative expenses	341,771,955.16	311,323,333.58	9.78%	
Finance costs	19,810,742.68	9,021,706.88	119.59%	Increased net exchange loss caused by exchange rate fluctuations
Corporate income tax	89,518,494.52	67,469,529.96	32.68%	Increased total profit of the Company and Lu Feng, the changes in the tax policy and the fact that the R&D expenses were not allowed for quarterly over-deduction in the calculation of the taxable income amount for the Reporting Period

R&D expenses	161,055,249.75	141,009,183.42	14.22%	
Net cash flows from operating activities	563,407,347.43	362,304,624.13	55.51%	24.63% decrease in the cash paid for goods and services
Net cash flows from investing activities	-476,416,586.86	-128,144,916.52	-271.78%	177.57% increase in the cash paid to acquire fixed assets
Net cash flows from financing activities	-277,760,450.21	-356,898,204.35	22.17%	
Net increase in cash and cash equivalents	-187,529,531.30	-120,982,414.33	-55.01%	271.78% drop in the net cash flows from investing activities

Major changes to the profit structure or sources of the Company in the Reporting Period:

Applicable  Not applicable

No such cases in the Reporting Period.

Reporting Period progress of the future development planning in the disclosed documents of the Company such as share-soliciting prospectuses, offering prospectuses, asset reorganization reports, etc.:

Applicable  Not applicable

No such cases in the Reporting Period.

Review the progress of the previously disclosed business plan in the Reporting Period:

Not applicable

### III Breakdown of main business

Unit: RMB

	Operating revenue	Operating cost	Gross profit margin	Operating revenue: YoY +/-%	Operating cost: YoY +/-%	Gross profit margin: YoY +/-%
By business segment						
Textile and Apparel	2,665,326,663.01	1,815,353,586.47	31.89%	-1.80%	-7.52%	4.22%
Cotton	2,598,199.11	2,767,206.66	-6.50%	-91.40%	-89.06%	-22.79%
Electricity and steam	66,951,438.30	52,474,137.20	21.62%	-21.48%	-14.29%	-6.58%
Others	16,581,168.67	13,228,076.87	20.22%	-41.13%	-45.07%	5.73%
By product						
Fabric products	2,089,428,333.69	1,412,580,279.95	32.39%	-2.47%	-8.95%	4.81%
Shirts	575,898,329.32	402,773,306.52	30.06%	0.71%	-2.14%	2.04%
cotton	2,598,199.11	2,767,206.66	-6.50%	-91.40%	-89.06%	-22.79%
Electricity and steam	66,951,438.30	52,474,137.20	21.62%	-21.48%	-14.29%	-6.58%
Others	16,581,168.67	13,228,076.87	20.22%	-41.13%	-45.07%	5.73%

By geographical segment						
Hong Kong	186,387,057.70	126,229,953.86	32.28%	13.43%	6.09%	4.69%
Japan And South Korea	201,050,440.35	138,101,714.86	31.31%	15.17%	9.66%	3.45%
Southeast Asia	671,359,493.52	454,020,681.23	32.37%	-20.88%	-26.11%	4.78%
Europe and America	440,952,493.57	304,401,419.33	30.97%	7.93%	3.31%	3.09%
Others	403,030,470.21	273,162,527.78	32.22%	11.13%	4.07%	4.59%
China Mainland	848,677,513.74	587,906,710.14	30.73%	-5.61%	-10.53%	3.81%

#### IV Core competitiveness analysis

The comprehensive management ability, research and development ability, technological accumulation and global planning of the Company's whole industry chain are the Company's core competitiveness, which did not change during the Reporting Period.

1. A complete industrial chain and a global network: The Company boasts a complete industrial chain from cotton planting, yarning, dyeing, weaving and post-processing to cloth manufacturing, and thus enjoys the cost advantage brought by complete steps for producing high-end dyed textile. The Company has set up production bases in Cambodia, Burma, Vietnam, etc., a design agency in Italy and a market service agency in America, which helps give full play to its international resources, form a global business network and solidify its internationally leading position as a yarn-dyed fabric maker.

2. The sound comprehensive management capacity and an efficient quality control system: The Company has passed ISO9000 quality management system, ISO14000 environmental management system, OHSAS18000 occupational health safety management system, and SA8000 social accountability management system successively from 1995. Ever since 2007, the Company has also passed WRAP: 1999 global garment production social accountability standard, C-TPAT: 2004 anti-terrorism standard, OE100 and GOTS organic cotton system certification and CNAS national laboratory recognition, to realize the internationalization and standardization of the Company's management. In order to pursue the operational management of performance excellence and better the Company's performance and capability, the Company has gradually introduced GB/T19580-2004 *Standards for Performance Excellence Evaluation*, created "Great Quality" system and promoted management innovation, to ensure the Company's business quality.

3. It enjoyed strong R&D capability and high-end technological platform for cooperation. The company highly valued self-dependent innovation and made full use of various technology platforms, inclusive of the National Enterprise Technical Center, National Talent-indraught Demonstration Base and Shandong Engineering and Technological Research Center. Moreover, Lu Thai also reinforced its technical cooperation with scientific research institutes, colleges and universities, strategic clines and major suppliers. It was committed to cutting-edge technical research, and transformed itself from product development to technical researches step by step. What's more, the company also upgraded itself from overcoming key technological difficulties to master technical principles and set up industrial standards. In the past, it only focused on technical innovation, but now, it is exploring new technology on one hand and boosting innovation on the other for better growth. Consequently, the company pushed forward its development in a green, low-carbon and cyclic manner and strengthened its vitality and growing momentum. Meanwhile, the share of technology to its development was also increased, which could push forward industrial upgradation.

4. It boasted considerate and efficient customer's service. With customer-oriented principle as its guidance, the company comprehensively enhanced its quality control so as to persistently provide high standard service and set up an industry-leading brand image, which, in return, could help to win customer's satisfaction and market recognition. Quality awareness was weaved into every step of the manufacturing process and the impeccable quality traceability ensured product reputation. Objective analysis and thinking

in the customer's perspective was the company's service rule, which also helped to win the customers' trust.

## V Investment analysis

### 1. Investments in equities of external parties

#### (1) Investments in external parties

Applicable  Not applicable

No such cases in the Reporting Period.

#### (2) Equity-holdings in financial enterprises

Applicable  Not applicable

There was no any equity-holding in financial enterprises of the Company in the Reporting Period.

#### (3) Investment in securities

Applicable  Not applicable

Variety of securities	Code of securities	Name of securities	Initial investment cost (RMB)	Opening securities-holdings (share)	Opening securities-holdings (%)	Closing securities-holdings (share)	Closing securities-holdings (%)	Closing book value (RMB)	Profit/loss in the Reporting Period (RMB)	Accounting title	Securities source
Stock	01788	Guotai Junan International	27,873,173.00	12,100,000	0.17%	12,100,000	0.17%	27,199,118.10	-930,768.30	Tradable financial assets	Purchased from second market
Stock	02883	COSL	15,396,642.00	2,450,000	0.05%	3,000,000	0.06%	15,256,395.00	-1,609,466.39	Tradable financial assets	Purchased from second market
Stock	00980	Lianhua Supermarket	10,304,097.00	3,839,000	0.34%	5,411,000	0.48%	13,920,592.92	-977,497.14	Tradable financial assets	Purchased from second market
Stock	02006	Jinjiang Hotel	9,045,570.00	3,380,000	0.06%	3,380,000	0.06%	7,308,881.58	-2,137,775.64	Tradable financial assets	Purchased from second market
Stock	00116	Chow Sang Sang	3,735,591.00	40,000	0.01%	350,000	0.05%	4,098,286.50	358,380.14	Tradable financial assets	Purchased from second market

											market
Stock	01666	Tong Ren Tong Technologies	3,165,712.00	300,000	0.02%	300,000	0.02%	3,287,176.20	25,641.00	Tradable financial assets	Purchased from second market
Stock	200056	Wongtee B	1,937,707.00	200,000	0.02%	200,000	0.02%	1,770,938.40	-452,991.00	Tradable financial assets	Purchased from second market
Stock	00525	Guangshen Railway	1,410,089.00	850,000	0.01%	500,000	0.01%	1,572,648.00	-151,602.89	Tradable financial assets	Purchased from second market
Stock	200053	Chiwan Base B	695,728.00	50,000	0.02%	50,000	0.02%	702,136.05	-147,008.40	Tradable financial assets	Purchased from second market
Stock	200058	Shenzhen SEG B	492,049.00	100,000	0.01%	100,000	0.01%	439,315.80	-39,316.20	Tradable financial assets	Purchased from second market
Other securities investment held at the period-end			422,603.00	100,000	--	100,000	--	439,315.80	-8,547.00	--	--
Total			74,478,961.00	23,409,000	--	25,491,000	--	75,994,804.35	-6,070,951.82	--	--
Disclosure date of the announcement about the board's consent for the securities investment											
Disclosure date of the announcement about the general meeting's consent for the securities investment (if any)											

#### (4) Shareholdings in other listed companies

Applicable  Not applicable

No such cases in the Reporting Period.

## 2. Cash management entrustment, derivative financial instrument investments and entrusted loans

### (1) Cash management entrustment

Applicable  Not applicable

No such cases in the Reporting Period.

### (2) Derivative financial instrument investments

Applicable  Not applicable

Unit: RMB'0,000

Operator	Relation	Related-party transaction or not	Type of derivative investment	Initial investment amount	Beginning date	Ending date	Investment amount at the period-begin	Purchased amount during the Reporting Period	Opening investment amount	Impairment provision (if any)	Closing investment amount	Proportion of the closing investment amount in the Company's closing net assets (%)	Actual gain/loss in Reporting Period
Commercial bank	Non-related	No	Forward exchange settlement	79,386.21	26 Jan. 2015	29 Jul. 2016	79,386.21	44.3	60,429.21	0	19,001.3	2.73%	-1,678.98
Commercial bank	Non-related	No	Option portfolio	104,300.00	23 Jan. 2015	10 Jul. 2016	104,300.00	0	102,800.00	0	1,500.00	0.22%	-1,679.41
Total				183,686.21	--	--	183,686.21	44.3	163,229.21	0	20,501.30	2.95%	-3,358.39
Capital source for derivative investment				Self-owned funds									
Cases involving lawsuit (if applicable)				No									
Disclosure date of the board announcement approving the derivative investment (if any)				25 Apr. 2015									



Disclosure date of the general meeting announcement approving the derivative investment (if any)	
Analysis on risks and control measures of derivative products held in the Reporting Period (including but not limited to market risk, liquidity risk, credit risk, operation risk, law risk, etc.)	<p>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.</p> <p>1. Risk concerning laws and regulations:</p> <p>The Company conducted derivatives products transaction in strict accordance with relevant laws and rules as well as regulatory policies from government securities regulatory authorities, if there were no standard operation procedures and strict approval procedures, it was easy to cause compliant and regulatory risks existing in the validity and feasibility of contract, commitments and other legal documents signed.</p> <p>Risk control measures: The Company carefully studied and mastered laws, regulations and policies relevant to derivative products transaction, formulated internal control rules for the forward settlement hedging business, standardized the operation procedures. And strengthened the compliant examination on derivative products investment business, and strictly abided by relevant laws, regulations and the Company's internal management rules.</p> <p>2. Credit risk and liquidity risk:</p> <p>When the contract matures, the Company couldn't deliver as scheduled due to insufficient liquidity, and the counterparty or the Company couldn't fulfill the contract due to other aspects except the liquidity, which would cause credit risk and further economic losses for the Company.</p> <p>Risk control measures: the Company chose the powerful financial institutions with good reputation as the counterparty, and signed standard derivative products transaction contract, as well as strictly controlled the credit risk of counterparty. The Company conducted derivative investment transactions according to the relevant approval procedure, which was in line with relevant laws, regulations, the Company's Articles of Association, the Management Rules for Derivative Investment of Lu Thai Textile Co., Ltd. and the Proposal on the Plan of Lu Thai Textile Co., Ltd. for Derivative Transactions in 2015 approved at the 20<sup>th</sup> Session of the 7<sup>th</sup> Board of Directors on 23 April 2015, and performed relevant information disclosure responsibilities. The Company decided the up limit for the amount of derivative products transaction according to the production and operation scale and the progress of foreign exchange income for the Company, and delivered by phases. It was also possible to use extension of term and other ways to ensure the fulfillment of contract as schedules upon the mature of contract, and wouldn't cause any loss of credit risk for the Company due to insufficient liquidity or other reasons.</p> <p>3. Operation risk:</p> <p>The derivative financial transactions had high specialty and complexity, so imperfect internal operation procedures, staffs and external events would make the Company to undertake risks during the transaction.</p> <p>Risk control measures: The Company promulgated strict authorization and approval system and perfect regulatory mechanism, fixed the departments, operation procedures and approval procedures system to conduct derivative products transaction, established special risk control positions, implemented strict authorization and post checks and balances system, meanwhile, it improved the overall quality of relevant personnel through</p>

	<p>strengthening the business training and professional ethics education for them. Besides, it established the System of Reporting the Abnormal Situation Timely, formed an efficient risk management procedures, so as to ensure to lower the operation risks to the maximum.</p> <p>4. Market risk:</p> <p>Since the RMB exchange rate reform on 8 November 2015, the reform towards a market-based RMB exchange rate regime has stepped into a new stage. In the short run, there is some depreciation pressure on the RMB, but a sharp depreciation is considered unlikely. In the long run, the positive economic fundamentals of China, the large surplus of the current accounts and the faster globalization of the RMB will enable the RMB to remain a strong currency. In the near future, the RMB exchange rate is expected to be more flexible with a distinct feature of bidirectional volatility and stable within a rational and balanced range. The forward settlement of exchange and the option business is important derivative product transactions of the Company, which was significantly affected by the exchange rate fluctuation. And the contract held by the Company would due in July 2016, if the RMB is devalued by a large margin on the basis of the current situation before the contract is due, it won't have significant influence on the Company. Risk control measures: Although a more flexible RMB exchange rate and the increased fluctuation range added to the operation difficulty, it provided a certain opportunity. Therefore, the relevant personnel of the Company will actively analyze market changes, carefully operate and hold positive opportunity, so as to try the best to reduce the market risks under the condition of increased market difficulty.</p>
<p>Changes of market prices or fair values in the Reporting Period of the invested derivatives. And the analysis on the fair value of the derivatives should include the specific use methods and the relevant assumptions and parameters.</p>	<p>1. Up to 30 June 2016, the Company held 6 undue financial derivative product contracts, totaling USD33 million, including 5 forward settlement contracts worth USD30 million and 1 foreign exchange option contracts worth USD3 million (the latest expiration before July 2016). The financial derivative products above accounted for 2.95% of the closing net assets.</p> <p>2. From January 2016 to December 2016, the due financial derivative products of the Company totally equaled to USD293 million, and the loss generated was RMB33.5839 million. To be specific, the due forward settlement was USD95.5 million, generating loss of RMB16.7898 million; and the due foreign exchange options equaled to USD197.5 million, of which USD171.5 million was delivered on time upon satisfaction of the delivery conditions, generating loss of RMB16.7941 million, and USD26 million was undelivered due to dissatisfaction of the delivery conditions.</p>
<p>Whether significant changes occurred to the Company's accounting policy and specific accounting principles of derivatives in the Reporting Period compared to the previous Reporting Period</p>	<p>No significant changes</p>
<p>Specific opinion from independent directors on the Company's derivatives investment and risk control</p>	<p>The Company's independent directors Xu Jianjun, Zhao Yao, Bi Xiuli, Pan Ailing and Wang Xinyu concerning conducting derivatives business, have issued the following professional advice: We are of the opinion that it will strengthen the Company's competitiveness to use derivative transactions with focus on forward settlement and purchase as an effective tool to avoid foreign exchange risks, to strengthen the relevant internal control and to carry out the loss and risk prevention measures so as to improve the operation and management. In conducting derivative transactions with focus on forward settlement and purchase, the Company follows a legal approval procedure, has sound relevant institutions and keeps the risks relatively controllable. No harm has been done to the interests of the Company's shareholders.</p>

**(3) Entrusted loans**

Applicable  Not applicable

No such cases in the Reporting Period.

**3. Use of raised funds**

Applicable  Not applicable

No such cases in the Reporting Period.

**4. Main controlled and joint stock companies**

Applicable  Not applicable

Main controlled and joint stock companies:

Unit: RMB

Company name	Relationship with the Company	Industry	Main products/services	Registered capital	Total assets	Net assets	Operating revenues	Operating profit	Net profit
Zibo Xinsheng Thermal Power Co., Ltd.	Subsidiary	Manufacture	Electricity, steam	162,435,600.00	442,369,312.06	386,119,309.42	206,771,486.57	52,952,313.65	40,833,423.78
Lufeng Weaving & Dyeing Co., Ltd.	Subsidiary	Manufacture	Fabric	706,160,000.00	1,340,246,738.93	1,193,677,961.39	716,210,253.15	41,065,290.92	35,147,675.14

**5. Significant projects invested with non-raised funds**

Applicable  Not applicable

Unit: RMB'0,000

Project name	Total investment	Input for this period	Cumulative actual input as at the period-end	Project progress	Project earnings	Disclosure date (if any)	Disclosure index (if any)
Lu Thai (Vietnam) Project	99,468	8,007.99	21,962.68	22.08%		7 Mar. 2015	See details on the announcement disclosed by the Company on <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a> on 7 March

							2015 (Announcement No.: 2015-005).
Total	99,468	8,007.99	21,962.68	--	--	--	--

## VI Performance forecast for January-September 2016

Warning of possible loss or considerable YoY movement in the accumulated net profit made during the period-beginning to the end of the next Reporting Period, as well as the reasons

Applicable  Not applicable

## VII Explanation of the Board of Directors and the Board of Supervisors on the “non-standard” auditor’s report issued by the CPAs firm for the Reporting Period

Applicable  Not applicable

## VIII Explanation of the Board of Directors on the issues mentioned in the “non-standard” auditor’s report issued by the CPAs firm for last year

Applicable  Not applicable

## IX Profit distribution in the Reporting Period

Profit distribution plan implemented in the Reporting Period, especially execution and adjustment of any cash dividend plan and any plan for converting capital reserve into share capital

Applicable  Not applicable

According to the 2015 profits distribution proposal reviewed and approved by the 2015 Annual General Meeting held on 29 April 2016, the Company executed the above cash distribution proposal in June 2016. The cash bonus proposal executed by the Company met with the relevant regulations about bonus of the Articles of Association while the cash bonus policies had not adjusted during the Reporting Period.

Special statement about the cash dividend policy	
In compliance with the Company’s Articles of Association and the resolution of the general meeting	Yes
Specific and clear dividend standard and ratio	Yes
Complete decision-making procedure and mechanism	Yes
Independent directors fulfilled their responsibilities and played their due role.	Yes
Minority shareholders have the chance to fully express their opinion and desire and their legal rights and interests were fully protected.	Yes
In adjustment or alteration of the cash dividend policy, the conditions and procedure were in compliance with regulations and transparent.	Not applicable

## X Preliminary plan for profit distribution and converting capital reserve into share capital for the Reporting Period

Applicable  Not applicable

The Company plans not to distribute cash dividends or bonus shares or convert capital reserve into share capital for the first half of the year.

## XI Visits paid to the Company for purposes of research, communication, interview, etc.

Applicable  Not applicable

Date of visit	Place of meeting	Way of visit	Type of visitor	Visitor	Main discussion and materials provided by the Company
30 Mar. 2016	Company meeting room	By phone	Institution	Orient Securities Wang Xiaoli, Wang Shujuan, Li Haixiao, China Life Insurance Zhang Qi, AHZG Ying Jinshuai, Liu Huan, KingTower Asset Management Lv Weizhi, Rosefinch Investment Zhang Yanpeng, Rong Weida, HFT Fund Tao Min, Milestone Asset Management Weng Di, The Company's basic situation Chen Yu, Chongyang Investment Hu Min	The Company's basic situation
27 Apr. 2016	Company meeting room	By phone	Institution	Shenwan Hongyuan, Qin Cong, Shanghai Tianze Investment Cheng Ou, Shanghai Gaoyi Assets Jiang Sichen, Orient Securities Wang Youhong, Orient Securities Wang Shuxian, AHZG Ying Jinshuai, AHZG Asset Management Liu Huan, Shanghai Guanjun Asset Management Wang Juntao, KGI SITE Li Yaxuan, Ciwei Fund Liu Xin, Qinyuan Investment Fu Zhenqing, Huabao Investment Xia Yaqin, Hexi Fund Cang Yang, Guojin Investment Zhu Jun, Tebon Securities Li Sijun, China Merchants Fund Wang Yanchu, China Merchants Securities Asset Management Wang Yajie, Tenbagger Capital Ouyang Jing, New Times Securities He Minzhi, Wudang Asset Investment Liu Runzhen,	The Company's basic situation

				ABC-CA Fund Management Wu Yuanyi, CIBA Shi Xintao, Haitong Securities Asset Management Liu Yong, Springs Capital Du Juan, Springs Capital Jia Tingting, Shenzhen Skyline Investment Wang Xiaolu, Yuancheng Investment Zeng Shang, Jingxing Investment Shi Meiling, Shenwan Hongyuan Hong Kong Liang Qingqing, Shenwan Hongyuan Hong Kong Luo Zhenlong, Zhizhu Investment Liu Ren, The First Investment Liu Yifei, Golden Eagle Wang Yibo, Meidu Qinyuan Asset Management Chen Ningpu, Rongtong Fund Management Li Tianning, Chengsheng Investment Zhang Lei, Yinhua Fund Xia Qing, Value Partners Hong Kong Yu Chunmei, Gaoheng Asset Tang Xiaobo	
20 May 2016	Company meeting room	Field research	Institution	GF Securities Hu Xiangyu	The Company's basic situation

## Section V Significant Events

### I Corporate governance

The Company continued to perfect the corporate governance structure, establish and perfect the modern enterprise system and ensure the efficient and standardized operation of the Company's Shareholders' General Meeting, Board of Directors, Board of Supervisors and Senior Executives strictly according to Company Law, Securities Law and Governing Rules for Listed Company as well as relevant stipulations and requirements from CSRC. It formed a relationship of clear division of rights and responsibilities, assuming each own functions and check and balance each other between the management organ, decision-making organ, supervisory organ and management layer, so as to provide a good internal operational environment for the Company's standardized and efficient operation. At present, there is no difference between the actual situation of the Company's corporate governance structure and the requirements on the corporate governance of CSRC and Shenzhen Stock Exchange.

### II Litigations

Significant litigations and arbitrations

Applicable  Not applicable

No such cases in the Reporting Period.

Other litigations

Applicable  Not applicable

### III Media query

Applicable  Not applicable

The Company was not involved in any media query in the Reporting Period.

### IV Bankruptcy or Reorganization Events

Applicable  Not applicable

There Company was not involved in any bankruptcy or reorganization events in the Reporting Period.

### V Transaction in Assets

#### 1. Purchase of assets

Applicable  Not applicable

There is no purchase of assets in the Company during the Reporting Period

#### 2. Sale of assets

Applicable  Not applicable

There is no sale of assets in the Company during the Reporting Period.

### **3. Business combination**

Applicable  Not applicable

There is no business combination in the Company during the Reporting Period.

## **VI Implementation and Influence of Equity Incentive Plan of the Company**

Applicable  Not applicable

There is no equity incentive plan and its implementation in the Company during the Reporting Period.

## **VII Significant related-party transactions**

### **1. Related-party transactions concerning routine operation**

Applicable  Not applicable

No such cases in the Reporting Period.

### **2. Related-party transactions arising from asset acquisition or sale**

Applicable  Not applicable

The Company was not involved in any related-party transactions arising from asset acquisition or sale during the Reporting Period.

### **3. Related-party transitions with joint investments**

Applicable  Not applicable

The Company was not involved in any related-party transaction with joint investments during the Reporting Period.

### **4. Credits and liabilities with related parties**

Applicable  Not applicable

No such cases in the Reporting Period.

### **5. Other significant related-party transactions**

Applicable  Not applicable

No such cases in the Reporting Period.

## **VIII Particulars about the non-operating occupation of funds by the controlling shareholder and other related parties of the Company**

Applicable  Not applicable

The Company was not involved in the non-operating occupation of funds by the controlling shareholder and other related parties



during the Reporting Period.

## IX Particulars about significant contracts and their fulfillment

### 1. Particulars about trusteeship, contract and lease

#### (1) Trusteeship

Applicable  Not applicable

There was no any trusteeship of the Company in the Reporting Period.

#### (2) Contract

Applicable  Not applicable

There was no any contract of the Company in the Reporting Period.

#### (3) Lease

Applicable  Not applicable

There was no any lease of the Company in the Reporting Period.

## 2. Guarantees provided by the company

Applicable  Not applicable

Unit: RMB'0,000

Guarantees provided by the Company for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosure date on relevant announcement of guaranteed amount	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosure date on relevant announcement of guaranteed amount	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Xinjiang Lu Thai Harvest Cotton Co., Ltd.	10 Dec. 2014	25,000	9 Dec. 2014	0	Guarantee of joint and several	Three years since the approval of the board of the	No	Yes

					liability	Company		
Lu Thai (Vietnam) Co., Ltd.	27 Aug. 2015	36,681.6	26 Aug. 2015	16,867.05	Guarantee of joint and several liability	Two years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam) Co., Ltd.	25 Feb. 2016	47,025	24 Feb. 2016	0	Guarantee of joint and several liability	Six years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam) Co., Ltd.	25 Feb. 2016	22,908.2	24 Feb. 2016	580.63	Guarantee of joint and several liability	New resolution since the approval of the board of the Company till the revocation, modification or replacement of it	No	Yes
Total guarantee line approved for the subsidiaries during the Reporting Period (B1)				69,933.2	Total actual occurred amount of guarantee for the subsidiaries during the Reporting Period (B2)	17,447.68		
Total guarantee line that has been approved for the subsidiaries at the end of the Reporting Period (B3)				131,614.8	Total actual guarantee balance for the subsidiaries at the end of the Reporting Period (B4)	17,447.68		
Guarantees provided by subsidiaries for subsidiaries								
Guaranteed party	Disclosure date on relevant announcement of guaranteed amount	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Xinjiang Lu Thai Textile Co., Ltd.	9 Sep. 2015	10,000	8 Sep. 2015	10,000	Guarantee of joint and several liability	12 months	No	Yes
Xinjiang Lu Thai Textile Co.,	10 Dec. 2015	10,000	8 Dec. 2015	10,000	Guarantee of joint and	12 months	No	Yes

Ltd.			several liability		
Total guarantee line approved for the subsidiaries during the Reporting Period (C1)		0	Total actual occurred amount of guarantee for the subsidiaries during the Reporting Period (C2)		15,000
Total guarantee line that has been approved for the subsidiaries at the end of the Reporting Period (C3)		20,000	Total actual guarantee balance for the subsidiaries at the end of the Reporting Period (C4)		20,000
Total guarantee amount provided by the Company (total of the above-mentioned three kinds of guarantees)					
Total guarantee line approved during the Reporting Period (A1+B1+C1)		69,933.2	Total actual occurred amount of guarantee during the Reporting Period (A2+B2+C2)		32,447.68
Total guarantee line that has been approved at the end of the Reporting Period (A3+B3+C3)		151,614.8	Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)		37,447.68
Proportion of total guarantee amount (A4+B4+C4) to the net assets of the Company					5.75%
Of which:					
Amount of guarantee for shareholders, actual controller and related parties (D)					0
Amount of debt guarantee provided for the guaranteed party whose asset-liability ratio is not less than 70% directly or indirectly (E)					20,000
Part of the amount of the total guarantee over 50% of net assets (F)					0
Total amount of the above three guarantees (D+E+F)					20,000
Explanation on possibility to bear joint liability due to undue guarantees (if any)			According to "Agreement on Counter Guarantee" signed on 9 December 2014 between Lu Thai Company and Xinjiang Lu Thai Company, Xinjiang Lu Thai Company, the warrantee provided the corresponding amount of counter guarantee for Lu Thai Company.		
Explanation on the external guarantees in violation of stipulated procedures (if any)			The Company never provided guarantees for companies except controlling subsidiaries.		

Explanations about guarantees provided with complex methods

**(1) Particulars about illegal external guarantee**

Applicable  Not applicable

There was no particular about illegal external guarantee of the Company in the Reporting Period.

**3. Other significant contracts**

Applicable  Not applicable

There was no other significant contract of the Company in the Reporting Period.

**4. Other significant transactions**

Applicable  Not applicable

There was no other significant transaction of the Company in the Reporting Period.

**X Commitments made by the Company or shareholders holding over 5% of the Company's shares in the Reporting Period or such commitments carried down into the Reporting Period**

Applicable  Not applicable

Commitment	Commitment maker	Type of commitment	Contents	Date of making commitment	Period of commitment
Commitments made in share reform					
Commitments made in acquisition reports or reports on equity changes					
Commitments made in asset reorganization					
Commitments made in IPO or refinancing					
Other commitments made to minority shareholders	Zibo Lucheng Textile Investment Co., Ltd. and Directors, Supervisors and Senior Executives of the Company	The biggest shareholder Zibo Lucheng Textile Investment Co., Ltd. and the Directors, Supervisors and Senior Executives of the Company committed that the shares of the Company held by them would not be decreased within the six months starting from 10 July 2015.	10 Jul. 2015	10 Jul. 2015 to 10 Jan. 2016	The biggest shareholder Zibo Lucheng Textile Investment Co., Ltd. and the Directors, Supervisors and Senior Executives of the Company didn't decrease the shareholding of the Company's stocks since 10 July 2015 to 10 January 2016. And the commitment had completed the execution.

Executed on time	Yes
Specific reasons for failing to fulfill commitments on time and plans for next step	Naught

## XI Engagement and disengagement of the CPAs firm

Has the semi-annual financial report been audited?

Yes  No

This semi-annual report is not audited.

## XII Punishments and rectifications

Applicable  Not applicable

No such cases in the Reporting Period.

## XIII Delisting risk due to violation of any law or regulation

Applicable  Not applicable

No such cases in the Reporting Period.

## XIV Other significant events

Applicable  Not applicable

On 5 August 2015, the Company held the 2015 1<sup>st</sup> Extraordinary General Meeting, which reviewed and approved the Proposal on the Buy-back of Part of the A Shares and B Shares of the Company and issued the Report of the Buy -back of Part of the A Shares and B Shares of the Company on 10 October 2015, and as for their details please refer to the announcement (Announcement No.: 2015-029) and the share buy-back report disclosed by the Company on [www.cninfo.com.cn](http://www.cninfo.com.cn) respectively on 6 August 2015 and 10 October 2015. The Company began to execute the buy-back proposal since 10 November 2015 and had accumulatively bought back the B shares of 33,156,185 shares up to the buy-back period expired on 4 August 2016 and as for the specific information, please refer to the announcement (Announcement No.: 2016-039) disclosed by the Company on [www.cninfo.com.cn](http://www.cninfo.com.cn) 5 August 2016. On 22 August 2016, the Company had completed the shares cancellation matters in Shenzhen Branch of CSDCC with the details on the announcement (Announcement No.: 2016-040) disclosed by the Company on [www.cninfo.com.cn](http://www.cninfo.com.cn) on 24 August 2016.

## XV Corporate bonds

Corporate bonds publicly offered and listed on the stock exchange which were undue before the approval date of the Report or were due but could not be redeemed in full

No

## Section VI Share Changes and Shareholders' Profile

### I Changes in shares

Unit: Share

	Before		Increase/decrease (+/-)					After	
	Number	Percentage	New issues	Bonus shares	Increase from capital reserve	Other	Subtotal	Number	Percentage
I. Shares subject to trading moratorium	119,398,490	12.49%				-23,250	-23,250	119,375,240	12.49%
3. Other domestic shares	1,166,090	0.12%				-23,250	-23,250	1,142,840	0.12%
Shares held by domestic individuals	1,166,090	0.12%				-23,250	-23,250	1,142,840	0.12%
4. Shares held by overseas shareholders	118,232,400	12.37%						118,232,400	12.37%
Including: Shares held by overseas legal persons	118,232,400	12.37%						118,232,400	12.37%
II. Shares not subject to trading moratorium	836,360,006	87.51%				23,250	23,250	836,383,256	87.51%
1. Ordinary shares denominated in RMB	560,799,210	58.68%				23,250	23,250	560,822,460	58.68%
2. Domestically listed foreign shares	275,560,796	28.83%						275,560,796	28.83%
III. Total of shares	955,758,496	100.00%				0	0	955,758,496	100.00%

Reasons for share changes

 Applicable  Not applicable

The “Shares subject to trading moratorium - shares held by domestic individuals” decreased 23,250 shares owing to the engagement of the Senior Executive Staffs and the adjustment on the locked shares of the Senior Executives by the Shenzhen Branch of CSDCC at the year-begin.

Approval for share changes

 Applicable  Not applicable

Transfer of share ownership

 Applicable  Not applicable

Effects of share changes on the basic earnings per share, diluted earnings per share, net assets per share attributable to ordinary shareholders of the Company and other financial indicators over last year and the last Reporting Period

Applicable  Not applicable

Other information that the Company considers necessary or is required by the securities regulatory authorities to disclose

Applicable  Not applicable

Changes in the total shares, shareholder structure, asset structure and liability structure

Applicable  Not applicable

## II Total number of shareholders and their shareholdings

Unit: share

Total number of ordinary shareholders at the end of the Reporting Period		64,672		Total number of preference shareholders who had resumed their voting right at the end of the Reporting Period (if any) (see note 8)		0		
Shareholdings of ordinary shareholders with a stake over 5% or top 10 ordinary shareholders								
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of ordinary shares held at the end of the Reporting Period	Increase/decrease of shares during the Reporting Period	Number of restricted ordinary shares held	Number of non-restricted ordinary shares held	Pledged or frozen shares	
							Status	Number
ZIBO LUCHENG TEXTILE INVESTMENT CO., LTD.	Domestic non-state-owned corporation	14.69%	140,353,583	0	0	140,353,583		
TAILUN (THAILAND) TEXTILE CO., LTD.	Foreign corporation	12.37%	118,232,400	0	118,232,400			
CENTRAL HUIJIN ASSETS MANAGEMENT CO., LTD.	State-owned corporation	2.13%	20,315,300	0		20,315,300		
T.ROWE PRICE INTL DISCOVERY FUND	Foreign corporation	2.09%	19,948,219	0		19,948,219		
CHINA SECURITIES FINANCE CORPORATION LIMITED	Domestic non-stated-owned corporation	1.64%	15,679,091	0		15,679,091		
LYNAS ASIA FUND	Foreign corporation	1.46%	14,000,000	-413375		14,000,000		

HUA'AN NEW SILK ROAD THEME EQUITY SECURITIES INVESTMENT FUND	Domestic non-stated-owned corporation	1.06%	10,110,000	0	10,110,000		
FIRST STATE INVESTMENTS ICVC-FIRST STATE GREATER CHINA GROWTH FUND	Foreign corporation	0.96%	9,215,168	-1,499,200	9,215,168		
CENTRAL EUROPE VALUE FOUND EQUITY SECURITIES INVESTMENT FUND	Domestic non-stated-owned corporation	0.73%	6,949,763	6,949,763	6,949,763		
HTHK-MANULIFE CHINA VALUE FUND	Foreign corporation	0.72%	6,858,138	6,858,138	6,858,138		
Particulars about strategic investors or common legal persons who became the top ten shareholders because of the issuance of additional shares (if any) (Notes 3)	N/A						
Explanations about associated relationship or concerted action among the above shareholders	Zibo Lucheng Textile Investment Co., Ltd. is the largest shareholder of the Company and the actual controller. Tailun (Thailand) Textile Co., Ltd. is the second largest shareholder as well as sponsor of foreign capital of the Company. All of other shareholders are people holding circulating A share or circulating B share and the Company is not able to confirm whether there is associated relationship or concerted action among other shareholders.						
Particulars about shares held by top 10 common shareholders not subject to trading moratorium							
Name of shareholder	Number of shares held not subject to trading moratorium at the end of the period	Type of share					
		Type of share	Number				
ZIBO LUCHENG TEXTILE INVESTMENT CO., LTD.	140,353,583	RMB ordinary share	140,353,583				
CENTRAL HUIJIN ASSETS MANAGEMENT CO., LTD.	20,315,300	RMB ordinary share	20,315,300				
T.ROWE PRICE INTL DISCOVERY FUND	19,948,219	Domestically listed foreign	19,948,219				



		share	
CHINA SECURITIES FINANCE CORPORATION LIMITED	15,679,091	RMB ordinary share	15,679,091
LYNAS ASIA FUND	14,000,000	Domestically listed foreign share	14,000,000
HUA'AN NEW SILK ROAD THEME EQUITY SECURITIES INVESTMENT FUND	10,110,000	RMB ordinary share	10,110,000
FIRST STATE INVESTMENTS ICVC-FIRST STATE GREATER CHINA GROWTH FUND	9,215,168	Domestically listed foreign share	9,215,168
CENTRAL EUROPE VALUE FOUND EQUITY SECURITIES INVESTMENT FUND	6,949,763	RMB ordinary share	6,949,763
HTHK-MANULIFE CHINA VALUE FUND	6,858,138	Domestically listed foreign share	6,858,138
HONG KONG MONETARY AUTHORITY	6,478,160	RMB ordinary share	6,478,160
Explanation on associated relationship among the top ten shareholders of tradable share not subject to trading moratorium, as well as among the top ten shareholders of tradable share not subject to trading moratorium and top ten shareholders, or explanation on acting-in-concert	Zibo Lucheng Textile Investment Co., Ltd. is the largest shareholder of the Company and the actual controller. Tailun (Thailand) Textile Co., Ltd. is the second largest shareholder as well as sponsor of foreign capital of the Company. All of other shareholders are people holding circulating A share or circulating B share and the Company is not able to confirm whether there is associated relationship or concerted action among other shareholders.		
Particular about shareholder participate in the securities lending and borrowing business (if any) (note 4)	N/A		

Did any of the top 10 ordinary shareholders or the top 10 non-restricted ordinary shareholders of the Company conduct any promissory repo during the Reporting Period?

Yea  No

No such cases in the Reporting Period.

### III Change of the controlling shareholder or the actual controller

Change of the controlling shareholder in the Reporting Period

Applicable  Not applicable

No such cases in the Reporting Period.

Change of the actual controller in the Reporting Period

Applicable  Not applicable

No such cases in the Reporting Period.

**IV Any shareholding increase plan proposed or implemented by any shareholder or its act-in-concert parties during the Reporting Period**

Applicable  Not applicable

Within the scope known to the Company, there was no any shareholding increase scheme during the Reporting Period proposed or implemented by the shareholders and act-in-concert persons.

## **Section VII Preference Shares**

Applicable  Not applicable

No preference shares in the Reporting Period.

## Section VIII Directors, Supervisors and Senior Management

### I Shareholding changes of Directors, Supervisors and Senior Management

√ Applicable □ Not applicable

Name	Office title	Incumbent/for mer	Opening shareholding (share)	Increase in the Current Period (share)	Decrease in the Current Period (share)	Closing shareholding (share)	Number of granted restricted shares at the period-beginning (share)	Number of restricted shares granted in the Current Period (share)	Number of granted restricted shares at the period-end (share)
Liu Zibin	Chairman/GM	Current	148,290			148,290			
Liu Shizhen	Director	Current	437,295			437,295			
Xu Zhinan	Vice President	Current							
Fujiwara Hidetoshi	Director /Senior Consultant	Current							
Chen Ruimou	Director	Current							
Zeng Facheng	Director	Current							
Wang Fangshui	Director /Vice GM/Chief Engineer	Current	146,753			146,753			
Qin Guiling	Director / Vice GM /Chairman Secretary	Current	107,042			107,042			
Zhang Hongmei	Director /Chief Accountant	Current	92,500			92,500			
Xu Jianjun	Independent Director	Current							
Zhao Yao	Independent Director	Current							
Bi Xiuli	Independent Director	Current							

Pan Ailing	Independent Director	Current							
Wang Xinyu	Independent Director	Current							
Li Tongmin	Supervisory Board Chairman	Current	176,164			176,164			
Liu Zilong	Supervisor	Current							
Dong Shibing	Supervisor	Current	5,000			5,000			
Zhang Jianxiang	Vice GM	Current	52,150			52,150			
Wang Jiabin	Vice GM, Product Manager	Current	83,700			83,700			
Zhang Shougang	Vice GM, Clothing Business Manager	Current	73,100			73,100			
Zhang Zhanqi	Vice GM, GM of Lufeng Company	Current	80,300			80,300			
Fujiwara Matsuzaka	Manager of the Second Department of International Business	Current							
Zhang Keming	Financial Manager	Current	77,700			77,700			
Li Wenji	CIO	Current	10,000			10,000			
Pan Pingli	Manager of the Third Department of International Business	Current	126,096	2,100		128,196			
Lv Yongchen	Vice GM of Lufeng Company	Current	33,750			33,750			
Yu	Energy	Current	83,100			83,100			

Shouzheng	Business Manager	nt							
Wang Changzhao	Manager of the First Department of International Business	Current	22,500			22,500			
Quan Peng	Marketing Manager	Current	27,750			27,750			
Shang Chenggan	Management Manager	Current	30,000			30,000			
Zhang Chengzhu	Independent Director	Former							
Zhou Zhiji	Independent Director	Former							
Wang Lei	Independent Director	Former							
Total	--	--	1,813,190	2,100	0	1,815,290	0	0	0

## II Changes in Directors, Supervisors and Senior Management

√ Applicable □ Not applicable

Name	Office title	Type of change	Date	Reason
Zhang Hongmei	Director	Elected	6 Jun. 2016	Be elected as the Director of the 8 <sup>th</sup> Board of Directors.
Bi Xiuli	Independent Director	Elected	6 Jun. 2016	Be elected as the Independent Director of the 8 <sup>th</sup> Board of Directors.
Pan Ailing	Independent Director	Elected	6 Jun. 2016	Be elected as the Independent Director of the 8 <sup>th</sup> Board of Directors.
Wang Xinyu	Independent Director	Elected	6 Jun. 2016	Be elected as the Independent Director of the 8 <sup>th</sup> Board of Directors.
Li Wenji	Other Senior Executive Staff	Engaged	8 Jun. 2016	Be engaged as the other Senior Executive Staff by the 8 <sup>th</sup> Board of Directors.
Zhang Chengzhu	Independent Director	Left as term expired	6 Jun. 2016	The service term of the 7 <sup>th</sup> Board of Directors expired.
Zhou Zhiji	Independent Director	Left as term expired	6 Jun. 2016	The service term of the 7 <sup>th</sup> Board of Directors expired.

Wang Lei	Independent Director	Left as term expired	6 Jun. 2016	The service term of the 7 <sup>th</sup> Board of Directors expired.
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## Section IX Financial Report

### I Auditor's report

Has this semi-annual report been audited?

Yes  No

This semi-annual financial report has not been audited.

### II Financial statements

Currency unit for the statements in the notes to these financial statements: RMB

#### 1. Consolidated balance sheet

Prepared by Lu Thai Textile Co., Ltd.

Unit: RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	578,366,000.68	795,501,196.07
Settlement reserve	75,994,804.35	71,696,678.70
Interbank lendings		
Financial assets at fair value through profit/loss	87,934,778.60	133,145,518.39
Derivative financial assets	231,418,989.53	262,848,042.62
Notes receivable	131,903,289.37	196,809,904.13
Accounts receivable		653,075.08
Accounts paid in advance		
Premiums receivable	48,735,449.13	70,821,406.28
Reinsurance premiums receivable		
Receivable reinsurance contract reserve	1,791,392,840.17	1,743,963,973.24
Interest receivable		
Dividends receivable		
Other accounts receivable	51,746,169.81	57,391,316.34
Financial assets purchased under agreements to resell	2,997,492,321.64	3,332,831,110.85
Inventories		
Assets held for sale		
Non-current assets due within one year	67,442,600.00	67,442,600.00



Other current assets		
Total current assets	4,980,998.00	4,980,998.00
Non-current assets:		
Loans and advances to customers	4,878,964,551.16	4,907,575,469.84
Available-for-sale financial assets	306,480,915.93	205,094,029.50
Held-to-maturity investments	181,069,950.50	6,319,783.17
Long-term accounts receivable		
Long-term equity investments	1,231,394.73	1,177,113.89
Investment property	366,951,254.67	363,385,986.63
Fixed assets		
Construction in progress	20,613,803.29	20,613,803.29
Engineering materials	103,876,416.65	85,124,145.25
Disposal of fixed assets	51,169,754.41	62,123,091.53
Productive living assets	40,961,429.99	34,502,367.27
Oil-gas assets	6,023,743,069.33	5,758,339,388.37
Intangible assets	9,021,235,390.97	9,091,170,499.22
R&D expenses		
Goodwill	1,068,119,117.17	802,766,318.90
Long-term deferred expenses	9,735,700.00	46,695,875.00
Deferred tax assets		
Other non-current assets	8,101,392.00	3,109,149.48
Total non-current assets	229,691,043.15	248,570,405.57
Total assets	88,800,955.69	95,077,531.32
Current liabilities:	222,408,928.52	291,263,599.62
Short-term borrowings	75,328,930.79	80,615,008.14
Borrowings from the Central Bank	1,957,379.70	1,851,876.78
Money deposits accepted and inter-bank deposits	441,113.64	441,113.64
Interbank borrowings	75,959,713.17	62,514,814.53
Financial liabilities at fair value through profit/loss		
Derivative financial liabilities		
Notes payable	1,780,544,273.83	1,632,905,692.98
Accounts payable		
Accounts received in advance	111,928,541.12	
Financial assets sold for repurchase	83,459,553.02	81,499,403.98

Fees and commissions payable		
Payroll payable		
Taxes and fares payable	95,634,944.71	96,135,077.91
Interest payable	2,236,925.11	2,192,694.35
Dividends payable	1,840,000.00	1,840,000.00
Other accounts payable	295,099,963.96	181,667,176.24
Reinsurance premiums payable	2,075,644,237.79	1,814,572,869.22
Insurance contract reserve		
Payables for acting trading of securities	955,758,496.00	955,758,496.00
Payables for acting underwriting of securities	1,007,146,836.95	1,007,146,166.97
Liabilities held for sale	232,139,337.04	11,610,721.68
Non-current liabilities due within one year	29,480,528.93	17,090,772.31
Other current liabilities		
Total current liabilities	815,648,504.28	815,648,504.28
Non-current liabilities:		
Long-term borrowings	3,932,195,668.93	4,053,079,857.70
Bonds payable	6,508,090,698.05	6,837,113,075.58
Of which: Preference shares	437,500,455.13	439,484,554.42
Perpetual bonds	6,945,591,153.18	7,276,597,630.00
Long-term accounts payable	9,021,235,390.97	9,091,170,499.22

Legal representative: Liu Zibin

Accounting head for the Report: Zhang Hongmei

Head of the accounting organ: Zhang Keming

## 2. Balance sheet of the Company

Unit: RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	213,191,752.14	361,326,403.14
Financial assets at fair value through profit/loss	54,519,412.38	100,449,603.66
Derivative financial assets	283,274,302.32	235,128,453.94
Notes receivable	56,039,562.55	194,884,351.36
Accounts receivable		
Accounts paid in advance		
Interest receivable	92,709,439.00	33,540,540.54

Dividends receivable	1,302,494,679.10	1,194,474,541.81
Other accounts receivable		
Inventories		
Assets held for sale	28,192,814.81	20,665,251.54
Non-current assets due within one year	2,030,421,962.30	2,140,469,145.99
Other current assets		
Total current assets	55,282,600.00	55,282,600.00
Non-current assets:		
Available-for-sale financial assets		
Held-to-maturity investments	1,698,609,000.04	1,577,704,740.04
Long-term accounts receivable		
Long-term equity investments	3,072,847,324.99	3,086,026,962.51
Investment property	54,871,318.93	47,195,873.42
Fixed assets	3,255,441.21	4,752,722.48
Construction in progress		
Engineering materials		
Disposal of fixed assets	227,791,211.09	231,714,546.11
Productive living assets		
Oil-gas assets		
Intangible assets		
R&D expenses	52,987,486.53	56,039,573.79
Goodwill	21,309,142.66	25,733,137.67
Long-term deferred expenses	5,186,953,525.45	5,084,450,156.02
Deferred tax assets	7,217,375,487.75	7,224,919,302.01
Other non-current assets		
Total non-current assets	849,194,676.67	509,321,176.41
Total assets	9,735,700.00	39,527,800.00
Current liabilities:		
Short-term borrowings	5,300,000.00	400,000.00
Financial liabilities at fair value through profit/loss	243,639,259.65	156,939,081.65
Derivative financial liabilities	49,469,200.09	52,388,447.07
Notes payable	168,252,435.34	225,146,911.56
Accounts payable	52,731,791.29	44,647,234.36
Accounts received in advance	1,957,379.70	830,073.23

Payroll payable	441,113.64	441,113.64
Taxes and fares payable	27,151,433.20	19,453,519.54
Interest payable		
Dividends payable		
Other accounts payable		
Liabilities held for sale	1,407,872,989.58	1,049,095,357.46
Non-current liabilities due within one year		
Other current liabilities		
Total current liabilities		
Non-current liabilities:	83,459,553.02	81,499,403.98
Long-term borrowings		
Bonds payable		
Of which: Preference shares	62,140,200.53	61,687,374.76
Perpetual bonds		
Long-term payables		
Long-term payroll payable	145,599,753.55	143,186,778.74
Special payables	1,553,472,743.13	1,192,282,136.20
Provisions		
Deferred income	955,758,496.00	955,758,496.00
Deferred tax liabilities	1,013,499,518.04	1,013,498,848.06
Other non-current liabilities	232,139,337.04	11,610,721.68
Total non-current liabilities		
Total liabilities		
Owners' equity:	815,648,504.28	815,648,504.28
Share capital	3,111,135,563.34	3,259,342,039.15
Other equity instruments	5,663,902,744.62	6,032,637,165.81
Of which: Preference shares	7,217,375,487.75	7,224,919,302.01

### 3. Consolidated income statement

Unit: RMB

Item	Reporting Period	Same period of last year
1. Operating revenues	2,831,326,773.03	2,941,835,897.16
Including: Sales income	2,831,326,773.03	2,941,835,897.16
Interest income	2,409,931,338.67	2,575,938,766.41

Premium income	1,937,399,591.08	2,133,022,201.07
Fee and commission income	24,800,728.52	24,644,712.24
2. Operating costs	88,709,663.50	97,645,409.00
Including: Cost of sales	341,771,955.16	311,323,333.58
Interest expenses	19,810,742.68	9,021,706.88
Fee and commission expenses	-2,561,342.27	281,403.64
Surrenders	30,946,569.40	12,246,700.00
Net claims paid	-33,641,221.22	28,860,565.88
Net amount provided as insurance contract reserve		
Expenditure on policy dividends		
Reinsurance premium	418,700,782.54	407,004,396.63
Business tax and surtaxes	21,193,437.32	10,120,794.71
Selling expenses	228,313.30	809,936.96
Administrative expenses	7,718,639.90	4,245,414.06
Finance costs	5,412,125.25	3,508,372.92
Asset impairment loss	432,175,579.96	412,879,777.28
Add: Profit on fair value changes (“-” means loss)	89,518,494.52	67,469,529.96
Return on investment (“-” means loss)	342,657,085.44	345,410,247.32
Including: Share of profit/loss of associates and joint ventures	344,641,184.73	344,521,516.72
Foreign exchange profit (“-” means loss)	-1,984,099.29	888,730.60
3. Operating profit (“-” means loss)	12,389,756.62	574,877.23
Add: Non-operating income	12,389,756.62	574,877.23
Including: Profit on disposal of non-current assets		
Less: Non-operating expense		
Including: Loss on disposal of non-current assets		
4. Total profit (“-” means loss)	12,389,756.62	574,877.23
Less: Corporate income tax		
5. Net profit (“-” means loss)		
Net profit attributable to owners of the Company		
Minority interests' income		
6. After-tax net amount of other comprehensive income	12,389,756.62	574,877.23
After-tax net amount of other comprehensive income attributable to owners of the Company		
6.1 Other comprehensive income that will not be reclassified into profit/loss		

6.1.1 Changes in net liabilities or assets with a defined benefit plan upon re-measurement	355,046,842.06	345,985,124.55
6.1.2 Share of other comprehensive income of investees that cannot be reclassified into profit/loss under the equity method	357,030,941.35	345,096,393.95
6.2 Other comprehensive income to be subsequently reclassified into profit/loss	-1,984,099.29	888,730.60
6.2.1 Share of other comprehensive income of investees that will be reclassified into profit/loss under the equity method		
6.2.2 Profit/loss on fair value changes of available-for-sale financial assets	0.37	0.36
6.2.3 Profit/loss on reclassifying held-to-maturity investments into available-for-sale financial assets	0.37	0.36

Where business mergers under the same control occurred in the Reporting Period, the net profit achieved by the merged parties before the business mergers was RMB0.00, with the corresponding amount for the last period being RMB0.00.

Legal representative: Liu Zibin

Person-in-charge of the accounting work: Zhang Hongmei

Chief of the accounting division: Zhang Keming

#### 4. Income statement of the Company

Unit: RMB

Item	Reporting Period	Same period of last year
1. Operating revenues	2,368,661,868.37	2,349,612,417.89
Less: Operating costs	1,694,641,982.80	1,758,744,212.34
Business tax and surtaxes	16,485,789.46	19,480,809.00
Selling expenses	41,443,498.62	45,373,972.47
Administrative expenses	240,628,498.30	219,608,083.56
Finance costs	16,938,533.41	3,375,063.52
Asset impairment loss	28,282,906.69	-134,329.66
Add: profit on fair value changes (“-” means loss)	29,792,100.00	11,837,300.00
Return on investment (“-” means loss)	10,374,629.30	44,516,145.09
Including: Share of profit/loss of associates and joint ventures		
2. Operating profit (“-” means loss)	370,407,388.39	359,518,051.75
Add: Non-operating income	8,189,519.23	5,545,066.24
Including: Profit on disposal of non-current assets	182,382.68	387,422.95
Less: Non-operating expense	1,508,061.31	3,678,908.31
Including: Loss on disposal of non-current assets	69,815.52	3,415,846.41
3. Total profit (“-” means loss)	377,088,846.31	361,384,209.68
Less: Corporate income tax	59,769,948.62	49,742,920.66

4. Net profit (“-” means loss)	317,318,897.69	311,641,289.02
5. After-tax net amount of other comprehensive income		
5.1 Other comprehensive income that will not be reclassified into profit and loss		
5.1.1 Changes in net liabilities or assets with a defined benefit plan upon re-measurement		
5.1.2 Share of other comprehensive income of investees that cannot be reclassified into profit/loss under the equity method		
5.2 Other comprehensive income to be subsequently reclassified into profit/loss		
5.2.1 Share of other comprehensive income of investees that will be reclassified into profit/loss under the equity method		
5.2.2 Profit/loss on fair value changes of available-for-sale financial assets		
5.2.3 Profit/loss on reclassifying held-to-maturity investments into available-for-sale financial assets		
5.2.4 Effective profit/loss on cash flow hedges		
5.2.5 Currency translation differences		
5.2.6 Other		
6. Total comprehensive income	317,318,897.69	311,641,289.02
7. Earnings per share		
7.1 Basic earnings per share	0.33	0.33
7.2 Diluted earnings per share	0.33	0.33

## 5. Consolidated cash flow statement

Unit: RMB

Item	Reporting Period	Same period of last year
1. Cash flows from operating activities:		
Cash received from sale of commodities and rendering of service	2,812,336,711.92	2,992,674,009.04
Net increase in money deposits from customers and interbank placements	101,275,470.39	93,858,466.25
Net increase in loans from the Central Bank	35,139,448.72	25,282,652.25
Net increase in funds borrowed from other financial institutions	2,948,751,631.03	3,111,815,127.54
Cash received from premium of original insurance contracts	1,274,986,141.87	1,691,745,901.39
Net cash received from reinsurance business	799,339,164.59	718,208,701.78
Net increase in deposits of policy holders and investment fund	192,415,372.94	198,822,332.08
Net increase in disposal of financial assets at fair value through profit/loss	118,603,604.20	140,733,568.16

Interest, fees and commissions received	2,385,344,283.60	2,749,510,503.41
Net increase in interbank borrowings	563,407,347.43	362,304,624.13
Net increase in funds in repurchase business		
Tax refunds received		
Cash received from other operating activities		
Subtotal of cash inflows from operating activities	746,129.22	1,737,285.10
Cash paid for goods and services		
Net increase in loans and advances to customers	5,852,642.02	30,578,737.15
Net increase in funds deposited in the Central Bank and interbank placements	6,598,771.24	32,316,022.25
Cash paid for claims of original insurance contracts	445,389,460.81	160,460,938.77
Interest, fees and commissions paid		
Cash paid as policy dividends		
Cash paid to and for employees		
Taxes and fares paid	37,625,897.29	0.00
Cash paid for other operating activities	483,015,358.10	160,460,938.77
Subtotal of cash outflows from operating activities	-476,416,586.86	-128,144,916.52
Net cash flows from operating activities		
2. Cash flows from investing activities:		500,000.00
Cash received from retraction of investments		
Cash received as return on investments	1,150,565,513.31	993,805,040.42
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		
Net cash received from disposal of subsidiaries or other business units	29,805,722.42	16,000,000.00
Cash received from other investing activities	1,180,371,235.73	1,010,305,040.42
Subtotal of cash inflows from investing activities	793,831,444.36	787,580,420.34
Cash paid to acquire fixed assets, intangible assets and other long-term assets	460,834,827.15	490,595,877.74
Cash paid for investment		
Net increase in pledged loans	203,465,414.43	89,026,946.69
Net cash paid to acquire subsidiaries and other business units	1,458,131,685.94	1,367,203,244.77
Cash paid for other investing activities	-277,760,450.21	-356,898,204.35
Subtotal of cash outflows from investing activities	3,240,158.34	1,756,082.41
Net cash flows from investing activities	-187,529,531.30	-120,982,414.33
3. Cash flows from financing activities:	765,695,473.65	649,393,798.30



Cash received from capital contributions	578,165,942.35	528,411,383.97
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## 6. Cash flow statement of the Company

Unit: RMB

Item	Reporting Period	Same period of last year
<b>1. Cash flows from operating activities:</b>		
Cash received from sale of commodities and rendering of service	2,319,086,273.65	2,336,436,365.15
Tax refunds received	79,077,492.94	73,075,990.33
Cash received from other operating activities	8,476,623.71	4,527,263.52
Subtotal of cash inflows from operating activities	2,406,640,390.30	2,414,039,619.00
Cash paid for goods and services	1,170,201,165.76	1,308,152,825.95
Cash paid to and for employees	591,944,379.31	539,106,972.54
Taxes and fares paid	87,975,686.65	79,761,593.87
Cash paid for other operating activities	65,775,345.61	139,312,208.90
Subtotal of cash outflows from operating activities	1,915,896,577.33	2,066,333,601.26
Net cash flows from operating activities	490,743,812.97	347,706,017.74
<b>2. Cash flows from investing activities:</b>		
Cash received from retraction of investments		
Cash received as return on investments	37,201,249.06	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	617,126.22	1,256,075.10
Net cash received from disposal of subsidiaries or other business units		
Cash received from other investing activities	1,982,456.23	27,204,025.23
Subtotal of cash inflows from investing activities	39,800,831.51	28,460,100.33
Cash paid to acquire fixed assets, intangible assets and other long-term assets	108,131,817.43	70,584,062.37
Cash paid for investment	125,429,260.00	188,902,292.69
Net cash paid to acquire subsidiaries and other business units		
Cash paid for other investing activities	27,632,600.00	
Subtotal of cash outflows from investing activities	261,193,677.43	259,486,355.06
Net cash flows from investing activities	-221,392,845.92	-231,026,254.73
<b>3. Cash flows from financing activities:</b>		
Cash received from capital contributions		
Cash received as borrowings	830,324,835.12	582,862,081.60
Cash received from issuance of bonds		

Cash received from other financing activities		
Subtotal of cash inflows from financing activities	830,324,835.12	582,862,081.60
Repayment of borrowings	508,528,371.67	233,690,218.65
Cash paid for interest expenses and distribution of dividends or profit	455,604,710.53	473,634,519.64
Cash paid for other financing activities	281,215,324.43	61,013,728.00
Sub-total of cash outflows from financing activities	1,245,348,406.63	768,338,466.29
Net cash flows from financing activities	-415,023,571.51	-185,476,384.69
4. Effect of foreign exchange rate changes on cash and cash equivalents	-2,662,104.87	237,111.98
5. Net increase in cash and cash equivalents	-148,334,709.33	-68,559,509.70
Add: Opening balance of cash and cash equivalents	361,326,403.14	249,509,717.93
6. Closing balance of cash and cash equivalents	212,991,693.81	180,950,208.23

## 7. Consolidated statement of changes in owners' equity

Reporting Period

Unit: RMB

Item	Reporting Period												
	Equity attributable to owners of the Company										Minority interests	Total owners' equity	
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve			Retained earnings
	Preference shares	Perpetual bonds	Other										
1. Balance at the end of the prior year	955,758,496.00				1,007,146,166.97	11,610,721.68	17,090,772.31		815,648,504.28		4,053,079,857.70	439,484,554.42	7,276,597,630.00
Add: Changes in accounting policies													
Correction of errors in prior periods													
Business mergers under the same control													
Other													
2. Balance at the beginning of the year	955,758,496.00				1,007,146,166.97	11,610,721.68	17,090,772.31		815,648,504.28		4,053,079,857.70	439,484,554.42	7,276,597,630.00
3. Increase/ decrease in the Period ("-" means decrease)					669.98	220,528,615.36	12,389,756.62				-120,884,188.77	-1,984,099.29	-331,006,476.82
3.1 Total comprehensive income							12,389,756.62				344,641,184.73	-1,984,099.29	355,046,842.06
3.2 Capital increased and reduced by owners					669.98	220,528,615.36							-220,527,945.38
3.2.1 Ordinary shares						220,528,615.36							-220,528,615.36

increased by shareholders													
3.2.2 Capital increased by holders of other equity instruments													
3.2.3 Amounts of share-based payments charged to owners' equity													
3.2.4 Other					669.98								669.98
3.3 Profit distribution											-465,525,373.50		-465,525,373.50
3.3.1 Appropriation to surplus reserve													
3.3.2 Appropriation to general risk provisions													
3.3.3 Appropriation to owners (or shareholders)											-465,525,373.50		-465,525,373.50
3.3.4 Other													
3.4 Internal carry-forward of owners' equity													
3.4.1 New increase of capital (or share capital) from capital reserve													
3.4.2 New increase of capital (or share capital) from surplus reserve													
3.4.3 Surplus reserve for making up loss													
3.4.4 Other													

3.5 Special reserve												
3.5.1 Withdrawn for the period												
3.5.2 Used in the Period												
3.6 Other												
4. Closing balance	955,758,496.00				1,007,146,836.95	232,139,337.04	29,480,528.93	815,648,504.28	3,932,195,668.93	437,500,455.13	6,945,591,153.18	

Same period of last year

Unit: RMB

Item	Same period of last year												
	Equity attributable to owners of the Company										Minority interests	Total owners' equity	
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Specific reserve	Surplus reserve	General risk reserve			Retained earnings
	Preference shares	Perpetual bonds	Other										
1. Balance at the end of the prior year	955,758,496.00				1,007,039,561.13		-8,440,178.37		742,347,832.47		3,892,066,534.32	427,658,339.63	7,016,430,585.18
Add: Changes in accounting policies													
Correction of errors in prior periods													
Business mergers under the same control													
Other													
2. Balance at the beginning of the year	955,758,496.00				1,007,039,561.13		-8,440,178.37		742,347,832.47		3,892,066,534.32	427,658,339.63	7,016,430,585.18
3. Increase/ decrease in the period ("-" means decrease)					106,605.84	11,610,721.68	25,530,950.68		73,300,671.81		161,013,323.38	11,826,214.79	260,167,044.82

3.1 Total comprehensive income							25,530,950.68				712,193,243.19	23,349,785.58	761,073,979.45
3.2 Capital increased and reduced by owners					106,605.84	11,610,721.68						500,000.00	-11,004,115.84
3.2.1 Ordinary shares increased by shareholders						11,610,721.68						500,000.00	-11,110,721.68
3.2.2 Capital increased by holders of other equity instruments													
3.2.3 Amounts of share-based payments charged to owners' equity													
3.2.4 Other					106,605.84								106,605.84
3.3 Profit distribution									73,300,671.81	-551,179,919.81	-12,023,570.79		-489,902,818.79
3.3.1 Appropriation to surplus reserve									73,300,671.81	-73,300,671.81			
3.3.2 Appropriation to general risk provisions													
3.3.3 Appropriation to owners (or shareholders)										-477,879,248.00	-12,023,570.79		-489,902,818.79
3.3.4 Other													
3.4 Internal carry-forward of owners' equity													
3.4.1 New increase of capital (or share capital) from capital reserve													
3.4.2 New increase of capital (or share capital) from surplus reserve													
3.4.3 Surplus reserve for making up loss													
3.4.4 Other													

3.5 Special reserve												
3.5.1 Withdrawn for the Period												
3.5.2 Used in the Period												
3.6 Other												
4. Closing balance	955,758,496.00				1,007,146,166.97	11,610,721.68	17,090,772.31		815,648,504.28	4,053,079,857.70	439,484,554.42	7,276,597,630.00

### 8. Statement of changes in owners' equity of the Company

Reporting Period

Unit: RMB

Item	Reporting Period										
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total owners' equity
		Preference shares	Perpetual bonds	Other							
1. Balance at the end of the prior year	955,758,496.00				1,013,498,848.06	11,610,721.68			815,648,504.28	3,259,342,039.15	6,032,637,165.81
Add: Changes in accounting policies											
Correction of errors in prior periods											
Other											
2. Balance at the beginning of the year	955,758,496.00				1,013,498,848.06	11,610,721.68			815,648,504.28	3,259,342,039.15	6,032,637,165.81
3. Increase/ decrease in the period ("-" means decrease)					669.98	220,528,615.36				-148,206,475.81	-368,734,421.19
3.1 Total comprehensive income										317,318,897.69	317,318,897.69
3.2 Capital increased and reduced by owners					669.98	220,528,615.36					-220,527,945.38





4. Closing balance	955,758,496.00				1,013,499,518.04	232,139,337.04			815,648,504.28	3,111,135,563.34	5,663,902,744.62
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Same period of last year

Unit: RMB

Item	Same period of last year										
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total owners' equity
		Preference shares	Perpetual bonds	Other							
1. Balance at the end of the prior year	955,758,496.00				1,013,392,242.22				742,347,832.47	3,077,515,240.89	5,789,013,811.58
Add: Changes in accounting policies											
Correction of errors in prior periods											
Other											
2. Balance at the beginning of the year	955,758,496.00				1,013,392,242.22				742,347,832.47	3,077,515,240.89	5,789,013,811.58
3. Increase/ decrease in the period ("-" means decrease)					106,605.84	11,610,721.68			73,300,671.81	181,826,798.26	243,623,354.23
3.1 Total comprehensive income										733,006,718.07	733,006,718.07
3.2 Capital increased and reduced by owners					106,605.84	11,610,721.68					-11,504,115.84
3.2.1 Ordinary shares increased by shareholders						11,610,721.68					-11,610,721.68
3.2.2 Capital increased by holders of other equity instruments											
3.2.3 Amounts of share-based payments charged to owners' equity											
3.2.4 Other					106,605.84						106,605.84
3.3 Profit distribution									73,300,671.81	-551,179,919.81	-477,879,248.00

3.3.1 Appropriation to surplus reserve									73,300,671.81	-73,300,671.81	
3.3.2 Appropriation to owners (or shareholders)										-477,879,248.00	-477,879,248.00
3.3.3 Other											
3.4 Internal carry-forward of owners' equity											
3.4.1 New increase of capital (or share capital) from capital reserve											
3.4.2 New increase of capital (or share capital) from surplus reserve											
3.4.3 Surplus reserve for making up loss											
3.4.4 Other											
3.5 Special reserve											
3.5.1 Withdrawn for the Period											
3.5.2 Used in the Period											
3.6 Other											
4. Closing balance	955,758,496.00				1,013,498,848.06	11,610,721.68			815,648,504.28	3,259,342,039.15	6,032,637,165.81

### III 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 February 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 RMB1.00 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 RMB1.00, 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 December 25, 2003, the inner employees' shares reach 3 years since listing on the A-share stock market, and they set out circulation on December 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 RMB844.8648 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 December 2008. According to the relevant resolution of the 2<sup>nd</sup> Special Shareholders' General Meeting for 2011, the relevant resolution of the 15<sup>th</sup> Session of the 6<sup>th</sup> Board of Directors, the Opinion of China Securities Regulatory Commission on the Restricted Share Incentive Plan of Lu Thai Textile Co., Ltd. (Shang-Shi-Bu-Han [2011] No. 206), the Company applied for a registered capital increment of RMB14.09 million, which was contributed by restricted share incentive receivers with monetary funds. In accordance with the resolution of Proposal on Repurchasing and Canceling Partial Restricted Shares already Granted for the Original Incentive Targets not Reaching the Incentive Conditions made at the 23<sup>rd</sup> Session of the 6<sup>th</sup> Board of Directors on 13 August 2012, the Company canceling a total of 60,000.00 shares already granted for the original incentive targets not reaching the incentive conditions. According to the second temporary resolution of Proposal on counter purchase of part of the domestic listed foreign share (B share) on 25 June 2012, the Company counter purchase domestic listed foreign

share (B share) 48,837,300 shares. According to the Proposal on Repurchase and Cancel Part of Unlocked Restricted Share of the Original Incentive Personnel not Conforming to the Incentive Condition, Proposal on Repurchase and Cancel unlocked Restricted Share in Second Unlocked Period of all the Incentive Personnel reviewed and approved by the 26<sup>th</sup> meeting of 6<sup>th</sup> session of the board of the directors on 27 March 2013, the Company repurchase and cancel 4,257,000 shares owned by original people whom to motivate. According to the Proposal on Repurchase and Write-off of Partly of the Original Incentive Targets Not Met with the Incentive Conditions but Granted Restricted Shares approved on the 11<sup>th</sup> Session of the 7<sup>th</sup> Board of Directors on 11 June 2014, to execute repurchase and write-off of the whole granted shares of 42,000 shares of the original incentive targets not met with the incentive targets of the Company. Up to 30 June 2016, the registered capital of the Company was of RMB955.7585 million.

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

The Company's legal representative: Liu Zibin

The Company's business scope includes the production, processing and sales business of cotton yarn, yarn dyed fabrics, shirts, fashion accessories, health underwear and other textile products and their mating products; design, R&D and technology services of the textile and garment products; acquisition and export of products not under exclusive rights or quota licenses; and hotel, guesthouses, catering, conferences, and training services; rental business of the self-owned houses and land; the construction and management of the purified water projects.

The Company's financial statements have been approved for issue by the Board of Directors of the Company on 29 August 2016.

There were 16 subsidiaries included into the consolidation scope of the Company from January to June 2016, and for the details, please refer to Notes IX. Equities among Other Entities. There was 1 subsidiary increased of 2016 in the consolidation scope over the last year, and please refer to Notes VIII. Changes in Consolidation Scope for details.

#### **IV. Basis for the preparation of financial statements**

##### **1. Preparation basis**

With the going-concern assumption as the basis and based on transactions and other events that actually occurred, the Group prepared financial statements in accordance with <The Accounting Standards for Business Enterprises—Basic Standard> issued by the Ministry of Finance with Decree No. 33 and revised with Decree No. 76, the 41 specific accounting standards, the Application Guidance of Accounting Standards for Business Enterprises, the Interpretation of Accounting Standards for Business Enterprises and other regulations issued and revised from 15 February 2006 onwards (hereinafter jointly referred to as “the Accounting Standards for Business Enterprises”, “China Accounting Standards” or “CAS”), as well as the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15 – General Regulations for Financial Reporting (revised in 2014) by China Securities Regulatory Commission.

In accordance with relevant provisions of the Accounting Standards for Business Enterprises, the Group adopted the accrual basis in accounting. Except for some financial instruments, where impairment occurred on an asset, an impairment reserve was withdrawn accordingly pursuant to

relevant requirements

## **2. Continuing operations**

There was no any event or situation caused major concerns on the continuing operation ability of the Company within 12 months from the period-end.

## **V. Significant accounting policies and estimates**

Reminder of the specific accounting policies and estimates:

The Company and each subsidiary mainly engage in the production and operation of textile products. The Company and each subsidiary according to the actual production and operation characteristics and the regulations of the relevant ASBE, formulated certain specific accounting policies and accounting estimates of the transactions and events such as recognizing the revenues, and please refer to each description of Notes V. for details. For the notes of the significant accounting adjustment and estimates made by the management layer, please refer to the Changes in Significant Accounting Adjustment and Estimates.

### **1. Statement of Compliance with the Accounting Standards for Business Enterprises**

The financial statements prepared by the Company are in compliance with in compliance with the Accounting Standards for Business Enterprises, which factually and completely present the Company's, and the Company's financial positions as at 30 June 2016, business results and cash flows for the January to June of 2016, and other relevant information. In addition, the Company's and the Company's financial statements meet the requirements of disclosing financial statements and notes thereto stated in the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15 – General Regulations for Financial Reporting (revised in 2014) by China Securities Regulatory Commission.

### **2. Fiscal period**

The Company's fiscal periods include fiscal years and fiscal periods shorter than a complete fiscal year. The Company's fiscal year starts on 1 Jan. and ends on 31 December of every year according to the Gregorian calendar.

### **3. Operating cycle**

Normal operating cycle refers to the period from the Group purchases the assets for processing to realize the cash or cash equivalents. The Group regards 12 months as an operating cycle and regards which as the partition criterion of the mobility of the assets and liabilities.

### **4. Recording currency**

Renminbi (RMB) is regarded as 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. The Company and its overseas subsidiaries confirm to adopt HK Dollar, US Dollar and Vietnamese Dong as the recording currency according to their major economic environment of the operating. When preparing the financial statements for the Reporting Period, the Company adopted RMB as the recording currency.

#### **5. Accounting treatment methods for business combinations under the same control or not under the same control**

Business combinations, it refers to two or more separate enterprises merge to form a reporting entity transactions or events. Business combination is divided into under the same control and those non 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 of the combining enterprises are ultimately controlled by the same party or the same 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 combining enterprise(s) on the combining date is the combining party, the other combining enterprise(s) is (are) the combined party. The “combining date” refers to the date on which the combining party actually obtains 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 (share premium) shall be adjusted. If the additional paid-in capital (share premium) 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.

For a business combination not under the same control, the combination costs shall include 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, the expenses for audit, legal services and assessment, and other administrative expenses, which are recorded into the profits and losses in the current period. The trading expenses for the equity securities or debt securities issued by the acquirer as the combination consideration shall be recorded into the amount of initial measurement of the equity securities or debt securities. The involved contingent consideration shall be recorded into the combination costs at its fair value on the acquiring date. Where new or further evidences emerge, within 12 months since the acquiring date, against the existing circumstances on the acquiring date and the contingent consideration thus needs to be

adjusted, the combined goodwill shall be adjusted accordingly. The combination costs of the acquirer and the identifiable net assets obtained by it in the combination shall be measured according to their fair values at the acquiring date. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation. Where the combination costs are less than the fair value of the identifiable net assets it obtains from the acquiree, the acquirer shall re-examine 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. If, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, the acquirer shall record the balance into the profits and losses of the current period.

As for the deductible temporary differences the acquirer obtains from the acquiree which are not recognized into deferred income tax liabilities due to their not meeting the recognition standards, if new or further information shows that the relevant situation has existed on the acquiring date and the economic benefits brought by the deductible temporary differences the acquirer obtains from the acquiree on the acquiring date can be realized, they shall be recognized into deferred income tax assets and the relevant goodwill shall be reduced. Where the goodwill is not sufficient to be offset, the difference shall be recognized into the profits and losses in the current period. In other circumstances than the above, where the deductible temporary differences are recognized into deferred income tax assets on the acquiring date, they shall be recorded into the profits and losses in the current period.

In a business combination not under same control realized by two or more transactions of exchange, according to about the 5<sup>th</sup> Notice about the Treasury Issuing the Accounting Standards for Enterprises (Finance accounting) [2012] No. 19 Criterion about the "package deal" (see Notes IV, 4 (2)), Whether the deals are "package deal" or not, belong to the "package deal", see the previous paragraphs described in this section and Notes IV, 10 "long term equity investment transaction" and conduct accounting treatment, those not belong to the "package deal" distinguish between the individual financial statements and the consolidated financial statements and conduct relevant accounting treatment.

In the individual financial statements, the sum of the book value and new investment cost of the Company holds in the acquiree before the acquiring date shall be considered as initial cost of the investment. Other related comprehensive gains in relation to the equity interests that the Company holds in the acquiree before the acquiring date shall be treated on the same basis as the acquiree directly disposes the related assets or liabilities when disposing the investment (that is, except for the corresponding share in the changes in the net liabilities or assets with a defined benefit plan measured at the equity method arising from the acquiree's re-measurement, the others shall be transferred into current investment gains).

In the Company's consolidated financial statements, as for the equity interests that the Company holds in the acquiree before the acquiring date, they shall be re-measured according to their fair values at the acquiring date; the positive difference between their fair values and carrying amounts shall be recorded into the investment gains for the period including the acquiring date. Other related comprehensive gains in relation to the equity interests that the Company holds in the acquiree before the acquiring date shall be treated on the same basis as the acquiree directly disposes the related assets or liabilities when disposing the investment (that is, except for the corresponding share in the changes in the net liabilities or assets with a defined benefit plan measured at the equity

method arising from the acquiree's re-measurement, the others shall be transferred into current investment gains on the acquiring date).

## **6. Methods for preparing consolidated financial statements**

### **(1) Principle for determining the consolidation scope**

The consolidation scope for financial statements is determined on the basis of control. The term "control" is the power of the Company upon an investee, with which it can take part in relevant activities of the investee to obtain variable returns and is able to influence the amount of returns. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. A subsidiary is an enterprise or entity controlled by the Company.

### **(2) Methods for preparing the consolidated financial statements**

Subsidiaries are fully consolidated from the date on which the Company obtains control on their net assets and operation decision-making and are de-consolidated from the date when such control ceases. As for a disposed subsidiary, its operating results and cash flows before the disposal date has been appropriately included in the consolidated income statement and cash flow statement; and as for subsidiaries disposed in the current period, the opening items in the consolidated balance sheet are not adjusted. For a subsidiary acquired in a business combination not under the same control, its operating results and cash flows after the acquiring date have been appropriately included in the consolidated income statement and cash flow statement, and the opening items and comparative items in the consolidated financial statements are not adjusted. For a subsidiary acquired in a business combination under the same control or a combined party obtained in a takeover, its operating results and cash flows from the beginning of the Reporting Period of the combination to the combination date have been appropriately included in the consolidated income statement and cash flow statement, and the comparative items in the consolidated financial statements are adjusted at the same time.

The financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company during the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries. For a subsidiary acquired from a business combination not under the same control, the individual financial statements of the subsidiary are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealized profits are offset in the consolidated financial statements.

The portion of a subsidiary's shareholders' equity and the portion of a subsidiary's net profits and losses for the period not held by the Company are recognized as minority interests and minority shareholder profits and losses respectively and presented separately under shareholders' equity and net profits in the consolidation financial statements. The portion of a subsidiary's net profits and losses for the period that belong to minority interests is presented as the item of "minority shareholder profits and losses" under the bigger item of net profits in the consolidated financial statements. Where the loss of a subsidiary shared by minority shareholders exceeds the portion enjoyed by minority shareholders in the subsidiary's opening owners' equity, minority interests are offset.



Where the Company loses control on its original subsidiaries due to disposal of some equity investments 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 disposal of equity interests and the fair value of the residual equity interests, minus the portion in the original subsidiary's net assets measured on a continuous basis from the acquisition date that is enjoyable by the Company according to the original shareholding percentage in the subsidiary, is recorded in investment gains for the period when the Company's control on the subsidiary ceases. Other comprehensive incomes in relation to the equity investment in the original subsidiary are treated on the same accounting basis as the acquiree directly disposes the relevant assets or liabilities (that is, except for the changes in the net liabilities or assets with a defined benefit plan resulted from re-measurement of the original subsidiary, the rest shall all be transferred into current investment gains) when such control ceases. And subsequent measurement is conducted on the residual equity interests according to the No. 2 Accounting Standard for Business Enterprises—Long-term Equity Investments or the No. 22 Accounting Standard for Business Enterprises—Recognition and Measurement of Financial Instruments. For details, see “Long Term Equity Investment” or “Financial Instruments”.

Where the Company loses control on its original subsidiaries due to step by step disposal of equity investments through multiple transactions, it need to distinguish the Group losses control on its subsidiaries due to disposal of equity investments whether belongs to a package deal. All the transaction terms, conditions and economic impact of the disposal of subsidiaries' equity investment are in accordance with one or more of the following conditions, which usually indicate the multiple transactions, should be considered as a package deal for accounting treatment.

the same time or under the condition of considering the influence of each other to concluded; ②

These transactions only be as a whole can achieve a complete business result;

a deal depends on at least one other transactions; ④ A deal alone is not economical, it is economical with other trading together. Those not belong to a package deal, each of them a deal depends on circumstances respectively conduct accounting treatment in accordance with the applicable principles of “part disposal of subsidiaries of a long-term equity investment under the condition of not losing control on its subsidiaries” (see “Long Term Equity Investment”) and “Where the Company loses control on its original subsidiaries due to disposal of some equity investments or other reasons” (see the front paragraph) relevant transactions of the Company loses control on its subsidiaries due to disposal of equity investments belonging to a package deal, considered as a transaction and conduct accounting treatment. However, Before losing control, every disposal cost and corresponding net assets balance of subsidiary of disposal investment are confirmed as other comprehensive income in consolidated financial statements, which together transferred into the current profits and losses in the lose of control, when the Company losing control on its subsidiary.

① These d

③ The occ

## 7. 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.

## 8. Foreign currency businesses and translation of foreign currency financial statements

### (1) Accounting treatments for translation of foreign currency transactions

As for a foreign currency transaction, the Company shall convert the amount in a foreign currency into amount in its bookkeeping base at the spot exchange rate (usually referring to the central parity rate announced by the People's Bank of China, the same below) of the transaction date, while as for such transactions as foreign exchange or involving in foreign exchange, the Company shall converted into amount in the bookkeeping base currency at actual exchange rate the transaction is occurred.

### (2) Accounting treatments for translation of foreign currency monetary items and non-monetary items

On the balance sheet date, the foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The exchange difference arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded in the profits and losses in the current period, excluding the following situations: ① the exchange difference arising from foreign currency loans related to acquisition of fixed assets shall be treated at the principle of capitalization of borrowing costs; ② the exchange difference arising from the hedging instruments used for effective hedging of net overseas operation investments shall be recorded into other comprehensive incomes, and shall be recognized into current gains and losses when the net investments are disposed; and ③ the exchange difference arising from change in the book balance of foreign currency monetary items available for sale except the amortized costs shall be recorded into other comprehensive gains and losses.

A foreign currency non-monetary item measured at the historical costs shall still be translated at the spot exchange rate on the transaction date. Where the foreign non-monetary items measured at the fair value shall be converted into amount in its bookkeeping base currency at spot exchange rate, the exchange gains and losses arising thereof shall be treated as change in fair value, and recorded into the current period gains and losses or as other comprehensive incomes.

### (3) Translation of foreign currency financial statements

When it involves overseas business in preparing the consolidated financial statement, for the translation difference of foreign currency monetary items of net investment in overseas business arising from the change in exchange rate, it shall be recorded into the item of "difference of foreign currency financial statement translation" under the owners' equity; and be recorded into disposal gains and losses at current period when disposing overseas business.

The foreign currency financial statement of overseas business should be translated in to RMB financial statement by 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 for the items as "undistributed profits", other items shall be translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit statements shall be translated at the spot exchange rate of the transaction date. The undistributed profits at year-begin is the undistributed profits at the end of last year after the translation; undistributed profits at year-end shall be listed as various distribution items after the translation; after the translation, the balance between assets and the sum of liabilities and owners' equities shall

be recorded into other comprehensive gains and losses as difference of foreign currency translation. Where an enterprise disposes of an overseas business without the control right, it shall shift the differences, which is presented under the items of the owner's equities in the balance sheet and which arises from the translation of foreign currency financial statements relating to this overseas business, into the disposal profits and losses of the current period by all or proportion of the disposed overseas business.

Foreign cash flow shall be translated at the spot exchange rate of the date of cash flow incurred. The influence of exchange rate on the cash flow shall be adjustment item and individually listed in the cash flow statement.

And the opening balance and the actual balance of last year shall be listed at the amounts after translation of foreign currency financial statement in last year.

Where the control of the Company over an overseas operation ceases due to disposal of all or some of the Company's owner's equity in the overseas operation or other reasons, the foreign-currency statement translation difference belonging to the parent company's owner's equity in relation to the overseas operation which is stated under the shareholders' equity in the balance sheet shall be all restated as gains and losses of the disposal period.

Where the Company's equity in an overseas operation decreases due to disposal of some equity investment or other reasons but the Company still has control over the overseas operation, the foreign-currency statement translation difference in relation to the disposed part of the overseas operation shall be recorded into minority interests instead of current gains and losses. If what's disposed is some equity in an overseas associated enterprise or joint venture, the foreign-currency statement translation difference related to the overseas operation shall be recorded into the gains and losses of the current period of the disposal according to the disposal ratio.

## **9. Financial instruments**

The Company recognizes a financial asset or liability when it becomes a party of the relevant financial instrument contract. Financial assets and liabilities are measured at fair value in initial recognition. As for the financial assets and liabilities measured at fair value of which changes are recorded into current gains and losses, the relevant dealing expenses are directly recorded into gains and losses; and the dealing expenses on other kinds of financial assets and liabilities are included in the amounts initially recognized.

### **(1) Determination of the fair value of main financial assets and financial liabilities**

Fair value refers to the price that a market participant shall receive for selling an asset or shall pay for transferring a liability in an orderly transaction on the measurement date. As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The quoted prices in the active market refers to the prices available from stock exchange, broker's agencies, guilds, pricing organization and etc., which represent the actual trading price under equal transaction. Where there is no active market for a financial instrument, the enterprise concerned shall adopt value appraisal techniques, including 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., to determine its fair value.

## (2) Classification, recognition and measurement of financial assets

The purchase and sale of financial assets under the normal ways shall be recognized and stopped to be recognized respectively at the price of transaction date. Financial assets shall be classified into the following four categories when they are initially recognized: (a) the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, (b) the investments which will be held to their maturity; (c) loans and the account receivables; and (d) financial assets available for sale.

① The financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period

Including transactional financial assets and the financial assets which are designated to be measured at their fair value when they are initially recognized and of which the variation is recorded into the profits and losses of the current period;

The financial assets meeting any of the following requirements shall be classified as transactional financial assets: A. The purpose to acquire the said financial assets is mainly for selling them in the near future; B. 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 enterprise may manage the combination by way of short-term profit making in the near future; C. 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 investment

The term "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 enterprise holds for a definite purpose or the enterprise is able to hold until its maturity.

For the held-to-maturity investment adopting actual interest rate method, which is measured at the post-amortization costs, the profits and losses that arise when such financial assets or financial liabilities are terminated from recognition, or are impaired or amortized, shall be recorded into the profits and losses of 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 the actual interest rate is determined, the future cash flow shall be predicted on the basis of taking into account all the contractual provisions concerning the financial asset or financial liability (the future credit losses shall not be taken into account).and also the various fee charges, trading expenses, premiums or reduced values, 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.

### ③ Loans and the accounts receivables

Loans and the accounts receivables refer to non-derivative financial assets, which there is no quotation in the active market, with fixed recovery cost or recognizable.

Financial assets that are defined as loans and the accounts receivables by the Company including notes receivables, accounts receivables, interest receivable, dividends receivable and other receivables etc..

Loans and the accounts receivables are made follow-up measurement on the basis of post-amortization costs employing the effective interest method. Gains or loss arising from the termination recognition, impairment occurs or amortization shall be recorded into the profits and losses of the current period.

### ④ Assets available for sales

Assets available for sales including non-derivative financial asset that has been assigned as assets available for sales on the initial recognition and financial assets excluded those measured at fair value and of which the variation into profits and losses of the current period, they are some financial assets, loans and accounts receivables, held-to-maturity investment.

The cost at the period-end of the available-for-sale liabilities instruments should be confirmed according to its amortized cost method, that is the initially recognized amount which deduct the principal that had been repaid, to plus or minus the accumulative amortization amount formed by the amortization between the difference of the initially recognized amount and the amount on the due date that adopted the actual interest rate method, and at the same time deduct the amount after the impairment loss happened. The cost at the period-end of the available-for-sale liabilities instruments is its initial cost.

Financial assets available-for-trade are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income, and be carried forward when the said financial assets stopped recognition, then it shall be recorded into the profits and losses of the current period. But, the equity instrument investment which neither have quotation in the active market nor its fair value could not be reliable measured, as well as the derivative financial assets that concern with the equity instruments and should be settled through handing over to its equity instruments, should take the follow-up measurement according to the cost.

Interest receive during the holding of assets available for sales and cash dividends with distribution announcement by invested companies, it shall be recorded into the profits and losses of the current period.

### (3) Impairment of financial assets

The Company assesses at the balance sheet date the carrying amount of every financial asset except for the financial assets that measured by the fair value. If there is objective evidence indicating a financial asset may be impaired, a provision is provided for the impairment.

The Company 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 on held-to maturity investment, loans and receivables

The financial assets measured by cost or amortized cost write down their carrying value by the estimated present value of future cash flow. The difference is recorded as impairment loss. If there is objective evidence to indicate the recovery of value of financial assets after impairment, and it is related with subsequent event after recognition of loss, the impairment loss recorded originally can be reversed. The carrying value of financial assets after impairment loss reversed shall not exceed the amortized cost of the financial assets without provisions of impairment loss on the reserving date.

② Impairment of available-for-sale financial assets

When it judged that the decrease of fair value of the available-for-sale equity instrument investment is serious and not temporarily after comprehensive considering relevant factors, it reflected that the available-for-sale equity instrument investment occurred impairment. Of which, the “serious decline” refers to the accumulative decline range of the fair value over 20%; while the “non-temporary decline” refers to the consecutive decline time of the fair value over 12 months.

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 Company 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 Company 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.

In respect of the assets using recourse to sell or using endorsement to transfer, the Company needs to determine whether almost all of the risks and rewards of the financial asset ownership are transferred. If almost all of the risks and rewards of the financial asset ownership had been transferred to the transferee, derecognize the financial assets. For almost all of the risks and rewards of the financial asset ownership retained, do not end to recognize the financial assets. For which neither transfer or retain almost all of the risks and rewards of the financial asset ownership, continuously judge whether the Company retain the control of the assets, and conduct accounting treatment according to the principle of mentioned in the previous paragraphs.

#### (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 is 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 Company (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) Derivatives and embedded derivatives

Derivative financial instruments include derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are substantially re-measured at fair value. The resulting gain and loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and the treated as a standalone derivative if (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Company is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

#### (8) Offsetting financial assets and financial liabilities

When the Company has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

#### (9) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company issues (including refinancing), re-purchases, sells or written-offs the equity instrument as the disposing of the changes of the equity. The Group not recognized the changes of the fair value of the equity instrument. The transaction expenses related to the equity transaction would be deducted from the equity.



All types of distribution (excluding stock dividends) made by the Company to holders of equity instruments are deducted from shareholders' equity. The Company does not recognize any changes in the fair value of equity instruments.

## 10. Receivables

(1) Accounts receivable with significant single amount for which the bad debt provision is made individually

Judgement basis or monetary standards of provision for bad debts of the individually significant accounts receivable	Receivables with the amount of RMB5 million or more than RMB5 million should recognize as the receivables with significant single amount.
Method of individual provision for bad debts of the individually significant accounts receivable	The Company 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) Accounts receivable which the bad debt provision is withdrawn by credit risk characteristics

Name of portfolios	Bad debt provision method
Aging group	Aging analysis method

In the groups, adopting aging analysis method to withdraw bad debt provision:

Applicable  Not applicable

Age	Withdrawal proportion for accounts receivable (%)	Withdrawal proportion for other accounts receivable (%)
Within 1 year (including 1 year)	5.00%	5.00%
1-2 years	10.00%	10.00%
2-3 years	20.00%	20.00%
Over 3 years	30.00%	30.00%

In the groups, adopting balance percentage method to withdraw bad debt provision:

Applicable  Not applicable

In the groups, adopting other methods to withdraw bad debt provision:

Applicable  Not applicable

(3) Accounts receivable with an insignificant single amount but for which the bad debt provision is made individually

Reason of individually withdrawing bad debt provision	Receivables have dispute with the other parties or involving lawsuit and arbitration; receivables have obvious indication showing that the debtors are likely to fail to perform the duty of
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	repayment, etc.
Withdrawal method for bad debt provision	The Company 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.

## 11. Inventory

### (1) Classification

Inventories mainly include raw materials, work-in-progress, product processed on entrustment, consumptive biological assets and stock products etc.

### (2) Valuation method of inventories acquiring and issuing

The inventories should be measured by the actual cost when acquired, and the cost of the inventories including the procurement cost, processing cost and other cost. Bulk chemical raw materials, work-in-progress goods and finished products should be measured by the actual cost and should carry forward the cost by weighted average method when issuing; auxiliary materials, packing materials should be measured by actual cost and adopt the planned cost for accounting as well as included the difference between the actual cost and the planned cost into the material cost variance and according the material cost variance rate, work out the material cost variance which should be shared at the end of the month, and to adjust the planned cost that had issued the materials as the actual cost; low priced and easily worn articles should be recorded by actual cost and should adopt the one-time amortization method for accounting when consuming.

### (3) Basis for determining net realizable value of inventories and provision methods for decline in value of inventories

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration the purpose of holding inventories and effect of post balance sheet events.

At the balance sheet date, inventories are measured at the lower of the cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made. The provision for inventories decline in value is determined normally by the difference of the cost of individual item less its realizable value. For large quantity and low value items of inventories, provision for decline in value is made based on categories of inventories. For items of inventories relating to a product line that are produced and marketed in the same geographical area, have the same or similar end users or purposes, and cannot be practicably evaluated separately from other items in that product line provision for decline in value is determined on an aggregate basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for decline in value is reversed and the

reversal is included in profit or loss for the period.

(4) The perpetual inventory system is maintained for stock system.

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

For the low-value consumption goods, should be amortized by one-off amortization method when consuming; and for the packing articles, should be amortized by one-off amortization method when consuming.

## **12. Long-term equity investments**

The long-term equity investments of this part refer to the long-term equity investments that the Company has control, joint control or significant influence over the investees. The long-term equity investment that the Company does not have control, joint control or significant influence over the investees, should be recognized as available-for-sale financial assets or be measured by fair value with the changes should be included in the financial assets accounting of the current gains and losses, and please refer the details of the accounting policies to “financial instrument”.

Joint control, refers to the control jointly owned according to the relevant agreement on an arrangement by the Company and the relevant activities of the arrangement should be decided only after the participants which share the control right make consensus. Significant influence refers to the power of the Company which could anticipate in the finance and the operation policies of the investees, but could not control or jointly control the formulation of the policies with the other parties.

### **(1) Recognition of investment costs**

As for long-term equity investments acquired by enterprise merger, if the merger is under the same control, the share of the book value of the owner's equity of the merged enterprise, on the date of merger, is regarded as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. If the consideration of the merging enterprise is that it issues equity securities, it shall, on the date of merger, regard the share of the book value of the shareholder's equity of the merged enterprise on the consolidated financial statement of the ultimate control party as the initial cost of the long-term equity investment. The total face value of the stocks issued shall be regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The equities of the combined party which respectively acquired through multiple transaction under the same control that ultimately form into the combination of the enterprises under the same control, should be disposed according whether belongs to package deal; if belongs to package deal, each transaction would be executed accounting treatment by the Company as a transaction of acquiring the control right. If not belongs to package deal, it shall, on the date of merger, regard the enjoyed share of the book value of the shareholder's equity of the merged enterprise on the consolidated financial statement of the ultimate control party as the initial cost of the long-term equity investment, and as for the difference between the initial investment cost of the long-term equity investment and sum of the book value of the long-term equity investment before the combination and the book value of the consideration of the new

payment that further required on the combination date, should adjust the capital reserve; if the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The equity investment held before the combination date which adopted the equity method for accounting, or the other comprehensive income confirmed for the available-for-sale financial assets, should not have any accounting disposal for the moment.

For the long-term investment required from the business combination under different control, the initial investment cost regarded as long-term equity investment on the purchasing date according to the combination cost, 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 equities of the acquirees which respectively acquired through multiple transaction that ultimately form into the combination of the enterprises under the different control, should be disposed according whether belongs to package deal; if belongs to package deal, each transaction would be executed accounting treatment by the Company as a transaction of acquiring the control right. If not belongs to package deal, the sum of the book value of the original held equity investment of the acquirees and the newly added investment cost should be regarded as the initial investment cost of the long-term equity investment that changed to be accounted by cost method. If the original held equity is calculated by cost method, the other relevant comprehensive income would not have any accounting disposal for the moment. If the original held equity investment is the financial assets available for sale, its difference between the fair value and the book value as well as the accumulative changes of the fair value that include in the other comprehensive income, should transfer into the current gains and losses.

The commission fees for audit, law services, assessment and consultancy services and other relevant expenses occurred in the business combination by the combining party or the purchase 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 Company, the fair value of equity securities issued by the Company, 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) Subsequent measurement and recognition of gains or losses

A long-term equity investment where the investing enterprise has joint control (except for which forms into common operators) or significant influence over the investors should be measured by equity method. 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 and append as well as withdraw the cost of investing and adjusting the

long-term equity investment. 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 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, respectively recognize investment income and other comprehensive income according to the net gains and losses as well as the portion of other comprehensive income which should be enjoyed or be shared, and at the same time adjust the book value of the long-term equity investment; corresponding reduce the book value of the long-term equity investment according to profits which be declared to distribute by the investees or the portion of the calculation of cash dividends which should be enjoyed; for the other changes except for the net gains and losses, other comprehensive income and the owners' equity except for the profits distribution of the investees, should adjust the book value of the long-term equity investment as well as include in the capital reserve. The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. If the accounting policies adopted by the investees is not accord with that of the Company, should be adjusted according to the accounting policies of the Company and the financial statement of the investees during the accounting period and according which to recognize the investment income as well as other comprehensive income. For the transaction happened between the Company and associated enterprises as well as joint ventures, if the assets launched or sold not form into business, the portion of the unrealized gains and losses of the internal transaction, which belongs to the Company according to the calculation of the enjoyed proportion, should recognize the investment gains and losses on the basis. But the losses of the unrealized internal transaction happened between the Company and the investees which belongs to the impairment losses of the transferred assets, should not be neutralized. The assets launched by the Company to the associated enterprises or the joint ventures if could form into business, the long-term equity investment without control right which acquired by the investors, should regard the fair value of the launched business as the initial investment cost the newly added long-term equity investment, and for the difference between the initial investment cost and the book value of the launched business, should be included into the current gains and losses with full amount. The Company shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero. However, if the Company has the obligation to undertake extra losses, it 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 Company shall, after the amount of its attributable share of profits offsets against its attributable share of the un-recognized losses, resume recognizing its attributable share of profits.

For the long-term equity investment held by the Company before the first execution of the new accounting criterion on 1 Jan. 2007 of the associated enterprises and joint ventures, if there is debit difference of the equity investment related to the investment, should be included in the current gains and losses according to the amount of the straight-line amortization during the original 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 losses the controlling right by disposing part of long-term equity investment on such subsidiaries, it shall treated in accordance with the relevant accounting policies in 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, if the remained equity after disposal still adopts the equity method for measurement, the other comprehensive income originally recorded into owners' equity should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees according to the corresponding proportion. The owners' equity recognized owing to the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current gains and losses according to the proportion.

For the long-term equity investment which adopts the cost method of measurement, if the remained equity still adopt the cost method, the other comprehensive income recognized owing to adopting the equity method for measurement or the recognition and measurement standards of financial instrument before acquiring the control of the investees, should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees and should be carried forward into the current gains and losses according to the proportion; the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion.

For those the Company lost the control of the investees by disposing part of the equity investment as well as the remained equity after disposal could execute joint control or significant influences on the investees, should change to measure by equity method when compiling the individual financial statement and should adjust the measurement of the remained equity to equity method as adopted since the time acquired; if the remained equity after disposal could not execute joint control or significant influences on the investees, should change the accounting disposal according to the

relevant regulations of the recognition and measurement standards of financial instrument, and its difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized by adopting equity method for measurement or the recognition and measurement standards of financial instrument before the Company acquired the control of the investees, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when lose the control of them, while the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion. Of which, for the disposed remained equity which adopted the equity method for measurement, the other comprehensive income and the other owners' equity should be carried forward according to the proportion; for the disposed remained equity which changed to execute the accounting disposal according to the recognition and measurement standards of financial instrument, the other comprehensive income and the other owners' equity should be carried forward in full amount.

For those the Company lost the control of the investees by disposing part of the equity investment, the disposed remained equity should change to calculate according to the recognition and measurement standards of financial instrument, and difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized from the original equity investment by adopting the equity method, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when terminate the equity method for measurement, while for the owners' equity recognized owing to the changes of the other owner's equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current investment income with full amount when terminate adopting the equity method.

The Company respectively disposes the equity investment of the subsidiaries through multiple transactions until lose the control right, if the above transactions belongs to the package deal, should execute the accounting disposal by regarding each transaction as a deal of disposing the equity investment of the subsidiaries until lose the control right, while the difference between each expenses of the disposal and the book value of the long-term equity investment in accord with the disposed equity before losing the control right, should firstly be recognized as other comprehensive income then be transferred into the current gains and losses of losing the control right along until the time when lose it.

### **13. Fixed assets**

#### **(1) Conditions for recognition**

The term "fixed assets" refers to the tangible assets that simultaneously possess the features as follows: (a) they are held for the sake of producing commodities, rendering labor service, renting or business management; and (b) their useful life is in excess of one fiscal year. The fixed assets are only recognized when the relevant economic benefits probably flow in the Company and its cost

could be reliably measured. The fixed assets should take the initial measurement according to the cost and at the same time consider the influences of the factors of the estimated discard expenses.

## (2) Depreciation methods

Category of fixed assets	Method	Useful life	Salvage value	Annual depreciation
Housing and building	Average method of useful life	5 years -30 years	5%-10%	3.00%-19.00%
Machinery equipments	Average method of useful life	10 years -18 years	5%-10%	5.00%-9.50%
Transportation vehicle	Average method of useful life	5 years	5%-10%	18.00%-19.00%
Electronic equipments and others	Average method of useful life	5 years	5%-10%	18.00%-19.00%

## (3) Recognition basis, pricing and depreciation 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.

## 14. Construction in progress

Construction in process 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 process is transferred to fixed assets when the assets are ready for their intended use.

See the details of the impairment test method of the impairment provision withdrawal method of the construction in progress to “Long-term assets impairment”.

## 15. 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. When the borrowing costs can be directly attributable to the construction or production of assets eligible for capitalization, and the asset disbursements or the borrowing costs have already incurred, and the construction or production activities which are necessary to prepare the asset for its intended use or sale have already started, the capitalization of borrowing costs begins. When the asset eligible for



capitalization under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. Other borrowing costs shall be recognized as expenses when incurred.

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.

## **16. Biological assets**

### **(1) Consumptive biological assets**

Consumptive biological assets refer to the biological assets held for sale or to be harvested as agricultural products in future, including crops, vegetables under growing, timber production forest and domestic animals for sale. The consumptive biological assets shall be measured based on cost. All costs for planting, creating, cultivating or raising of consumptive biological assets shall be the necessary expenses directly added to such assets that accrued before harvest, including any loan that satisfies capitalization conditions. Subsequent expenses for keeping and feeding the consumptive biological assets after the harvest should be recognized as the losses and gains of the current period. Upon harvest or sale, the cost of consumptive biological assets shall be based on its book value through weighted average.

On the date of Balance Sheet, the consumptive biological assets shall be measured with lower of cost and net realizable value, and the method for confirming the reserve for inventory price drop shall be adopted to confirm the reserve for price drop of consumptive biological assets. If the impacts of depreciation disappear, the depreciation amount shall be recovered, and the reserve for price drop originally accrued shall be reversed. Such amount reversed shall be recognized as loss and gain for the current period.

If consumptive biological assets change its usage to be as productive biological assets, the cost after such change shall be confirmed based on the book value when the usage is changed. If consumptive biological assets are changed as public biological assets, depreciation shall be taken into consideration pursuant to Corporate Accounting Rules No.8 – Assets Depreciation. When

depreciation occur, accrued the depreciation reserve first and then confirm based on the book value after such accrual.

## (2) Productive biological assets

Productive biological assets refer to agricultural products produced, and biological assets held for labor provision or lease, including economic forest, firewood forest, productive animals and labor animals. The productive biological assets shall be measured based on cost. All costs for creating or fostering productive biological assets shall be the necessary expenses directly added to such assets that accrued before it reaches expected production purpose, including any loan that satisfies capitalization conditions.

The Company shall withdraw the depreciation of the productive biological 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 productive biological assets are as below:

Category	Useful life (Year)	Expected net salvage value (%)	Annual depreciation (%)
Livestock	5	5%	19

The Company shall review the service life, expected net residuals and depreciation method of the productive biological assets at least by the end of the year. In case of any change, it shall be deemed as accounting estimate change.

The difference between proceedings from disposal (sale, loss, death or damage) of the productive biological assets deducted by book value and related tax shall be recognized as loss and gain for the current period.

The Company shall check on the date of Balance Sheet whether there is a depreciation sign for the productive biological assets. If yes, estimate the recoverable amount. Such recoverable amount shall be estimated based on single asset item. If it is difficult, the recoverable amount of the portfolio shall be confirmed based on the portfolio such assets belong to. If the recoverable amount of the assets is lower than book value, reserve for asset depreciation shall be accrued based on such difference, and recognized as loss and gain for the current period.

The above assets impairment losses once be recognized should not be reversed during the accounting periods afterwards.

If the productive biological assets changed the usage as the consumptive biological assets, the cost after the change should be recognized as the book value when changing the usage; of the productive biological assets changed the usage as non-profit living assets, should be recognized according to the book value after the withdrawal of the impairment provision in accord with the regulation of No. 8 of ASBE - Assets Impairment for considering whether there was impairment and should withdraw the impairment provision in ahead of it.

## 17. Intangible assets

### (1) Pricing method, useful life and impairment test

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. The amortization periods of each intangible asset were as follows:

Category	Amortization method	Amortization life (years)
Land use right	Straight-line method	Stipulated the term according to the regulations of the land transfer contract
Patent use right	Straight-line method	10
Software use right	Straight-line method	10
Brand use right	Straight-line method	10

At the end of period, the Company 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 Company 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) Accounting polices of internal R & D expenses**

The expenditures for internal research and development projects of an enterprise shall be classified into research expenditures and development expenditures.

The research expenditures shall be recorded into the profit or loss for the current period.

The development expenditures shall be confirmed as intangible assets when they satisfy the following conditions simultaneously, and shall be recorded into profit or loss for the current period when they don't satisfy the following conditions.

- 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;
- ⑤ The development expenditures of the intangible assets can be reliably measured.

As for expenses that can't be identified as research expenditures or development expenditures, the occurred R & D expenses shall be all included in current profits and losses.

### **18. Impairment of long-term assets**

For non-current financial Assets of fixed Assets, projects under construction, intangible Assets with limited service life, investing real estate with cost model, long-term equity investment of subsidiaries, cooperative enterprises and joint ventures, the Company should judge whether decrease in value exists on the date of balance sheet. Recoverable amounts should be tested for decrease in value if it exists. Other intangible Assets of reputation and uncertain service life and other non-accessible intangible assets should be tested for decrease in value no matter whether it exists.

If the recoverable amount is less than book value in impairment test results, the provision for impairment of differences should include in impairment loss. Recoverable amounts would be the higher of net value of asset fair value deducting disposal charges or present value of predicted cash flow. Asset fair value should be determined according to negotiated sales price of fair trade. If no sales agreement exists but with asset active market, fair value should be determined according to the Buyer's price of the asset. If no sales agreement or asset active market exists, asset fair value could be acquired on the basis of best information available. Disposal expenses include legal fees, taxes, cartage or other direct expenses of merchantable Assets related to asset disposal. Present value of predicted asset cash flow should be determined by the proper discount rate according to Assets in service and predicted cash flow of final disposal. Asset depreciation reserves should be calculated on the basis of single Assets. If it is difficult to predict the recoverable amounts for single Assets, recoverable amounts should be determined according to the belonging asset group. Asset group is the minimum asset combination producing cash flow independently.

In impairment test, book value of the business reputation in financial report should be shared to beneficial asset group and asset group combination in collaboration of business merger. It is shown in the test that if recoverable amounts of shared business reputation asset group or asset group combination are lower than book value, it should determine the impairment loss. Impairment loss amount should firstly be deducted and shared to the book value of business reputation of asset group or asset group combination, then deduct book value of all assets according to proportions of other book value of above assets in asset group or asset group combination except business reputation.

After the asset impairment loss is determined, recoverable value amounts would not be returned in future.

## **19. Amortization method of 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. The long-term deferred expenses mainly including the land contract fee. And the long-term deferred expense shall be amortized averagely within benefit period. The amortization term is the term stipulated by the land contracts and the land rental contracts.

## **20. Payroll**

### **(1) Accounting treatment of short-term compensation**

Short-term compensation mainly including salary, bonus, allowances and subsidies, employee services and benefits, medical insurance premiums, birth insurance premium, industrial injury insurance premium, housing fund, labor union expenditure and personnel education fund, non-monetary benefits etc. The short-term compensation actually happened during the accounting period when the active staff offering the service for the Company should be recognized as liabilities and is included in the current gains and losses or relevant assets cost. Of which the non-monetary benefits should be measured according to the fair value.

### **(2) Accounting treatment of the welfare after departure**

Welfare after demission mainly includes setting drawing plan. Of which setting the drawing plan mainly includes basic endowment insurance, unemployment insurance and annuity etc, and the corresponding payable and deposit amount should be included into the relevant assets cost or the current gains and losses when happen.

### **(3) Accounting treatment of the welfare after dismissal**

The Company relieves the labor relation with the employees before the due date of the labor contacts or puts forward the advice of providing the compensation for urging the employees volunteered to receive the downsizing and when the Company could not unilaterally withdraw the dismissal welfare owing to the relieving plan of the labor relation or the downsizing advice, should confirm the liabilities of the employees' salary from the dismissal welfare on the earlier day between the cost confirmed by the Company and the cost related to the reorganization of the payment of the dismissal welfare and includes which in the current gains and losses. But as for the dismissal welfare be estimated that could not be completed paid within 12 months after the end of the annual report period, should be handled according to the other long-term employee's salary.

The internal retire plan of the employees should be handled by adopting the same principles of the above dismissal welfare. The Company includes the salary and the paid social insurance charges planed to pay by the personnel retreated inside during the period from the date when ceased the services to the normal retire date in the current gains and losses (dismissal welfare) when met with the recognition conditions of the estimated liabilities.

#### **(4) Accounting treatment of the welfare of other long-term staffs**

The other long-term welfare that the Company offers to the staffs, if met with the setting drawing plan, should be accounting disposed according to the setting drawing plan, while the rest should be disposed according to the setting revenue plan.

### **21. Share-based payment**

#### **(1) Accounting treatment of share-based payment**

Share-based payment refers to the transaction in order to require the service offered by the employees and other parties that grants the equity instruments or responsible for the liabilities recognized on the basis of the equity instruments. Share-based payment divided into equity-settled share-based payment and cash-settled share-based payment.

##### **① Equity-settled share-based payment**

It is a share-based payment settled by equity used for exchange the service offered by the staffs and be measured by the fair value on the grant date of granting the equity instrument for the staffs. When the services are fully rendered during vesting period or specified performance targets are met, based on the best estimate of the number of the vesting equity instruments during vesting period and according to the straight-line method to calculate and to include into the relevant cost or expenses/when using the vesting power immediately after the granting, should include the relevant cost or expenses on the grant date and correspondingly increase the capital reserve.

On each balance sheet date within the vesting period, the Company makes the best estimate base on the subsequent information newly required such as the changes of the vesting staffs' number to modify the number of the estimated vesting equity instrument. The above influences of the estimation should be included into the current relevant cost or expenses and correspondingly adjust the capital surplus.

For equity-settled share-based payment made in return of other parties' services and the fair value of the other parties' services can be reliably measured, it will be measured based on the fair value of the other parties' services on the date of grant; if the fair value of the other parties' services cannot be reliably measured but the fair value of equity instruments can be reliably measured, it will be recognized in relevant costs or expenses and the capital reserves shall be adjusted accordingly at the fair value of such instruments on the date of the grant.

##### **② Cash-settled share-based payment**

The cash-settled share-based payment should be measured according to the fair value of the liabilities recognized based on the shares or other equity instrument undertaken by the Company. For the cash-settled share-based payment made in return for the rendering of employee services that may be exercised immediately after the grant, the fair value of the liability incurred by the Company shall, on the date of the grant, be recognized in relevant costs or expenses and the liabilities shall be increased accordingly. For cash-settled share-based payment made in return for the rendering of employee services that cannot be exercised until the services are fully provided during the vesting period or specified performance targets are met, on each balance sheet date within the vesting period, the services acquired in the current period shall, based on the best estimate of the number of exercisable instruments, be recognized in relevant costs or expenses and the corresponding liabilities at the fair value of the liability incurred by the Company.

On each balance sheet date and the settlement date before the settlement of the relevant liabilities, the Company should re-measure the fair value of the liabilities and its changes should be included in the current gains and losses.

(2) Relevant accounting treatment about revision and termination of share-based payment plans

As to the revision on the share-based payment plan made by the Company, if the fair value of the granted equity instrument increases after the revision, it shall recognize the increase of the service gained according to the increase of the fair value of equity instrument. The increase of the fair value of equity instrument refers to the balance between the fair value on the revising date of the equity instruments before and after the revision. If the total fair value of share-base payment decreases after the revision or adopting other ways against the staffs in the revision, it shall continue to conduct accounting treatment on the service gained as if the revision never happens, only if the Company p cancel partial or total granted equity instrument.

During the vesting period, if the Company cancels the granted equity instrument, the Company shall treat the cancel of granted equity instrument as accelerating the vesting, and includes the amount shall be recognized during the remained vesting period into current profit and loss, and also recognize the capital reserves. If staffs or other party can choose to meet the non-vesting conditions but not meets with them during the vesting period, which will be treated as the cancel of granted equity instrument by the Company.

## 22. Revenue

(1) Selling products

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.

As for the revenues from the domestic sales products, the Company deliveries the products to the buyers according to the contracts agreement, and the revenues amount of the products sales had been confirmed with the goods payment had been withdrawn or had received the receipt voucher of which the relevant economic benefits probably flow into the enterprise as well as the relevant costs of the products could be reliable measured when being confirming as the revenues.

As for the revenues from the export sales products, the Company executes the customs declaration and the products departure according to the contracts agreement, and the Company had acquired the bill of lading with the revenues amount of the products sale had been confirmed and the goods payment had been withdrawn or had had received the receipt voucher of which the relevant economic benefits probably flow into the enterprise as well as the relevant costs of the products could be reliable measured when being confirming as the revenues.

(2) Providing labor services

If the Company 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 date of the balance sheet. The completed proportion of a transaction concerning the providing of labor services shall be decided by the proportion of the

labor service already provided to the total labor service to provide.

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; and ④ The costs incurred or to be incurred in the transaction can be measured in a reliable way.

If the outcome of a transaction concerning the providing of labor services can not be measured in a reliable way, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred and expected to be compensated, and make the cost of labor services incurred as the current expenses. If it is predicted that the cost of labor services incurred couldn't be compensated, thus no revenue shall be recognized.

Where a contract or agreement signed between Company 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 Company's monetary fund is used by others and the agreed interest rate.

## **23. Government subsidies**

### **(1) Judgment basis and accounting treatment of government subsidies related to assets**

Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income. The Company defines the acquisition of government subsidy of long term assets using in construction or formed in other ways as government subsidiary related to income. If the government document not clearly regulate the subsidy acquirees then adopt the following method to divide the government subsidy into government subsidy related to income and government subsidy related to assets; (1) If the government document clearly regulate the specific project, according to the budget project will form the spending amount of assets and the cost included of spending amount ratio to divide, and division ratio shall be reexamine in every balance sheet date, renew if necessary. (2) The usage in government documents is for general description only, for which do not identify a particular project, consider as government subsidy related to income.

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.

## **(2) Judgment basis and accounting treatment of government subsidies related to profits**

Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income and the rest should be recognized as the government subsidy related to the revenue. The Company defines the acquisition of government subsidy of long term assets using in construction or formed in other ways as government subsidiary related to income. If the government document not clearly regulate the subsidy acquirees then adopt the following method to divide the government subsidy into government subsidy related to income and government subsidy related to assets; (1) If the government document clearly regulate the specific project, according to the budget project will form the spending amount of assets and the cost included of spending amount ratio to divide, and division ratio shall be reexamine in every balance sheet date, renew if necessary. (2) The usage in government documents is for general description only, for which do not identify a particular project, consider as government subsidy related to income.

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.

## **24. Deferred income tax assets/deferred income tax liabilities**

### **(1) Income tax of the current period**

On the balance sheet date, for the current income tax liabilities (or assets) of the current period as well as the part formed during the previous period, should be measured by the income tax of the estimated payable (returnable) amount which be calculated according to the regulations of the tax law. The amount of the income tax payable which is based by the calculation of the current income tax expenses, are according to the result measured from the corresponding adjustment of the pre-tax accounting profit of 2014 which in accord to the relevant regulations of the tax law.

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

The difference between the book value of certain assets and liabilities and their tax assessment basis, as well as the temporary difference occurs from the difference between the book value of the items which not be recognized as assets and liabilities but could confirm their tax assessment basis

according to the regulations of the tax law, the deferred income tax assets and the deferred income tax liabilities should be recognized by adopting liabilities law of the balance sheet.

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 tax assets and the 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 expenses

Income tax expenses include current income tax and deferred income tax.

The rest current income tax and the deferred income tax expenses or revenue should be included into current gains and losses except for the current income tax and the deferred income tax related to the transaction and events that be confirmed as other comprehensive income or be directly included in the shareholders' equity which should be included in other comprehensive income or shareholders' equity as well as the book value for adjusting the goodwill of the deferred income tax occurs from the business combination.

### (4) Offset of income tax

The current income tax assets and liabilities of the Company should be listed by the written-off net amount which intend to executes the net amount settlement as well as the assets acquiring and liabilities liquidation at the same time while owns the legal rights of settling the net amount.

The deferred income tax assets and liabilities of the Company should be listed as written-off net

amount when having the legal rights of settling the current income tax assets and liabilities by net amount and the deferred income tax and liabilities is relevant to the income tax which be collected from the same taxpaying bodies by the same tax collection and administration department or is relevant to the different taxpaying bodies but during each period which there is significant reverse of the deferred income assets and liabilities in the future and among which the involved taxpaying bodies intend to settle the current income tax and liabilities by net amount or are at the same time acquire the asset as well as liquidate the liabilities.

## **25. Lease**

### **(1) Accounting treatment of operating lease**

#### **(1) Business of operating leases recorded by the Group as the lessee**

The rent expenses 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 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) Business of operating leases recorded by the Group as the lessor**

The rent incomes from operating leases shall be recognized as 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 of great amount shall be capitalized when incurred, and be recorded into current profits and losses in accordance with the same basis for recognition of rent incomes over the whole lease term. The initial direct costs of small amount shall be recorded into current profits and losses when incurred. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

### **(2) Accounting treatments of financial lease**

#### **(1) Business of finance leases recorded by the Company as the lessee**

On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. Besides, the initial direct costs directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The balance through deducting unrecognized financing charges from the minimum lease payments shall be respectively stated in long-term liabilities and long-term liabilities due within 1 year.

Unrecognized financing charges shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing charges. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

#### **(2) Business of finance leases recorded by the Company as the lessor**

On the beginning date of the lease term, the Company 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 sum 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. The balance through deducting unrealized financing incomes from the finance lease accounts receivable shall be respectively stated in long-term claims and long-term claims due within 1 year.

Unrecognized financing incomes shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing revenues. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

## **26. Significant accounting judgments and estimates**

Due to the internal uncertainty of operating activities, the Company needs to make judgments, estimates and assumptions for carrying amounts of statement items that can't be measured accurately during the process of applying accounting policies. Such judgments, estimates and assumptions are made on the basis of the past experience of Company's management staffs and on the consideration of other relevant factors. Such judgments, estimates and assumptions have effect on reporting amount of incomes, expense, assets and liabilities, as well as disclosure of contingent liabilities on the balance sheet date. However, the uncertainty of such estimates may results in major adjustments of carrying amounts of assets or liabilities that will be influenced in future.

The Company shall have a check on the aforesaid judgments, estimates and assumptions at fixed intervals on the basis of sustainable operation. As for the change in accounting estimates that only effects on the current period of the change, the affected amount thereof shall be recognized at current period of the change. As for accounting estimates that effects on both the current period of the change and future periods, the affected amount thereof shall be recognized at current period of the change and future periods.

On balance sheet date, major fields requiring judgments, estimates and assumptions on amounts of financial statement items by the Company are as follows:

### **(1) Classification of leases**

In line with rules in Accounting Standards for Enterprises No. 21 – Leases, the Company classifies leases into operating leases and finance leases. Upon the classification, the management staffs need to make analysis and judgments on whether to essentially transfer all risks and remuneration relating to the ownership of leased-out assets to the lessee, or whether the Company has essentially undertaken all risks and remuneration relating to the ownership of leased-in assets.

### **(2) Withdrawal of bad debt provisions**

The Company shall, in accordance with accounting policies of receivables, calculate bad debt provisions by adopting allowance method. Impairment of accounts receivable is based on the assessment of the recovery of accounts receivable. Identification of impairment of accounts receivable requires judgments and estimates by management staffs. The difference between actual outcomes and originally estimated outcomes, which will influence the carrying amount of accounts receivable and bad debt provisions thereof in the estimated period of the change, shall be withdrawn or reversed.

### (3) Inventory depreciation reserves

The Company shall calculate whichever is lower between the cost and realizable net value in light of inventory accounting policies. As for inventories of which the cost is higher than the realizable net value and inventories which are obsolete and unsalable inventory depreciation reserves shall be withdrawn. Impairment of inventories to realizable net value is based on the assessment of the marketing of inventories and realizable net value thereof. Identification of inventory impairment requires well-established evidences by management staffs, as well as judgments and estimates based on consideration of the purpose of holding inventories and other factors such as events occurring after the date of balance sheet. The difference between actual outcomes and originally estimated outcomes, which will influence the carrying amount of inventories and inventory depreciation reserves in the estimated period of the change, shall be withdrawn or reversed.

### (4) Fair values of financial instruments

As for financial instruments not existing in active trading market, the Company shall determine their fair values by all kinds of assessment methods, which include model analysis of discounted cash flow and etc. During the assessment, the Company needs to assess for respects such as future cash flows, credit risks, market volatility, correlation, and choose appropriate discount rate. Such related assumptions have uncertainty, of which the change will effect on fair values of financial instruments.

### (5) Impairment of financial assets available for sale

To a large extent, whether the impairment of financial assets available for sale is recognized or not relies on the judgments and assumptions of the management staffs. In that way, the Company shall be certain about whether to recognize impairment losses of financial assets available for sale in the profit statement. During the process of making judgments and assumptions, the Company needs to evaluate how much the fair value of such investment is less than its cost, how long such investment will last, and the financial condition and short-term business outlook of the invested parties, which include industry status, technology transform, credit rating, default rate and risks from the opposite parties.

### (6) Long-term assets impairment provision

The Company shall judge whether there is sign of impairment of non-current assets other than financial assets on balance sheet date. Intangible assets with uncertain service lives, besides being conducted with annual impairment test every year, have to accept impairment tests when there is sign of impairment. Other non-current assets except for financial assets have to accept impairment tests when there is sign indicating the carrying amount thereof is unrecoverable.

When the carrying amounts of the asset or group assets are higher than the recoverable amounts, namely whichever is higher between the net amount through deducting disposal charges from the fair value and the present value of the estimated future cash flow, impairment occurs.

The net amount of the fair value of an asset minus the disposal expenses shall be determined in light of the amount of the basis of the price as stipulated in the sales agreement or the observable market price in the fair transaction minus the incremental cost directly subject to the disposal of the asset.

When estimating present value of future cash flows, it is necessary to make significant judgments on characters of the asset or asset group, such as output, sales price, related operating costs, and discount used to calculate the present value. When estimating recoverable amount, the Company shall adopt all relevant materials that can be required, including estimates relating to output, sales price and relevant operating costs judged by rational and supportable assumptions.

The Company tests whether there is impairment of good will at least for every year, which requires itself to estimate the present value of the future cash flow of group assets or combination of group assets. When estimating the present value of the future cash flow, the Company needs to estimate the cash flow arising from future group assets or combination of group assets, and at the same time choose appropriate discount rate to determine the present value of the future cash flow.

#### (7) Depreciation and amortization

Upon consideration on the salvage value of investment real estates, fixed assets and intangible assets, the Company shall withdraw depreciation and amortization by straight-line method over their service lives. The Company checks on service lives at fixed intervals, so as to determine the amounts of depreciation expenses and amortization expenses at each period. Service lives are confirmed in accordance with the past experience on similar assets of the Company, along with renewed technology of expectation. If any significant change occurred to previous estimated, depreciation expenses and amortization expenses will be adjusted in future period.

#### (8) Development expenditure

When recognizing the capitalized amount, the management layer of the Company needs to make suppose about the estimated future cash flow, the appropriate discounts rate and the estimated benefit period related to the assets.

#### (9) Deferred income tax assets

In a limit providing large possibility of offset losses from sufficient taxable profits, the Group shall recognize deferred income tax assets in line with all unused tax losses, which requires management staffs of the Group to estimate the time when future taxable profits occurs and the amount thereof by applying plenty of judgments and combining tax planning strategies, so as to determine the amount of the recognizable deferred income tax assets.

#### (10) Income taxes

There's certain uncertainty of disposal and calculation of taxes of partial transactions in normal operating activities. It is uncertain whether some pre-taxed items can set aside the approvals by tax authorities or not. If there are differences between the ultimate recognition outcomes and the originally estimated amounts of such tax issues, then such differences shall effect on the current income tax and deferred income tax during the ultimate recognition period.

## VI Taxation

### 1. Main taxes and tax rate

Category of taxes	Tax basis	Tax rate
VAT	Calculated the output tax at 17%, 13%, 6%, and 0% of taxable income and paid the VAT by the amount after deducting the deductible withholding VAT at current period.	17%, 13%, 6%, 3%, 0%
Business tax	Paid by 3%, 5% of taxable business income	3%, 5%
Urban maintenance and construction tax	Paid at 7%, 5%, 1% of the circulating tax actually paid	7%, 5%, 1%
Enterprise income tax	Paid at 15%, 16.5%, 25% of taxable income respectively	0%, 9%, 15%, 16.5%, 25%

Notes to the disclosure of taxpaying bodies in different corporate tax rate

Name of taxpaying bodies	Rate of income tax
The Company	15%
Lufeng Weaving & Dyeing Co., Ltd. (hereinafter refer to as "Lufeng Weaving & Dyeing")	15%
Lu Thai (Hong Kong) Textile Co., Ltd. (hereinafter refer to as "Lu Thai Hong Kong")	16.50%
Xinjiang Lu Thai Harvest Cotton Co., Ltd. ("Xinjiang Lu Thai")	25%
Zibo Luqun Textile Co., Ltd. (hereinafter refer to as "Luqun Textile")	25%
Zibo Xinsheng Power Co., Ltd. hereinafter refer to as "Xinsheng Power")	25%
Zibo Helijie Energy Saving Technology & Services Co., Ltd. (hereinafter referred to as "Helijie")	25%
Beijing Lufeng Sunshine Garments Co., Ltd. (hereinafter referred to as "Lufeng Sunshine")	25%
Beijing Innovative Garment Co., Ltd. (hereinafter referred to as "Beijing Innovative")	25%
Shanghai Lu Thai Textile & Garments Co., Ltd. (hereinafter referred to as "Shanghai Lu Thai")	25%
Beijing Lu Thai Youxian Electronic Commerce Co., Ltd. (hereinafter referred to as "Beijing Youxian")	25%
Xinjiang Lu Thai Textile Co., Ltd. ("Xinjiang Lu Thai Textile")	9%
Lu Thai (Cambodia) Textile Co., Ltd. (hereinafter referred to as "Lu Thai Cambodia")	0%
Lu Thai (Burma) Textile Co., Ltd. (hereinafter referred to as "Lu Thai Burma")	0%
Lu Thai (Vietnam) Co., Ltd. (hereinafter referred to as "Lu Thai Vietnam")	0%
Luan Tailoring Co., Ltd. (hereinafter referred to as "Luan Tailoring")	0%

## 2. Tax preference

The Company, in accordance with the Notice on Passing the Re-examination of New High-tech Enterprise for 504 Companies Including Jinan Shengquan Group Co., Ltd. (Lu-Ke-Gao-Zi [2012] No. 19) 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 31 October 2011. 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.

The Company's controlled subsidiary— Lufeng Weaving & Dyeing Co., Ltd., in accordance with the Notice on Confirmation of New High-tech Enterprise for 430 Companies Including Jinan Feshen Xinng'an Technologies Co., Ltd. (Lu-Ke-Gao-Zi [2012] No. 38) 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 30 November 2011. The above subsidiary 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.

Lu Thai (Hong Kong) Textile Co., Ltd. (hereinafter refers as Lu Thai (Hong Kong) Textile), 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%.

According to the "Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning In-depth Implementation of the Western Development Strategy" (SAT [2012] No. 12), as well as the "Circular of Xinjiang Uygur Autonomous Region on Tax Policies Concerning Acceleration of the Development of the Textile Industry" (XZF [2010] No. 99), Xinjiang Lu Thai Textile Co., Ltd. ("Xinjiang Lu Thai Textile"), a wholly-funded subsidiary of the Company's controlled subsidiary Xinjiang Lu Thai Fengshou Cotton Co., Ltd. ("Xinjiang Lu Thai"), enjoys a preferential enterprise income tax rate of 15% as an enterprise under the Western Development Strategy. And the local enjoyable tax is exempted for five years, i.e. a preferential enterprise income tax rate of 9% for the five years.

The wholly own subsidiary Lu Thai Cambodia, according to the Lu Thai Cambodia Profits tax free approval issued by Investment Committee of Cambodia, Lu Thai Cambodia enjoys tax preference of tax free on corporate income tax of 3 (3 years start-up period) + 3 (3 years tax holiday)+1 (1 year grace period). If profit during the 3 year start-up period then turn into 3 years tax holiday, after grace period, enterprise income tax rate was of 20%.

The wholly own subsidiary Lu Thai Burma, according to the Burma's Special Economic Zone Law issued by Pyidaungsu Hluttaw, Lu Thai Burma enjoys tax preference on corporate income tax of 7 (7 years tax holiday) + 5 (5 years tax revenues drop by half) + 5 (re-invest the profits within 1 year and continues to enjoy the half tax revenues 5 years afterwards). After grace period, enterprise income tax rate was of 25%.

The wholly own subsidiary Lu Thai Vietnam, according to the investment license issued by the Vietnam Fudong Industrial Park Management Committee, Lu Thai Vietnam enjoys tax preference on corporate income tax of 3 (3 years start-up period) + 2 (2 years tax holiday) + 4 half (4 years 50%-reductions period) and if there are profits within any year among the 3 years start-up period should transfer which in the tax holiday. And the Company enjoys 17% of the preferential tax rate within 10 years since the year acquired the first production and operating revenue attributed to the taxable year. After grace period, enterprise income tax rate was of 20%.



The wholly own subsidiary Luan Tailoring, according to the investment license issued by the Vietnam Anjiang Province Economic Zone Management Committee, enjoys tax preference on corporate income tax of 3 (3 years start-up period) + 2 (2 years tax holiday) + 4 half (4 years 50%-reductions period) and if there are profits within any year among the 3 years start-up period should transfer which in the tax holiday. And the Company enjoys 17% of the preferential tax rate within 10 years since the year acquired the first production and operating revenue attributed to the taxable year. After grace period, enterprise income tax rate was of 20%.

## VII. Notes on major items in consolidated financial statements of the Company

### 1. Monetary funds

Unit: RMB

Item	Closing balance	Opening balance
Cash on hand	3,116,248.37	2,111,348.02
Bank deposits	574,977,343.50	742,998,281.72
Other monetary funds	272,408.81	50,391,566.33
Total	578,366,000.68	795,501,196.07
Of which total amount of deposited abroad	71,656,381.14	81,371,297.43

Other notes:

On 30 June 2016, the monetary capital with restricted ownership of the Company was of RMB200,058.33 (31 December 2015: RMB29,805,722.42), which were the bank acceptance deposit of the Company.

### 2. Financial assets measured by fair value and the changes be included in the current gains and losses

Unit: RMB

Item	Closing balance	Opening balance
Tradable financial assets	75,994,804.35	71,696,678.70
Derivative financial assets	75,994,804.35	71,696,678.70
Total	75,994,804.35	71,696,678.70

### 3. Derivative financial assets

Applicable  Not applicable

#### 4. Notes receivable

##### (1) Notes receivable listed by category

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance bill	1,950,000.00	31,611,924.20
Letter of credit	85,984,778.60	101,533,594.19
Total	87,934,778.60	133,145,518.39

##### (3) Notes receivable which had endorsed by the Company or had discounted and had not due on the balance sheet date at the period-end

Unit: RMB

Item	Amount of recognition termination at the period-end	Amount of not terminated recognition at the period-end
Bank acceptance bill	136,254,137.14	
Total	136,254,137.14	

#### 5. Accounts receivable

##### (1) Accounts receivable disclosed by category

Unit: RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Accounts receivable withdrawal of bad debt provision of by credit risks characteristics:	243,661,194.92	100.00%	12,242,205.39	5.02%	231,418,989.53	276,788,146.79	100.00%	13,940,104.17	5.04%	262,848,042.62
Total	243,661,194.92	100.00%	12,242,205.39	5.02%	231,418,989.53	276,788,146.79	100.00%	13,940,104.17	5.04%	262,848,042.62

Accounts receivable with single significant amount and withdrawal bad debt provision separately at end of Period

Applicable  Not applicable

In the groups, accounts receivable adopting aging analysis method to withdraw bad debt provision:

Applicable  Not applicable

Unit: RMB

Aging	Closing balance		
	Account receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			
Within 1 year	242,687,068.39	12,134,353.43	5.00%
Subtotal within 1 year	242,687,068.39	12,134,353.43	5.00%
1 to 2 years	869,733.37	86,973.33	10.00%
2 to 3 years	104,393.16	20,878.63	20.00%
Total	243,661,194.92	12,242,205.39	5.02%

Notes:

In the groups, accounts receivable adopting balance percentage method to withdraw bad debt provision:

Applicable  Not applicable

## (2) Accounts receivable withdraw, reversed or collected during the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB-1,445,399.43; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

## (3) The actual write-off accounts receivable

Unit: RMB

Item	Amount
Actual write-off accounts receivable	252,499.35

## (4) Top five of account receivable of closing balance collected by arrears party

The total amount of top five of account receivable of closing balance collected by arrears party was RMB107,282,619.52, 44.03% of total closing balance of account receivable, the relevant closing balance of bad debt provision withdrawn was RMB5,364,130.98.

## 6. Prepayment

### (1) List by aging analysis:

Unit: RMB

Aging	Closing balance	Opening balance
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	Amount	Proportion	Amount	Proportion
Within 1 year	129,109,573.45	97.88%	194,103,626.51	98.63%
1 to 2 years	686,732.24	0.52%	1,693,651.78	0.86%
2 to 3 years	1,226,751.34	0.93%	339,302.71	0.17%
Over 3 years	880,232.34	0.67%	673,323.13	0.34%
Total	131,903,289.37	--	196,809,904.13	--

## (2) Top 5 of the closing balance of the prepayment collected according to the prepayment target

The total amount of top five of account receivable of closing balance collected by arrears party was RMB53, 991,485.28, 40.93% of total closing balance of account receivable.

## 7. Interest receivable

### (1) Category of interest receivable

Unit: RMB

Item	Closing balance	Opening balance
Fixed term deposit interest		653,075.08
Total		653,075.08

## 8. Other accounts receivable

### (1) Other accounts receivable disclosed by category

Unit: RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Other accounts receivable withdrawn bad debt provision according to credit risks characteristics	56,829,006.51	100.00%	8,093,557.38	14.24%	48,735,449.13	80,678,238.51	100.00%	9,856,832.23	12.22%	70,821,406.28

Total	56,829,006.51	100.00%	8,093,557.38	14.24%	48,735,449.13	80,678,238.51	100.00%	9,856,832.23	12.22%	70,821,406.28
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Other receivable with single significant amount and withdrawal bad debt provision separately at end of Period:

Applicable  Not applicable

In the groups, other accounts receivable adopting aging analysis method to withdraw bad debt provision:

Applicable  Not applicable

Unit: RMB

Aging	Closing balance		
	Other accounts receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			
Within 1 year	26,247,696.60	1,312,384.81	5.00%
Subtotal within 1 year	26,247,696.60	1,312,384.81	5.00%
1 to 2 years	6,133,169.85	613,317.00	10.00%
2 to 3 years	11,665,864.47	2,333,172.90	20.00%
Over 3 years	12,782,275.59	3,834,682.67	30.00%
Total	56,829,006.51	8,093,557.38	14.24%

Notes:

In the groups, other accounts receivable adopting balance percentage method to withdraw bad debt provision:

Applicable  Not applicable

In the groups, other accounts receivable adopting other methods to withdraw bad debt provision:

Applicable  Not applicable

## (2) Accounts receivable withdraw, reversed or collected during the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB-1,758,274.85; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

## (3) The actual write-off other accounts receivable

Unit: RMB

Item	Amount
Actual write-off other accounts receivable	5,000.00

## (4) Other accounts receivable classified by the nature of accounts

Unit: RMB

Nature	Closing book balance	Opening book balance
Export rebates	2,665,685.60	23,876,307.85

Payment on behalf	34,220,472.84	33,467,444.93
The cash pledge and guarantee	8,120,365.07	6,956,093.54
Borrowings and deposit	2,308,884.29	3,811,593.38
Others	9,513,598.71	12,566,798.81
<b>Total</b>	<b>56,829,006.51</b>	<b>80,678,238.51</b>

**(5) Top 5 of the closing balance of the other accounts receivable collected according to the arrears party**

Unit: RMB

Name of the entity	Nature	Closing balance	Aging	Proportion%	Closing balance of bad debt provision
Advance money receivable of the fundraising houses	Payment on behalf	16,551,717.77	Within 1 year ,1-2years, 2-3 years	29.13%	2,680,976.76
Accounts receivable of advance money for the social security undertake by the individual of the employee	Advance money for the social security undertake by the individual of the employee	9,627,971.26	Within 1 year	16.94%	481,398.56
Farmland premium	Premium advanced	3,812,517.28	Within 1 year	6.71%	190,625.86
Deposits for wages paid to migrant workers of Zichuan District, Zibo city	Deposits for wages paid to migrant workers of infrastructure works	2,955,620.10	Over 3 years	5.20%	886,686.03
Finance Bureau of Zichuan District, Zibo	Export tax refunds of the local government	2,665,685.60	Over 3 years	4.69%	799,705.68
<b>Total</b>	--	<b>35,613,512.01</b>	--	<b>62.67%</b>	<b>5,039,392.89</b>

**9. Inventory**

**(1) Category of inventory**

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Falling price reserves	Book value	Book balance	Falling price reserves	Book value
Raw materials	629,152,722.47		629,152,722.47	608,670,473.36	1,635,229.99	607,035,243.37

Goods in process	503,650,220.42		503,650,220.42	445,688,953.21		445,688,953.21
Inventory goods	666,621,376.44	29,157,089.56	637,464,286.88	714,280,833.84	43,608,998.71	670,671,835.13
Consumable biological assets	891,063.05	238,188.18	652,874.87	869,404.33	392,309.29	477,095.04
Products for consigned processing	20,472,735.53		20,472,735.53	20,090,846.49		20,090,846.49
Total	1,820,788,117.91	29,395,277.74	1,791,392,840.17	1,789,600,511.23	45,636,537.99	1,743,963,973.24

**(2) Impairment of inventories**

Unit: RMB

Item	Opening balance	Increased amount		Decrease		Closing balance
		Withdrawal	Others	Reverse or write-off	Others	
Raw materials	1,635,229.99			1,635,229.99		
Inventory goods	43,608,998.71	642,332.01		15,094,241.16		29,157,089.56
Consumable biological assets	392,309.29			154,121.11		238,188.18
Total	45,636,537.99	642,332.01		16,883,592.26		29,395,277.74
Item	Specific basis of withdrawal of falling price reserves of inventory		Reasons for reversal	Reasons for write-off		
Raw materials	The lower one between cost of each item of inventory and its realizable net value			Sale in this year		
Inventory goods	The lower one between cost of each item of inventory and its realizable net value			Sale in this year		
Consumable biological assets	The lower one between cost of each item of inventory and its realizable net value			Sale in this year		

**10. Other current assets**

Unit: RMB

Item	Closing balance	Opening balance
Prepaid income tax to be deducted	430,945.88	3,108,886.97
VAT input tax to be deducted	37,986,547.88	16,640,924.10

Buy-back amount of B Share	4,340,633.04	20,634,142.65
Payment of the shares	8,988,043.01	17,007,362.62
Total	51,746,169.81	57,391,316.34

## 11. Available-for-sale financial assets

### (1) List of available-for-sale financial assets

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Available-for-sale equity instruments	67,442,600.00		67,442,600.00	67,442,600.00		67,442,600.00
Measured by cost	67,442,600.00		67,442,600.00	67,442,600.00		67,442,600.00
Total	67,442,600.00		67,442,600.00	67,442,600.00		67,442,600.00

### (2) Available-for-sale financial assets measured by cost at the period-end

Unit: RMB

Investee	Book balance				Depreciation reserves				Shareholding proportion among the investees	Cash bonus of the Reporting Period
	Opening period	Increase	Decrease	Closing period	Opening period	Increase	Decrease	Closing period		
Zibo Chengshun Heating Co., Ltd. (hereinafter refer to as "Chengshun Heating")	160,000.00			160,000.00					2.00%	
Yantai Rongchang Pharmacy Co., Ltd. (hereinafter refer to as "Rongchang	55,282,600.00			55,282,600.00					5.56%	



Pharmacy")									
Gaoqing Hongqiao Power Co., Ltd. (Hongqiao Power)	12,000,000.00			12,000,000.00				20.68%	
Total	67,442,600.00			67,442,600.00				--	

## 12. Long-term accounts receivable

### (1) Long-term accounts receivable

Unit: RMB

Item	Closing balance			Opening balance			Discount rate range
	Book balance	Bad debt provision	Book value	Book balance	Bad debt provision	Book value	
Finance lease	4,980,998.00		4,980,998.00	4,980,998.00		4,980,998.00	10.54%
Of which: unrealized financing income	165,509.42		165,509.42	332,959.49		332,959.49	
Total	4,980,998.00		4,980,998.00	4,980,998.00		4,980,998.00	--

## 13. Fixed assets

### (1) List of fixed assets

Unit: RMB

Item	Houses and buildings	Machinery equipment	Transportation equipment	Electronic equipment and other	Total
I. Original book value					
1. Opening balance	2,678,346,700.26	5,590,479,536.09	72,011,120.11	111,875,276.29	8,452,712,632.75
2. Increased amount of the Period	32,638,344.23	113,332,528.85	1,640,655.97	6,015,861.81	153,627,390.86
(1) Purchase	652,777.73	81,757,788.51	1,640,655.97	5,141,958.01	89,193,180.22
(2) Transfer of project under construction	31,985,566.50	31,574,740.34		873,903.80	64,434,210.64
(3) Enterprise combination increase					
3. Decreased amount of	1,448,144.93	6,783,959.58	2,785,944.50	15,856,969.65	26,875,018.66

the Period					
(1) Disposal or Scrap	1,448,144.93	6,783,959.58	2,785,944.50	15,856,969.65	26,875,018.66
4. Closing balance	2,709,536,899.56	5,697,028,105.36	70,865,831.58	102,034,168.45	8,579,465,004.95
II. Accumulative depreciation					
1. Opening balance	743,043,738.02	2,643,463,604.14	52,009,768.71	79,137,398.87	3,517,654,509.74
2. Increased amount of the Period	41,397,306.48	127,773,316.55	2,294,207.95	5,163,335.31	176,628,166.29
(1) Withdrawal	41,397,306.48	127,773,316.55	2,294,207.95	5,163,335.31	176,628,166.29
3. Decreased amount of the Period	928,951.56	6,149,354.70	2,184,154.63	11,999,211.19	21,261,672.08
(1) Disposal or Scrap	928,951.56	6,149,354.70	2,184,154.63	11,999,211.19	21,261,672.08
4. Closing balance	783,512,092.94	2,765,087,565.99	52,119,822.03	72,301,522.99	3,673,021,003.95
III. Depreciation reserves					
1. Opening balance	4,823,890.00	22,535,428.59	53,835.13	69,499.45	27,482,653.17
2. Increased amount of the Period					
(1) Withdrawal					
3. Decreased amount of the Period		3,203.33			3,203.33
(1) Disposal or Scrap		3,203.33			3,203.33
4. Closing balance	4,823,890.00	22,532,225.26	53,835.13	69,499.45	27,479,449.84
IV. Book value					
1. Closing book value	1,921,200,916.62	2,909,408,314.11	18,692,174.42	29,663,146.01	4,878,964,551.16
2. Opening book value	1,930,479,072.24	2,924,480,503.36	19,947,516.27	32,668,377.97	4,907,575,469.84

**(2) Fixed assets leased out from operation lease**

Unit: RMB

Item	Closing book value
Houses and buildings	22,852,560.80

**(3) Details of fixed assets failed to accomplish certification of property**

Unit: RMB

Item	Book value	Reason
Weaving and yarn dying	111,113,050.06	Ongoing inspection, surveying, verification to application procedures

workshop		by Housing authorities
Employee's dormitory building of eastern area of industrial park	46,088,082.12	Ongoing inspection, surveying, verification to application procedures by Housing authorities
Spinning Fourth factory workshop	71,592,080.87	Ongoing inspection, surveying, verification to application procedures by Housing authorities
Dormitory building of north yard in western area	130,604,808.33	Ongoing inspection, surveying, verification to application procedures by Housing authorities
Sample testing factory in western area	44,025,073.82	Ongoing inspection, surveying, verification to application procedures by Housing authorities
Lufeng weaving dye workshop	137,243,923.48	Ongoing inspection, surveying, verification to application procedures by Housing authorities

Other notes:

#### 14. Construction in progress

##### (1) List of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Complex building and employee's dormitory building in western area of Lu Thai	849,549.02		849,549.02	849,549.02		849,549.02
Newly increase 23 thousand spindle and 35 thousand spindle two-for-one twisting production line	14,209,610.75		14,209,610.75	4,337,162.70		4,337,162.70
Factory project of Xinjiang Lu Thai	10,389,213.18		10,389,213.18	1,153,723.06		1,153,723.06
Reform project of Xinsheng Thermal Power	34,781,359.30		34,781,359.30	30,335,215.53		30,335,215.53
Expending project of Xinsheng Thermal Power	16,031,439.95		16,031,439.95			
Energy conservation project of Helijie	10,746,671.25		10,746,671.25	9,445,960.77		9,445,960.77
Lu Thai (Cambodia) garment project	372,241.62		372,241.62	3,202,357.80		3,202,357.80
Lu Thai (Burma) project	0.00		0.00	27,134,693.98		27,134,693.98

Lu Thai (Vietnam) project	145,820,890.97		145,820,890.97	86,589,660.94		86,589,660.94
Lu Thai Garment project	32,825,470.82		32,825,470.82			
Other small projects	40,454,469.07		40,454,469.07	42,045,705.70		42,045,705.70
Total	306,480,915.93		306,480,915.93	205,094,029.50		205,094,029.50

**(2) Changes of significant construction in progress**

Unit: RMB

Name of item	Estimated number	Opening balance	Increased amount	Amount that transferred to fixed assets of the period	Other decreased amount of the period	Closing balance	Proportion estimated of the project accumulative input	Project progress	Accumulative amount of capitalized interests	Of which: the amount of the capitalized interests of the period	Capitalization rate of the interests of the period	Capital resources
Complex building and employee's dormitory building in western area of Lu Thai	106,500,000.00	849,549.02				849,549.02	99.50%	99.50%				Others
Newly increase 23 thousand spindle and 35 thousand spindle two-for-one twisting production line	928,660,000.00	4,337,162.70	10,626,269.07	753,821.02		14,209,610.75	35.50%	35.50%				Others
Factory project of Xinjiang Lu Thai	32,650,000.00	1,153,723.06	10,678,283.18	1,442,793.06		10,389,213.18	58.00%	58.00%				Others
Reform project of Xinsheng Thermal Power	40,000,000.00	30,335,215.53	4,446,143.77			34,781,359.30	90.00%	90.00%				Others
Expending project of Xinsheng Thermal Power	240,000,000.00		16,031,439.95			16,031,439.95	7.00%	7.00%				Others

Energy conservation project of Helijie	28,930,000.00	9,445,960.77	1,300,710.48			10,746,671.25	30.00%	30.00%				Others
Lu Thai (Cambodia) garment project	123,056,000.00	3,202,357.80	612,701.93	3,442,818.11		372,241.62	91.00%	91.00%				Others
Lu Thai(Burma) project	61,136,000.00	27,134,693.98	6,551,587.79	33,686,281.77		0.00	100.00%	100.00%				Others
Lu Thai(Vietnam) project	242,282,300.00	86,589,660.94	78,618,124.70	19,386,894.67		145,820,890.97	68.00%	68.00%				Others
Lu Thai Garment project	93,035,700.00		32,825,470.82			32,825,470.82	35.00%	35.00%				Others
Other small projects		42,045,705.70	4,130,365.38	5,721,602.01		40,454,469.07						Others
<b>Total</b>	<b>1,896,250,000.00</b>	<b>205,094,029.50</b>	<b>165,821,097.07</b>	<b>64,434,210.64</b>		<b>306,480,915.93</b>	<b>--</b>	<b>--</b>				<b>--</b>

## 15. Engineering material

Unit: RMB

Item	Closing balance	Opening balance
Specific materials		187,384.85
Specific equipments	181,069,950.50	6,132,398.32
<b>Total</b>	<b>181,069,950.50</b>	<b>6,319,783.17</b>

## 16. Productive biological assets

### (1) Productive biological assets adopted cost measurement mode

√ Applicable □ Not applicable

Unit: RMB

Item	Planting industry	Livestock	Forestry	Aquaculture	Total
		Hu sheep			
I. Original book value					
1. Opening balance		1,398,871.02			1,398,871.02

2. Increased amount of the Period		309,668.58			309,668.58
(1) Outsourcing		35,350.00			35,350.00
(2) Self cultivate		274,318.58			274,318.58
3. Decreased amount of the Period		149,203.35			149,203.35
(1) Disposal		58,903.35			58,903.35
(2) Other		90,300.00			90,300.00
4. Closing balance		1,559,336.25			1,559,336.25
II. Accumulative depreciation					
1. Opening balance		221,757.13			221,757.13
2. Increased amount of the Period		135,169.79			135,169.79
(1) Withdrawal		135,169.79			135,169.79
3. Decreased amount of the period		28,985.40			28,985.40
(1) Disposal		9,772.15			9,772.15
(2) Other		19,213.25			19,213.25
4. Closing balance		327,941.52			327,941.52
III. Depreciation reserves					
1. Opening balance					
2. Increased amount of the Period					
(1) Withdrawal					
3. Decreased amount of the Period					
(1) Disposal					
(2) Other					
4. Closing balance					
IV. Book value					
1. Closing book value		1,231,394.73			1,231,394.73

2. Opening book value		1,177,113.89			1,177,113.89
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## 17. Intangible assets

### (1) List of intangible assets

Unit: RMB

Item	Land use right	Patent right	Non-patent right	Total
<b>I. Original book value</b>				
1. Opening balance	446,803,403.64	1,985,176.47	480,000.00	449,268,580.11
2. Increased amount of the Period	9,628,240.00			9,628,240.00
(1) Purchase	9,628,240.00			9,628,240.00
(2) Internal R&D				
(3) Enterprise combination increase				
3. Decreased amount of the Period				
(1) Disposal				
4. Closing balance	456,431,643.64	1,985,176.47	480,000.00	458,896,820.11
<b>II. Accumulated amortization</b>				
1. Opening balance	84,646,918.80	1,025,674.68	210,000.00	85,882,593.48
2. Increased amount of the Period	5,948,713.12	99,258.84	15,000.00	6,062,971.96
(1) Withdrawal	5,948,713.12	99,258.84	15,000.00	6,062,971.96
3. Decreased amount of the Period				
(1) Disposal				
4. Closing balance	90,595,631.92	1,124,933.52	225,000.00	91,945,565.44
<b>III. Depreciation reserves</b>				
1. Opening balance				
2. Increased amount of the Period				
(1) Withdrawal				
3. Decreased amount of the Period				
(1) Disposal				
4. Closing balance				

IV. Book value				
1. Closing book value	365,836,011.72	860,242.95	255,000.00	366,951,254.67
2. Opening book value	362,156,484.84	959,501.79	270,000.00	363,385,986.63

The proportion of the intangible assets formed from the internal R&D through the Company amount the balance of the intangible assets at the period-end was 0.00%.

## 18. R&D expenses

Unit: RMB

Item	Opening balance	Increased amount			Decrease			Closing balance
		Internal R&D expenses	Others		Recognized as intangible assets	Transferred in current gains and losses		
Product research		161,055,249.75				161,055,249.75		
Total		161,055,249.75				161,055,249.75		

## 19. Goodwill

### (1) Original book value of goodwill

Unit: RMB

Name of the investees or the events formed goodwill	Opening balance	Increase		Decrease		Closing balance
Xinsheng Power	20,563,803.29					20,563,803.29
Helijie	50,000.00					50,000.00
Total	20,613,803.29					20,613,803.29

## 20. Long-term unamortized expenses

Unit: RMB

Item	Opening balance	Increased amount	Amortization amount	Decrease	Closing balance
Land contracting fee of	27,639,383.04	200,000.00	522,223.50		27,317,159.54



Xinjiang Lu Thai					
Land rent of overseas subsidiaries	57,484,762.21	19,735,609.76	661,114.86		76,559,257.11
Total	85,124,145.25	19,935,609.76	1,183,338.36		103,876,416.65

## 21. Deferred income tax assets/deferred income tax liabilities

### (1) Deferred income tax assets had not been off-set

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Assets impairment provision	71,718,934.32	10,550,996.85	88,791,730.93	14,770,956.88
Unrealized internal sales gain and loss	57,708,935.47	7,748,574.09	62,610,524.74	8,953,164.62
Payroll payable	113,279,841.30	17,414,870.28	113,279,841.30	17,414,870.28
Deferred income	94,038,935.27	13,994,958.19	93,945,118.42	13,979,718.50
Change of fair value of trading financial liabilities	9,735,700.00	1,460,355.00	46,695,875.00	7,004,381.25
Total	346,482,346.36	51,169,754.41	405,323,090.39	62,123,091.53

### (2) Deferred income tax liabilities had not been off-set

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax liabilities	Deductible temporary difference	Deferred income tax liabilities
Depreciation of fixed assets	13,557,121.88	2,236,925.11	13,289,056.67	2,192,694.35
Total	13,557,121.88	2,236,925.11	13,289,056.67	2,192,694.35

### (3) Deferred income tax assets or liabilities listed by net amount after off-set

Unit: RMB

Item	Mutual set-off amount of deferred income tax assets and liabilities at the period-end	Amount of deferred income tax assets or liabilities after off-set at the period-end	Mutual set-off amount of deferred income tax assets and liabilities at the period-begin	Amount of deferred income tax assets or liabilities after off-set at the period-begin

Deferred income tax assets		51,169,754.41		62,123,091.53
Deferred income tax liabilities		2,236,925.11		2,192,694.35

**(4) List of unrecognized deferred income tax assets**

Unit: RMB

Item	Closing balance	Opening balance
Deductible temporary difference	5,491,556.03	8,124,396.63
Deductible losses	31,771,903.16	134,950,376.05
Total	37,263,459.19	143,074,772.68

**(5) Deductible losses of unrecognized deferred income tax assets will due the following years**

Unit: RMB

Years	Closing amount	Opening amount	Notes
Y2016	0.00	9,542,681.08	
Y2017	1,112,905.87	20,826,906.25	
Y2018	125,946.78	23,670,032.23	
Y2019	1,456,659.23	23,798,042.42	
Y2020	24,488,754.73	57,112,714.07	
Y2021	4,587,636.55		
Total	31,771,903.16	134,950,376.05	--

**22. Other non-current assets**

Unit: RMB

Item	Closing balance	Opening balance
Prepayment for equipment	18,930,146.99	21,721,084.27
Prepayment for land	22,031,283.00	12,781,283.00
Total	40,961,429.99	34,502,367.27

**23. Short-term loans****(1) Category of short-term loans**

Unit: RMB

Item	Closing balance	Opening balance
Pledge loan		28,266,701.32
Mortgage loan	100,000,000.00	180,000,000.00
Guaranteed loan	118,924,440.50	50,000,000.00
Credit loan	849,194,676.67	544,499,617.58
Total	1,068,119,117.17	802,766,318.90

#### 24. Financial liabilities measured by fair value and the changes included in the current gains and losses

Unit: RMB

Item	Closing balance	Opening balance
Transaction financial liabilities	9,735,700.00	46,695,875.00
Derivative financial liabilities	9,735,700.00	46,695,875.00
Total	9,735,700.00	46,695,875.00

#### 25. Notes payable

Unit: RMB

Category	Closing balance	Opening balance
Trade acceptance	2,801,392.00	2,709,149.48
Bank acceptance bill	5,300,000.00	400,000.00
Total	8,101,392.00	3,109,149.48

The total amount of the due but not pay notes payable at the period-end was of RMB000.

#### 26. Accounts payable

##### (1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Purchase of goods	135,191,178.09	163,649,100.70
Engineering equipments	88,941,017.39	79,077,530.07
Others	5,558,847.67	5,843,774.80
Total	229,691,043.15	248,570,405.57

**27. Advance from customers****(1) List of advance from customers**

Unit: RMB

Item	Closing balance	Opening balance
Advance from goods	88,800,955.69	95,077,531.32
Total	88,800,955.69	95,077,531.32

**28. Payroll payable****(1) List of Payroll payable**

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
I. Short-term salary	290,779,347.63	744,322,029.13	812,744,864.63	222,356,512.13
II. Post-employment benefit-defined contribution plans	484,251.99	106,674,732.22	107,106,567.82	52,416.39
Total	291,263,599.62	850,996,761.35	919,851,432.45	222,408,928.52

**(2) List of Short-term salary**

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
1. Salary, bonus, allowance, subsidy	253,024,097.84	653,668,920.55	724,692,423.06	182,000,595.33
2. Employee welfare		27,305,867.84	27,305,867.84	
3. Social insurance	254,795.56	41,256,648.91	41,466,463.11	44,981.36
Of which: 1. Medical insurance premiums	227,380.70	35,466,938.03	35,655,117.44	39,201.29
Work-related injury insurance	12,394.93	3,218,569.03	3,225,804.29	5,159.67
Maternity insurance	15,019.93	2,571,141.85	2,585,541.38	620.40
4. Housing fund	22,460.32	9,190,956.10	9,212,538.85	877.57
5. Labor union budget and employee education budget	37,477,993.91	12,899,635.73	10,067,571.77	40,310,057.87
Total	290,779,347.63	744,322,029.13	812,744,864.63	222,356,512.13

**(3) List of drawing scheme**

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
1. Basic pension benefits	458,648.69	101,075,494.73	101,484,737.50	49,405.92
2. Unemployment insurance	25,603.30	5,599,237.49	5,621,830.32	3,010.47
Total	484,251.99	106,674,732.22	107,106,567.82	52,416.39

Other notes:

The Company, in line with the requirement, participate the endowment insurance, unemployment insurance scheme and so on, according to the scheme, the Company monthly pay to the scheme in line with 26% and 1.5% of the endowment insurance base, except the monthly payment, the Company no longer shoulder the further payment obligation, the relevant expense occurred was recorded into current profits and losses or related assets costs.

**29. Taxes payable**

Unit: RMB

Item	Closing balance	Opening balance
VAT	7,232,285.48	8,095,634.56
Business tax	14,151.04	346,838.39
Corporate income tax	48,772,824.46	54,874,320.89
Personal income tax	2,455,089.68	677,155.21
Urban maintenance and construction tax	3,486,248.52	3,706,913.14
Stamp tax	314,825.48	452,140.04
Property tax	5,067,905.64	4,554,321.87
Land use tax	4,848,528.90	4,592,696.80
Education Surcharge	1,586,246.37	1,668,460.01
Local education surtax	1,057,460.46	1,112,306.69
Local water conservancy facility construction fund	493,364.76	534,220.54
Total	75,328,930.79	80,615,008.14

**30. Interest payable**

Unit: RMB

Item	Closing balance	Opening balance
Interest payable on short-term borrowings	1,957,379.70	1,851,876.78

and long term borrowings		
Total	1,957,379.70	1,851,876.78

### 31. Dividends payable

Unit: RMB

Item	Closing balance	Opening balance
Common stock dividends of the Group	441,113.64	441,113.64
Total	441,113.64	441,113.64

### 32. Other accounts payable

#### (1) Other accounts payable listed by nature of the account

Unit: RMB

Item	Closing balance	Opening balance
The deposit and guarantee	19,126,747.44	19,946,789.66
Collecting payment on behalf of others	33,089,795.50	16,801,587.86
Intercourse funds	3,955,917.74	2,941,300.16
Others	19,787,252.49	22,825,136.85
Total	75,959,713.17	62,514,814.53

#### (2) Other significant accounts payable with aging over one year

Unit: RMB

Item	Closing balance	Unpaid/ Un-carry-over reason
Cotton and Linen Company	11,925,000.00	Received deposit of sale contract
Total	11,925,000.00	--

### 33. Long-term loan

#### (1) Category of long-term loan

Unit: RMB

Item	Closing balance	Opening balance
Guaranteed loan	111,928,541.12	
Total	111,928,541.12	

**34. Long-term payroll payable****(1) Long-term payroll payable**

Unit: RMB

Item	Closing balance	Opening balance
III. Other long term welfare	83,459,553.02	81,499,403.98
Total	83,459,553.02	81,499,403.98

**35. Deferred revenue**

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance	Formed reason
Government subsidies	95,802,118.42	901,700.00	1,234,383.13	95,469,435.29	Government subsidies
Unrealized financing incomes	332,959.49		167,450.07	165,509.42	Finance lease
Total	96,135,077.91	901,700.00	1,401,833.20	95,634,944.71	--

Item involving government subsidies:

Unit: RMB

Item	Opening balance	Amount of newly subsidy	Amount recorded into non-operating income in Report Period	Other changes	Closing balance	Related to assets/related income
Land	62,052,085.09		696,578.94		61,355,506.15	Related to the assets
Equipment	32,793,033.33	901,700.00	471,304.21		33,223,429.12	Related to the assets
Production biological assets	957,000.00		66,499.98		890,500.02	Related to the assets
Total	95,802,118.42	901,700.00	1,234,383.13		95,469,435.29	--

**36. Other non-current liabilities**

Unit: RMB

Item	Closing balance	Opening balance
Others	1,840,000.00	1,840,000.00
Total	1,840,000.00	1,840,000.00

**37. Share capital**

Unit: RMB

	Opening balance	Increase/decrease (+/-)					Closing balance
		New shares issued	Bonus shares	Capitalized Capital reserves	Others	Subtotal	
The sum of shares	955,758,496.00						955,758,496.00

**38. Capital surplus**

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
Capital premium	948,167,616.39			948,167,616.39
Other capital reserves	58,978,550.58	669.98		58,979,220.56
Total	1,007,146,166.97	669.98		1,007,146,836.95

**39. Treasury stock**

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
The Company's shared acquired due to the reduce of registered capital	11,610,721.68	220,528,615.36		232,139,337.04
Total	11,610,721.68	220,528,615.36		232,139,337.04

**40. Other comprehensive income**

Unit: RMB

Item	Opening balance	Reporting Period					Closing balance
		Amount before income tax in current period	Less: recorded in other comprehensive income in prior period and transferred to profit or loss in current period	Less: Income tax expense	Attributable to owners of the Company after tax	Attributable to minority shareholders after tax	
II. Other comprehensive reclassified into profits or losses	17,090,772.31	12,389,756.62			12,389,756.62		29,480,528.93



Converted difference of the foreign currency financial statement	17,090,772.31	12,389,756.62			12,389,756.62		29,480,528.93
Total	17,090,772.31	12,389,756.62			12,389,756.62		29,480,528.93

#### 41. Surplus reserves

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserves	812,306,931.70			812,306,931.70
Discretionary surplus reserves	3,341,572.58			3,341,572.58
Total	815,648,504.28			815,648,504.28

#### 42. Retained profits

Unit: RMB

Item	Reporting Period	Last period
Opening balance of retained profits before adjustments	4,053,079,857.70	3,892,066,534.32
Opening balance of retained profits after adjustments	4,053,079,857.70	3,892,066,534.32
Add: Net profit attributable to owners of the Company	344,641,184.73	712,193,243.19
Less: Withdrawal of statutory surplus reserves		73,300,671.81
Dividend of common stock payable	465,525,373.50	477,879,248.00
Closing retained profits	3,932,195,668.93	4,053,079,857.70

List of adjustment of opening retained profits:

- 1) RMB 0.00 opening retained profits was affected by retrospective adjustment conducted according to the Accounting Standards for Business Enterprises and relevant new regulations.
- 2) RMB0.00 opening retained profits was affected by changes on accounting policies.
- 3) RMB0.00 opening retained profits was affected by correction of significant accounting errors.
- 4) RMB0.00 opening retained profits was affected by changes in combination scope arising from same control.
- 5) RMB0.00 opening retained profits was affected totally by other adjustments.

#### 43. Revenue and Cost of Sales

Unit: RMB

Item	Reporting Period		Same period of last year	
	Sales revenue	Cost of sales	Sales revenue	Cost of sales
Main operations	2,751,457,469.09	1,883,823,007.20	2,857,761,175.48	2,073,584,183.14
Other operations	79,869,303.94	53,576,583.88	84,074,721.68	59,438,017.93
Total	2,831,326,773.03	1,937,399,591.08	2,941,835,897.16	2,133,022,201.07

#### 44. Business tax and surcharges

Unit: RMB

Item	Reporting Period	Same period of last year
Business tax	593,989.16	595,514.62
Urban maintenance and construction tax	12,773,141.80	12,558,301.56
Education Surcharge	5,766,081.36	5,820,356.34
Local education surtax	3,844,052.89	3,880,267.32
Local water conservancy facility construction fund	1,823,463.31	1,790,272.40
Total	24,800,728.52	24,644,712.24

#### 45. Sales expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Salary	29,504,903.71	26,853,576.60
Transport fees	15,982,535.64	12,940,803.21
Mall costs	9,533,886.96	10,679,224.59
Advertising expense	6,756,908.41	13,219,366.15
Terminal Handling charges	3,220,637.85	3,602,696.66
Depreciation charge	3,183,927.54	3,831,147.87
Business travel charges	2,370,210.27	2,360,702.30
Rental charges	1,275,879.18	1,932,585.56
Copyright royalty	891,154.41	1,501,650.54
Others	15,989,619.53	20,723,655.52
Total	88,709,663.50	97,645,409.00

#### 46. Administrative expenses

Unit: RMB

Item	Reporting Period	Same period of last year
R&D expenses	161,055,249.75	141,009,183.42
Salary	52,531,501.43	51,011,581.40
Taxes	22,890,567.34	20,801,623.45
Depreciation charge	12,457,685.52	17,325,002.91
Warehouse funding	11,335,036.99	10,027,719.85
Labor-union expenditure	7,485,349.25	7,014,804.43
Rental charges	7,465,489.25	8,532,189.82
Employee education budget	5,414,286.48	5,187,207.56
Amortization of intangible assets	5,132,925.98	5,188,655.42
Transport fees	3,391,774.21	3,448,371.74
Premium	1,896,503.23	2,892,577.06
Others	50,715,585.73	38,884,416.52
<b>Total</b>	<b>341,771,955.16</b>	<b>311,323,333.58</b>

#### 47. Financial expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Interest expenses	8,741,653.03	10,987,533.82
Less: Interest income	3,040,662.29	1,998,321.40
Less: Amount of capitalized interest		
Exchange gains and losses	10,815,487.46	-4,051,845.74
Less: capitalization of foreign currency exchange gains and losses		
Others	3,294,264.48	4,084,340.20
<b>Total</b>	<b>19,810,742.68</b>	<b>9,021,706.88</b>

#### 48. Asset impairment loss

Unit: RMB

Item	Reporting Period	Same period of last year
I. Bad debt loss	-3,203,674.28	281,403.64
II. Inventory falling price loss	642,332.01	
<b>Total</b>	<b>-2,561,342.27</b>	<b>281,403.64</b>

**49. Gains and losses from changes in fair value**

Unit: RMB

Sources	Reporting Period	Same period of last year
2. Financial assets measured by fair value and the changes be included in the current profits and losses	-6,013,605.60	8,940,500.00
Of which, gains on the changes in the fair value of derivative financial instruments		8,940,500.00
Financial liabilities measured by fair value and the changes included in the current gains and losses	36,960,175.00	3,306,200.00
Total	30,946,569.40	12,246,700.00

**50. Investment income**

Unit: RMB

Item	Reporting Period	Same period of last year
Investment income received from disposal of financial assets measured by fair value and the changes be included in the current profits and losses during holding period	-33,641,221.22	28,860,565.88
Total	-33,641,221.22	28,860,565.88

**51. Non-operating gains**

Unit: RMB

Item	Reporting Period	Same period of last year	Recorded in the amount of the non-recurring gains and losses
Total gains from disposal of non-current assets	228,313.30	809,936.96	228,313.30
Including: Gains from disposal of fixed assets	228,313.30	809,936.96	228,313.30
Government subsidies	14,112,224.13	7,116,087.94	14,112,224.13
Others	6,852,899.89	2,194,769.81	6,852,899.89
Total	21,193,437.32	10,120,794.71	21,193,437.32

Government subsidies recorded into current profits and losses

Unit: RMB

Item	Distribution entity	Distribution reason	Nature	Whether subsidies influence the current	Special subsidy or not	Reporting Period	Same period of last year	Related to assets/related income
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				profits and losses or not				
Funds for development of center foreign trade and economic cooperation	Finance Bureau of Zibo	Subsidiary	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	600,000.00		Related to the income
Export credit insurance premiums	Finance Bureau of Zibo	Subsidiary	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	200,000.00		Related to the income
Foreign economy trade cooperation (foreign investment)- Vietnam subsidy	Finance Bureau of Zibo	Subsidiary	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	208,000.00		Related to the income
Foreign economy trade cooperation (foreign investment)- Cambodia subsidy	Finance Bureau of Zibo	Subsidiary	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	208,000.00		Related to the income
Foreign economy trade cooperation (foreign investment)- Buma subsidy	Finance Bureau of Zibo	Subsidiary	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	180,400.00		Related to the income
Equipment import	Finance Bureau of Zibo	Subsidiary	Due to engaged in special industry that the state	Yes	No	52,000.00		Related to the income

discount interest funds	Zibo		encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)					
Subsidies of unemployment dynamic monitoring	Career Company of Zichuan District	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	1,200.00		Related to the income
"Top 50 Enterprises" management consulting subsidy-performance excellence project	Economic and Information Commission of Zibo, Finance Bureau of Zibo	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	500,000.00		Related to the income
"Top 50 Enterprises" management consulting subsidy-TPS Toyota producing method consulting project	Economic and Information Commission of Zibo, Finance Bureau of Zibo	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	150,000.00		Related to the income
Special fund for E-commerce	Economic and Information Commission of Zibo, Finance Bureau of Zibo	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	100,000.00		Related to the income
Export credit insurance premiums	Finance Bureau of Zibo	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	73,500.00		Related to the income

Energy saving award capital	People's Government Office of Shandong Province	Award	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	1,000,000.00		Related to the income
Science and technology innovation award	Zibo High-tech Industrial Development Zone Management Committee	Award	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	120,000.00		Related to the income
Progress of science and technology award	People's Government of Zibo City	Award	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	50,000.00		Related to the income
Energy saving reform award	Bureau of Housing and Urban Zichuan District, Zibo	Award	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	171,850.00		Related to the income
Special fund for energy saving reform	Finance Bureau of Zichuan District	Subsidy	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	1,000,000.00		Related to the income
Pollution source video monitoring subsidy	Environmental monitoring station of Zibo	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	21,800.00		Related to the income
Science and technology innovation fund	Department of Finance of Shandong	Subsidy	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	12,000.00		Related to the income
Export award liquidation fund	Finance Bureau of Zichuan District	Award	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	42,400.00		Related to the income
Special funds	Finance	Subsidy	Due to engaged in special	Yes	No	67,700.00		Related to the

for encouraging foreign trade development	Bureau of Zichuan District	industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)					income
Export credit insurance subsidy	Finance Bureau of Zichuan District	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	22,700.00		Related to the income
Patent award	Science and technology bureau of Zichuan District	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	92,600.00		Related to the income
Award for Science and Technology	Science and technology bureau of Zibo	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	50,000.00		Related to the income
Patent award	Finance Bureau of Zibo	Subsidy from R&D Technical updating and transformation, etc.	Yes	No	200,000.00		Related to the income
Pollution source video monitoring subsidy	Environmental monitoring station of Zibo	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	10,900.00		Related to the income
Electricity Finance subsidies	Akesu Prefecture Finance Bureau of	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	318,191.00		Related to the income
Enterprise paying VAT subsidy	Akesu Prefecture Finance Bureau of	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	7,000,000.00		Related to the income
Spinning reform	Finance Bureau of	Subsidy from R&D Technical updating and	Yes	No	100,000.00		Related to the income



project fund	Awati		transformation, etc.					
Home of staff of textile and garment enterprise creating subsidy funds	Finance Bureau of Awati	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	70,000.00		Related to the income
Returning farmland to forest subsidy	Forestry Bureau of Awati	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	39,600.00		Related to the income
Pollution source video monitoring subsidy	Environmental monitoring station of Zibo	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	21,800.00		Related to the income
Special funds for encouraging foreign trade development	Finance Bureau of Zichuan District	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No	15,200.00		Related to the income
Purchase of equipment subsidy	Finance Bureau of Gaoqing	Subsidy	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No	178,000.00		Related to the income
Saving energy funds	Finance Bureau of Zichuan District	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No		330,000.00	Related to the income
Funds for encouraging foreign trade development	Finance Bureau of Zichuan District	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy	Yes	No		422,000.00	Related to the income

			(obtaining in line with the law and the regulations of national policy)					
Funds for development of center foreign trade and economic cooperation	Finance Bureau of Zichuan District	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No		100,000.00	Related to the assets
Subsidy for development of industries	National Technology Department	Subsidy	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		111,000.00	Related to the income
Project funds allowance	National Technology Department	Subsidy	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		46,000.00	Related to the income
Subsidy for independent innovation and achievements transformation	Finance Bureau of Zibo	Subsidy	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		1,000,000.00	Related to the income
Award for Science and Technology	Zibo High-tech Industrial Development Zone Management Committee, Finance Bureau of Gaoxin District	Award	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		200,000.00	Related to the income
Patent development subsidy	Zibo High-tech Industrial Development Zone Management Committee,	Award	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		200,000.00	Related to the income

	Finance Bureau of Gaoxin District							
Patent development subsidy	Zibo High-tech Industrial Development Zone Management Committee, Finance Bureau of Gaoxin District	Award	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		102,400.00	Related to the income
Import credit insurance premiums	Finance Bureau of Zichuan District	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No		372,024.00	Related to the income
Talent supporting award fund	Shandong Provincial Party Committee Organization Department of the Communist Party of China, Talent work leading group office of Shandong, Finance Department of Shandong, Education Department of Shandong and Science and	Award	Subsidy gained due to confirming with local government attracting investment and local supportive policy etc.	Yes	No		300,000.00	Related to the income

	Technology Department of Shandong							
Special funds for encouraging foreign trade development	Finance Bureau of Zichuan District	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No		105,600.00	Related to the income
Export credit insurance subsidy	Finance Bureau of Zichuan District	Subsidy	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No		45,485.00	Related to the income
Special fund for Patent Development	Finance Bureau of Zichuan District	Subsidy	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		80,000.00	Related to the income
Contract energy management reward	Finance Bureau of Zichuan District	Award	Due to engaged in special industry that the state encouraged and supported, gained subsidy (obtaining in line with the law and the regulations of national policy)	Yes	No		2,300,000.00	Related to the income
Fiscal interest discount funds of anti-poverty project	Akesu Prefecture Bureau of Finance	Subsidy	Subsidy from R&D Technical updating and transformation, etc.	Yes	No		262,500.00	Related to the income
Deferred revenue amortization						1,234,383.13	1,139,078.94	Related to the assets
Total	--	--	--	--	--	14,112,224.13	7,116,087.94	--

## 52. Non-operating expenses

Unit: RMB

Item	Reporting Period	Same period of last year	Recorded in the amount of the non-recurring gains and losses
Loss on disposal of non-current assets	5,412,125.25	3,508,372.92	5,412,125.25
Including: Loss on disposal of fixed assets	5,412,125.25	3,508,372.92	5,412,125.25
Donation	806,408.43	13,242.02	806,408.43
Others	1,500,106.22	723,799.12	1,500,106.22
Total	7,718,639.90	4,245,414.06	7,718,639.90

### 53. Income tax expense

#### (1) Lists of income tax expense

Unit: RMB

Item	Reporting Period	Same period of last year
Current income tax expense	78,609,388.16	65,332,000.05
Deferred income tax expense	10,909,106.36	2,137,529.91
Total	89,518,494.52	67,469,529.96

#### (2) Adjustment process of accounting profit and income tax expense:

Unit: RMB

Item	Reporting Period
Total profits	432,175,579.96
Current income tax expense accounted by tax and relevant regulations	64,826,336.99
Influence of different tax rate suitable to subsidiary	13,259,794.39
Influence of income tax before adjustment	-814,680.65
Influence of non taxable income	-4,192,925.82
Influence of not deductible costs, expenses and losses	8,385,283.56
Influence of deductible temporary difference or deductible losses of deferred income tax assets derecognized in Reporting Period.	8,054,686.05
Income tax expense	89,518,494.52

### 54. Other comprehensive income

See note.

**55. Supplementary information to cash flow statement****(1) Other cash received relevant to operating activities:**

Unit: RMB

Item	Reporting Period	Same period of last year
Government subsidies	13,779,541.00	5,977,009.00
Collection for employees	943,338.62	32,154.44
Claim income	1,598,909.74	718,980.59
Penalty income	85,482.93	80,266.42
Recovery of employee borrowings, petty cash and deposit	4,649,690.95	6,823,524.97
Others	14,082,485.48	11,650,716.83
<b>Total</b>	<b>35,139,448.72</b>	<b>25,282,652.25</b>

**(2) Other cash paid relevant to operating activities:**

Unit: RMB

Item	Reporting Period	Same period of last year
Freight and miscellaneous charges	26,496,789.77	30,884,815.22
Rental charges and management expenses of the shops	8,711,587.87	13,278,057.78
Rental charges	13,176,835.37	13,352,190.56
Advertising expense	3,244,875.81	5,014,183.65
Business travel charges	11,682,937.78	6,390,846.47
Premium	3,564,970.67	3,762,698.73
Copyright royalty	891,154.41	1,501,650.54
Audit advisory announcement fee	3,479,711.34	1,347,778.95
Decoration & repair expenses	3,919,826.15	1,061,222.18
Donation	806,408.43	13,242.02
Others	42,628,506.60	64,126,882.06
<b>Total</b>	<b>118,603,604.20</b>	<b>140,733,568.16</b>

**(3) Other cash received relevant to investment activities**

Unit: RMB

Item	Reporting Period	Same period of last year
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Interest income	3,693,737.37	1,718,171.27
Sale of securities	2,158,904.65	
Investment income from trading financial assets		28,860,565.88
Total	5,852,642.02	30,578,737.15

**(4) Other cash paid relevant to investment activity**

Unit: RMB

Item	Reporting Period	Same period of last year
Losses from forward foreign exchange	34,587,575.00	
Purchase of securities	3,038,322.29	
Total	37,625,897.29	0.00

**(5) Other cash received relevant to financing activities**

Unit: RMB

Item	Reporting Period	Same period of last year
Received pledged margin	29,805,722.42	
Return of loan guarantees		16,000,000.00
Total	29,805,722.42	16,000,000.00

**(6) Other cash paid relevant to financing activities**

Unit: RMB

Item	Reporting Period	Same period of last year
Return of the B-share buy-back amount	203,465,414.43	
Short-term loans guarantee		89,026,946.69
Total	203,465,414.43	89,026,946.69

**56. Supplemental information for Cash Flow Statement****(1) Information of net profit to net cash flows generated from operating activities**

Unit: RMB

Supplemental information	Reporting Period	Same period of last year
1. Reconciliation of net profit to net cash flows generated from operating activities	--	--

Net profit	342,657,085.44	345,410,247.32
Add: Provision for impairment of assets	-2,561,342.27	281,403.64
Depreciation of fixed assets, of oil-gas assets, of productive biological assets	176,763,336.08	175,214,081.05
Amortization of intangible assets	6,062,971.96	6,117,876.39
Long-term unamortized expenses	1,183,338.36	611,269.74
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains: negative)	5,183,811.95	2,698,435.96
Losses from variation of fair value (gains: negative)	-30,946,569.40	-12,246,700.00
Financial cost (gains: negative)	16,516,478.20	4,937,366.68
Investment loss (gains: negative)	33,641,221.22	-28,860,565.88
Decrease in deferred income tax assets (gains: negative)	10,953,337.12	797,240.07
Increase in deferred income tax liabilities ("-" means decrease)	44,230.76	1,340,289.84
Decrease in inventory (gains: negative)	-31,187,606.68	-1,740,399.46
Decrease in accounts receivable from operating activities (gains: negative)	167,746,613.50	21,908,518.27
Increase in payables from operating activities (decrease: negative)	-132,649,558.81	-154,164,439.49
Net cash flows generated from operating activities	563,407,347.43	362,304,624.13
2. Significant investing and financing activities without involvement of cash receipts and payments	--	--
3. Net increase in cash and cash equivalents:	--	--
Closing balance of cash	578,165,942.35	528,411,383.97
Less: Opening balance of cash	765,695,473.65	649,393,798.30
Net increase in cash and cash equivalents	-187,529,531.30	-120,982,414.33

## (2) Cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	578,165,942.35	765,695,473.65
Including: Cash on hand	3,116,248.37	2,111,348.02
Bank deposit on demand	574,977,343.50	742,998,281.72
Other monetary funds on demand	72,350.48	20,585,843.91
III. Closing balance of cash and cash equivalents	578,165,942.35	765,695,473.65



**57. The assets with the ownership or use right restricted**

Unit: RMB

Item	Closing book value	Restricted reason
Monetary capital	200,058.33	Bank acceptance deposit
Inventories	68,801,593.52	Short-term loan pledged
Total	69,001,651.85	--

**58. Foreign currency monetary items****(1) Foreign currency monetary items**

Unit: RMB

Item	Closing foreign currency balance	Exchange rate	Closing convert to RMB balance
Including: USD	21,902,879.81	6.6312	145,242,376.62
EUR	43,110.69	7.3750	317,941.34
HKD	25,989,587.34	0.8547	22,213,300.30
JPY	42,502.00	0.0645	2,741.37
THB	120.19	0.1888	22.69
SGD	91.90	4.9239	452.51
GBP	970.36	8.9212	8,656.77
AUD	2,821.03	4.9452	13,950.56
CHF	695.08	6.7730	4,707.79
SEK	920.00	0.7836	720.91
KHR	24,741,900.00	0.0016233	40,163.64
Kyats	28,529,289.43	0.0056149	160,189.18
Dong	10,620,573,406.00	0.0002972	3,156,752.44
Including: USD	25,839,486.82	6.6312	171,346,805.00
HKD	2,822,660.11	0.8547	2,412,527.60
Including: USD	8,037,866.34	6.6312	53,300,699.27
EUR	4,102,182.80	7.3750	30,253,598.15
JPY	439,910,755.00	0.0645	28,374,243.70

**(2) Note to oversea entities including: for significant oversea entities, shall disclose main operating place, recording currency and selection basis, if there are changes into recording currency, shall also disclose the reason.**

√ Applicable □ Not applicable

The operating places of Company's subsidiaries Lu Thai( Hong Kong), Lu Thai(Cambodia), Lu Thai(Burma) Co., Ltd. (Hereinafter referred to as "Lu Thai(Burma)") Lu Thai(America) Co., Ltd.( Hereinafter referred to as "Lu Thai(America)") and Lu Thai(Vietnam) Co., Ltd. Lu An Garment Co., Ltd. were Hong Kong, Cambodia, Burma, America, Vietnam and Vietnam, and the recording currency respectively was HKD, USD, USD, USD, Dong and Dong.

## VIII. Changes of merge scope

### 1. Other reasons for the changes in combination scope

Notes to reasons for the changes in combination scope (Newly established subsidiary and subsidiary of liquidation) and relevant information:

The Company newly set up subsidiary, Lu An Garment Co., Ltd.

## IX. Equity in other entities

### 1. Equity in subsidiary

#### (1) The structure of the enterprise group

Name	Main operating place	Registration place	Nature of business	Holding percentage (%)		Way of gaining
				Directly	Indirectly	
Lufeng Sunshine	Beijing	Beijing	Wholesale and retail industry	100.00%		Set-up
Beijing Innovative	Beijing	Beijing	Wholesale and retail industry	60.00%		Set-up
Lu Thai (Hong Kong)	Hong Kong	Hong Kong	Wholesale and retail industry	100.00%		Set-up
Shanghai Lu Thai	Shanghai	Shanghai	Wholesale and retail industry	100.00%		Set-up
Xinjiang Lu Thai	Xinjiang	Xinjiang	Manufacturing industry	59.92%		Business combination not under the same control
Lufeng Weaving & Dyeing	Zibo	Zibo	Manufacturing industry	75.00%		Set-up
Luqun Textile	Zibo	Zibo	Manufacturing	100.00%		Set-up

			industry			
Xinsheng Power	Zibo	Zibo	Manufacturing industry	100.00%		Business combination not under the same control
Xinjiang Lu Thai Textile (sub-subsidiary)	Xinjiang	Xinjiang	Manufacturing industry	100.00%		Set-up
Helijie (sub-subsidiary)	Zibo	Zibo	Service	100.00%		Business combination not under the same control
Beijing Youxian	Beijing	Beijing	Wholesale and retail industry	90.00%		Set-up
Lu Thai(Cambodia)	Cambodia	Cambodia	Manufacturing industry	100.00%		Set-up
Lu Thai(Burma)	Burma	Burma	Manufacturing industry	100.00%		Set-up
Lu Thai(America)	America	America	Wholesale and retail industry	100.00%		Set-up
Lu Thai(Vietnam)	Vietnam	Vietnam	Manufacturing industry	100.00%		Set-up
Lu An Garment	Vietnam	Vietnam	Manufacturing industry	100.00%		Set-up

**(2) Significant not wholly owned subsidiary**

Unit: RMB

Name	Shareholding proportion of minority shareholder	The profits and losses arbitrate to the minority shareholders	Declaring dividends distribute to minority shareholder	Balance of minority shareholder at closing period
Xinjiang Lu Thai	40.08%	1,381,411.72		180,303,896.49
Lufeng Weaving & Dyeing	25.00%	8,786,918.78		298,419,490.33

**(3) The main financial information of significant not wholly owned subsidiary**

Unit: RMB

Name	Closing balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liability	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liability	Total liabilities

Xinjiang	384,509,	325,819,	710,329,	262,075,	5,284,04	267,359,	441,261,	327,696,	768,958,	323,538,	5,897,44	329,435,
Lu Thai	909.47	805.15	714.62	922.04	4.38	966.42	937.21	846.84	784.05	224.44	7.45	671.89
Lufeng												
Weaving & Dyeing	478,825,787.74	861,420,951.19	1,340,246,738.93	116,518,077.74	30,050,699.80	146,568,777.54	497,062,573.74	887,529,106.38	1,384,591,680.12	195,671,138.17	30,390,255.70	226,061,393.87

Unit: RMB

Name	Reporting Period				Same period of last year			
	Operation revenue	Net profit	Total comprehensive income	Operating cash flow	Operation revenue	Net profit	Total comprehensive income	Operating cash flow
Xinjiang Lu Thai	196,855,106.60	3,446,636.04	3,446,636.04	133,025,707.88	235,279,759.42	8,626,136.21	8,626,136.21	174,168,584.81
Lufeng Weaving & Dyeing	716,210,253.15	35,147,675.14	35,147,675.14	12,610,567.38	677,791,081.36	8,154,036.52	8,154,036.52	-71,026,693.01

## X. The risk related financial instruments

Main financial instruments of the Company included: Loans, accounts receivable, accounts payable, etc., all the details of the financial instruments, see related projects of "Section VII". The risk associated with these financial instruments, as well as the Company's risk management policy to reduce these risks which were described below. The Company's management managed and supervised these risks to ensure that the above risk was controlled in a limited scope.

The Company use sensitivity analysis technology to analyze the reasonable of risk variables, influence of probable changes to the current profits and Stockholders' equity. Because rarely any risk variables change in isolation, and the correlation between variables for the eventual impact of the change of a risk variables will have a significant effect, thus, the aforesaid content was processing under the assumption of the change of each variable was conducted independently.

### Risk management objectives and policies

The goals of Company engaged in the risk management is to achieve the proper balance between the risks and benefits, reduced the negative impact to the Company operating performance risk to a minimum, maximized the profits of shareholders and other equity investors. Based on the risk management goal, the basic strategy of the Company's risk management is determine and analyze the various risks faced by the Company, set up the bottom line of risk and conducted appropriate risk management, and timely supervised various risks in a reliable way and controlled the risk within the range of limit.

#### 1. Market risk

##### (1) Foreign exchange risk

Foreign exchange risk is referred to the risk incurred due to loss of changes in exchange rate. Foreign exchange risk is referred to the risk incurred due to loss of changes in exchange rate. The Company's foreign exchange risk was mainly related to USD, HKD and EUR, excepting the

Company's several subsidiaries purchase and sale, in USD, HKD and Dong, the other main business settled by RMB. On 30 June 2016, in addition to the following assets or liabilities in statement was USD, HKD and EUR, the Company's assets or liabilities was RMB balance. The foreign exchange risk incurred by assets and liabilities of foreign balance may have impact to the operation results of the Company.

Item	Closing balance	Opening balance
Cash and cash equivalents	171,161,976.12	359,365,961.61
Notes receivable	85,984,778.60	101,533,594.19
Account receivable	173,759,332.60	198,486,967.97
Other accounts receivable	932,085.37	21,499,240.95
Accounts payable	39,172,713.92	20,029,203.14
Other account payable	516,045.74	3,773,841.47
Short-term loans	868,119,117.17	572,766,318.90
Long-term borrowings	111,928,541.12	

## (2) Interest rate risk

The risk of cash flow changes of financial instruments due to change of interest rate mainly was related bank loan (for details, see Section VII).

Sensitive analysis of interest rate risk:

Influence of interest increasing 100 BP to current profits and losses and equity of shareholders before tax was followed:

Change	Reporting Period		Last period	
	Influence to the profits	Influence to equity of shareholders	Influence to the profits	Influence to equity of shareholders
Increase 100 BP	-4,750,027.46	-4,261,794.18	-2,482,939.38	-2,128,707.94
Decrease 100 BP	4,750,027.46	4,261,794.18	2,482,939.38	2,128,707.94

## (3) Other price risk

The categories held by the Company are the investment of tradable financial assets measured by fair value on assets liabilities date. Thus, the Company bares the risk of change in securities market.

### 2 Credit risk,

On 30 June 2016, credit risk what may lead to the financial losses was the other party of the contract failed to fulfill the obligations and causes loss of the Company's financial assets, which including: book value of financial assets recognized in consolidated balance sheet.

In order to reduce the credit risk, the Company established a special team be responsible for the determination of credit limit to conduct credit approval, and perform other supervising procedures to ensure that taking necessary measures to recycle expired claims. In addition, the Company at each balance sheet date, review every single receivables recycling situation, to ensure that the money unable to recycle withdrawn provision for bad debt fully. Thus, the Company management believed that have assume the credit risk the Company shouldered had been greatly reduced.

The company's working capital was in bank with higher credit rating, so credit risk of working capital was low.

### 3. Liquidity Risk

When managing liquidity risk, the Company maintained the management's believe that supervising

the sufficient cash and cash equivalents to meet the operating demand of the Company and reduce the influence of the fluctuation of cash flow. The management of the Company supervises the usage situation of the bank loan and ensures the loan agreement.

In the end of Reporting Period, the Company held cash and bank deposit of RMB578 million. In recent two years, the average of net cash flow of operation activities was RMB1.070 billion. The Company believed that the liquidity risk was insignificant.

## XI. The disclosure of the fair value

### 1. Closing fair value of assets and liabilities calculated by fair value

Unit: RMB

Item	Closing fair value			
	Fair value measurement items at level 1	Fair value measurement items at level 2	Fair value measurement items at level 3	Total
I. Consistent fair value measurement	--	--	--	--
(I) Financial assets calculated by fair value and changes record into current profits or losses	75,994,804.35			75,994,804.35
1. Trading financial assets	75,994,804.35			75,994,804.35
(2) Equity tool investment	75,994,804.35			75,994,804.35
Total assets of consistent fair value measurement	75,994,804.35			75,994,804.35
(V) Transaction financial liabilities	9,735,700.00			9,735,700.00
Derivative financial liabilities	9,735,700.00			9,735,700.00
Total liabilities of consistent fair value measurement	9,735,700.00			9,735,700.00
II. Inconsistent fair value measurement	--	--	--	--

### 2. Market price recognition basis for consistent and inconsistent fair value measurement items at level 1

The Company recognized in according to the closing price of stock on 30 June 2016 and in line with the forward settlement of exchange offer of the bank fair value measurement items at level 1.

## XII. Related party and related Transaction

### 1. Information related to parent company of the Company

Name of parent	Registration place	Nature of business	Registered capital	Proportion of share	Proportion of voting
----------------	--------------------	--------------------	--------------------	---------------------	----------------------

company				held by parent company against the Company (%)	rights owned by parent company against the Company (%)
Lucheng Textile	Zibo	Textile, investment, etc.	RMB63.26 million	14.69%	14.69%

The final control of the Company was Mr. Liu Shizhen

## 2. Subsidiaries of the Company

See details to Notes IX. 1. Equity in subsidiary.

## 3. Information on other related parties of the Company

Name	Relationship
Zibo Stanluian Cosmetics Co., Ltd. (hereinafter called "Stanluian")	Affiliated person (the same chairman of the Board with the Company)
Zibo Taimei Ties Co., Ltd. (hereinafter called Taimei Ties)	Controlled subsidiary of the parent company
Zibo Limin Purified Water Co., Ltd. (hereinafter called Limin Purified Water)	Wholly-owned subsidiary of the parent company
Zibo Luqun Land Co., Ltd (hereinafter called Luqun Land)	Wholly-owned subsidiary of the parent company
Zibo Chengshun Heating Co., Ltd. (hereinafter refer to as "Chengshun Heating")	Controlled subsidiary of the parent company
Zibo Lurui Fine Chemical Co., Ltd. (hereinafter referred to as Lurui Chemical)	Controlled subsidiary of the parent company
Zibo Lujia Property Management Co., Ltd. (hereinafter referred to as Lujia Property)	Wholly-owned subsidiary of the parent company

## 4. List of related-party transactions

### (1) Information on acquisition of goods and reception of labor service (unit: ten thousand Yuan)

Information on acquisition of goods and reception of labor service

Unit: RMB

Related party	Content	Reporting Period	The approval trade credit	Whether exceed trade credit or not	Same period of last year
Lucheng Textile	Towel, sock, oil product, computer supplies, paper core, hose processing fees, etc.	6,060,935.00	15,816,600.00	No	5,741,300.22

Stanluian Company	Purchase of gift box for cosmetic, lotion, washing-up liquid, Liquid soap, etc.			No	84,371.37
Taimei Ties	Goods processing fee and quilt cover processing fee	563,319.65	1,300,000.00	No	479,818.63
Limin Purified Water	Sewage Treatment and reuse water	8,920,188.77	26,806,000.00	No	4,856,374.44
Lurui Fine Chemical	Auxiliaries	39,845,988.16	100,000,000.00	No	33,961,091.09

Information of sales of goods and provision of labor service

Unit: RMB

Related party	Content	Reporting Period	Same period of last year
Lucheng Textile	Sales of materials, electricity, running water, steam and LED lamp	148,646.03	103,229.76
Lucheng Textile	Sales of greige yarn, dyed yarn, fabric and garments	511,769.75	376,771.28
Taimei Ties	Sales of electricity, heating charges and garment	11,929.11	11,878.01
Stanluian Company	Sales of materials, electricity, garment, running water and heating charges	24,655.83	20,891.49
Limin Purified Water	Sales of materials, garment, and equipment	1,625.19	2,496.96
Lurui Fine Chemical	Sales of garments, equipment, LED lamp, and lunch components	124,544.74	232,519.66
Chengshun Heating	Sale of materials, heating water, heating power, electricity, tap water and garment	3,376,447.92	2,401,125.83
Lujia Property	Selling materials and recycled water	22,832.10	48,070.08

## (2) Information of related lease

The Company was lessor:

Unit: RMB

Name of lessee	Category of leased assets	The lease income confirmed in this year	The lease income confirmed in last year
Lucheng Textile	Houses and buildings	192,101.59	195,200.00
Lurui Fine Chemical	Houses and buildings	681.97	

The Company was lessee:

Unit: RMB

lessor	Category of leased assets	The lease income confirmed in this year	Category of leased assets
--------	---------------------------	---	---------------------------



Lucheng Textile	Rent of land	2,276,285.72	2,313,000.00
Lucheng Textile	Rent of gas station	259,219.04	263,400.00
Lucheng Textile	Rent of land and buildings	5,455,409.54	5,543,400.00
Luqun Property	Rent of land and buildings	720,380.94	901,200.00
Lucheng Textile	Rent of houses	343,066.66	348,600.00

## 5. Receivables and payables of related parties

### (1) Payables

Unit: RMB

Name of item	Related party	Closing book balance	Opening book balance
Accounts payable	Lucheng Textile	4,743.00	131,696.00

## XIII. Commitments and contingency

### 1. Significant commitments

Significant commitments at balance sheet date

Item	Closing balance (RMB'0,000)	Opening balance (RMB'0,000)
Commitments signed but hasn't been recognized in financial statements		
-- Commitment for constructing and purchasing long-term assets	25,087.31	5,524.91
Total	25,087.31	5,524.91

### 2. Contingency

#### (1) Significant contingency at balance sheet date

As of 30 June 2016, there was no significant contingency to be disclosed.

#### (2) The Company have no significant contingency to disclose, also should be stated

There was no significant contingency in the Company.

## XIV. Notes of main items in the financial statements of the Company

### 1. Accounts receivable

#### (1)Accounts receivable disclosed by category

Unit: RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Accounts receivable with insignificant single amount for which bad debt provision separately accrued	116,536,107.70	29.80%	93,985,847.77	80.65%	22,550,259.93	120,361,083.64	37.90%	72,592,947.77	60.31%	47,768,135.87
Accounts receivable withdrawal of bad debt provision of by credit risks characteristics:	274,470,635.58	70.20%	13,746,593.19	5.01%	260,724,042.39	197,230,287.58	62.10%	9,869,969.51	5.00%	187,360,318.07
<b>Total</b>	<b>391,006,743.28</b>	<b>100.00%</b>	<b>107,732,440.96</b>	<b>27.55%</b>	<b>283,274,302.32</b>	<b>317,591,371.22</b>	<b>100.00%</b>	<b>82,462,917.28</b>	<b>25.97%</b>	<b>235,128,453.94</b>

Accounts receivable with single significant amount and withdrawal bad debt provision separately at end of period

√ Applicable □ Not applicable

Unit: RMB

Accounts receivable (classified by units)	Closing balance			
	Account receivable	Bad debt provision	Withdrawal proportion	Withdrawal reason
Beijing Innovative	116,536,107.70	93,985,847.77	80.65%	The subsidiary Beijing Innovative was under canceling
<b>Total</b>	<b>116,536,107.70</b>	<b>93,985,847.77</b>	<b>--</b>	<b>--</b>

In the groups, accounts receivable adopting aging analysis method to withdraw bad debt provision:

√ Applicable □ Not applicable

Unit: RMB

Aging	Closing balance		
	Account receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			
Within 1 year	274,218,193.58	13,710,909.68	5.00%
Subtotal within 1 year	274,218,193.58	13,710,909.68	5.00%
1 to 2 years	148,048.84	14,804.88	10.00%
2 to 3 years	104,393.16	20,878.63	20.00%
Total	274,470,635.58	13,746,593.19	5.01%

Notes:

In the groups, accounts receivable adopting balance percentage method to withdraw bad debt provision:

□ Applicable √ Not applicable

**(2) Accounts receivable withdraw, reversed or collected during the Reporting Period**

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB25,269,523.68; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

**(3) Top five of account receivable of closing balance collected by arrears party**

The total amount of top five of account receivable of closing balance collected by arrears party was RMB241,944,740.19, 61.88% of total closing balance of account receivable, the relevant closing balance of bad debt provision withdrawn was RMB100,256,279.40.

**2. Other accounts receivable****(1) Other accounts receivable disclosed by category**

Unit: RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Other accounts receivable withdrawn according to credit	98,747,661.15	100.00%	6,038,222.15	6.11%	92,709,439.00	36,565,379.68	100.00%	3,024,839.14	8.27%	33,540,540.54

risks characteristics										
Total	98,747,661.15	100.00%	6,038,222.15	6.11%	92,709,439.00	36,565,379.68	100.00%	3,024,839.14	8.27%	33,540,540.54

Other receivable with single significant amount and withdrawal bad debt provision separately at end of period:

Applicable  Not applicable

In the groups, other accounts receivable adopting aging analysis method to withdraw bad debt provision:

Applicable  Not applicable

Unit: RMB

Aging	Closing balance		
	Other accounts receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			
Within 1 year	93,411,348.20	4,670,567.41	5.00%
Subtotal within 1 year	93,411,348.20	4,670,567.41	5.00%
1 to 2 years	1,115,111.43	111,511.14	10.00%
2 to 3 years	102,168.58	20,433.72	20.00%
Over 3 years	4,119,032.94	1,235,709.88	30.00%
Total	98,747,661.15	6,038,222.15	6.11%

Notes:

In the groups, other accounts receivable adopting balance percentage method to withdraw bad debt provision:

Applicable  Not applicable

In the groups, other accounts receivable adopting other methods to withdraw bad debt provision:

Applicable  Not applicable

## (2) Accounts receivable withdraw, reversed or collected during the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB25,269,523.68; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

## (3) Other accounts receivable classified by the nature of accounts

Unit: RMB

Nature	Closing book balance	Opening book balance
Intercourse funds	80,016,233.59	4,175,136.88
Export rebates		16,073,852.13
Payment on behalf	12,418,016.20	11,217,554.27
The cash pledge and guarantee	2,772,955.34	2,427,649.51
Borrowings and deposit	1,249,240.21	757,574.35
Others	2,291,215.81	1,913,612.54

Total	98,747,661.15	36,565,379.68
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**(4) Top 5 of the closing balance of the other accounts receivable collected according to the arrears party**

Unit: RMB

Name of the entity	Nature	Closing balance	Aging	Proportion%	Closing balance of bad debt provision
Lu Thai (Vietnam)	Intercourse funds	52,895,780.56	Within 1 year	53.57%	2,644,789.03
Lu An Garment	Intercourse funds	25,871,405.78	Within 1 year	26.20%	1,293,570.29
Accounts receivable of advance money for the social security undertake by the individual of the employee	Advance money for the social security undertake by the individual of the employee	9,515,510.84	Within 1 year	9.63%	475,775.54
Lu Thai (Cambodia)	Intercourse funds	4,637,019.32	Within 1 year	4.70%	231,850.97
Deposits for wages paid to migrant workers of Zichuan District, Zibo city	Deposits for wages paid to migrant workers of infrastructure works	1,458,593.50	Over 3 years	1.48%	437,578.05
Total	--	94,378,310.00	--	95.58%	5,083,563.88

**3. Long-term equity investment**

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Investment to the subsidiary	1,723,809,000.04	25,200,000.00	1,698,609,000.04	1,613,379,740.04	35,675,000.00	1,577,704,740.04
Total	1,723,809,000.04	25,200,000.00	1,698,609,000.04	1,613,379,740.04	35,675,000.00	1,577,704,740.04

**(1) Investment to the subsidiary**

Unit: RMB

Investee	Opening balance	Increase	Decrease	Closing balance	Withdrawn impairment provision in the Reporting Period	Closing balance of impairment provision

Beijing Innovative	25,200,000.00			25,200,000.00		25,200,000.00
Xinjiang Lu Thai	147,303,034.16			147,303,034.16		
Xinsheng Power	176,340,737.93			176,340,737.93		
Lufeng Weaving & Dyeing	529,620,000.00			529,620,000.00		
Luqun Textile	171,784,550.00			171,784,550.00		
Lu Thai (Hong Kong)	128,771,800.00			128,771,800.00		
Lufeng Sunshine	15,000,000.00		15,000,000.00		-10,475,000.00	
Shanghai Lu Thai	20,000,000.00			20,000,000.00		
Lu Thai(Cambodia)	108,223,964.38			108,223,964.38		
Lu Thai(America)	6,774,300.00			6,774,300.00		
Lu Thai(Burma)	62,327,753.57			62,327,753.57		
Beijing Youxian	9,000,000.00			9,000,000.00		
Lu Thai(Vietnam)	213,033,600.00	105,001,210.00		318,034,810.00		
Lu An Garment		20,428,050.00		20,428,050.00		
<b>Total</b>	<b>1,613,379,740.04</b>	<b>125,429,260.00</b>	<b>15,000,000.00</b>	<b>1,723,809,000.04</b>	<b>-10,475,000.00</b>	<b>25,200,000.00</b>

#### 4. Revenue and Cost of Sales

Unit: RMB

Item	Reporting Period		Same period of last year	
	Sales revenue	Cost of sales	Sales revenue	Cost of sales
Main operations	2,225,300,186.31	1,571,303,646.81	2,271,611,588.70	1,695,745,675.96
Other operations	143,361,682.06	123,338,335.99	78,000,829.19	62,998,536.38
<b>Total</b>	<b>2,368,661,868.37</b>	<b>1,694,641,982.80</b>	<b>2,349,612,417.89</b>	<b>1,758,744,212.34</b>

#### 5. Investment income

Unit: RMB

Item	Reporting Period	Same period of last year
Long-term equity investment income accounted by cost method	37,003,529.30	17,976,429.21
Investment income received from disposal of financial assets measured by fair value and the changes be included in the current profits	-26,628,900.00	26,539,715.88

and losses during holding period		
Total	10,374,629.30	44,516,145.09

## XV. Supplementary materials

### 1. Items and amounts of extraordinary gains and losses

Applicable  Not applicable

Unit: RMB

Item	Amount	Explanation
Gains/losses on the disposal of non-current assets	-5,183,811.95	
Tax rebates, reductions or exemptions due to approval beyond authority or the lack of official approval documents	14,112,224.13	
Gain/loss from change of fair value of transactional assets and liabilities, and investment gains from disposal of transactional financial assets and liabilities and available-for-sale financial assets, other than valid hedging related to the Company's common businesses	-2,694,651.82	
Other non-operating income and expenses other than the above	4,546,385.24	
Less: Income tax effects	-2,743,698.15	
Minority interests effects	2,119,521.53	
Total	11,404,322.22	--

Explain the reasons if the Company classifies an item as an extraordinary gain/loss according to the definition in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Extraordinary Gains and Losses, or classifies any extraordinary gain/loss item mentioned in the said explanatory announcement as a recurrent gain/loss item.

Applicable  Not applicable

### 2. Return on equity and earnings per share

Profit as of Reporting Period	Weighted average ROE (%)	EPS (Yuan/share)	
		EPS-basic	EPS-diluted
Net profit attributable to common shareholders of the Company	5.10%	0.37	0.37
Net profit attributable to common shareholders of the Company after deduction of non-recurring profit and loss	4.93%	0.35	0.35

### 3. Differences between accounting data under domestic and overseas accounting standards

#### (1) Differences of net profit and net assets disclosed in financial reports prepared under international and Chinese accounting standards

Applicable  Not applicable

Unit: RMB

	Net profit		Net assets	
	Reporting Period	Same period of last year	Closing balance	Opening balance
Chinese accounting standards	344,641,184.73	344,521,516.72	6,508,090,698.05	6,837,113,075.58
Items and amounts adjusted in accordance with international accounting standards				
Impact on domestic equipments tax credit recognized as deferred income under international accounting standards	362,500.00	612,500.00	-691,500.00	-1,054,000.00
International accounting standards	345,003,684.73	345,134,016.72	6,507,399,198.05	6,836,059,075.58

**(2) Differences of net profit and net assets disclosed in financial reports prepared under overseas and Chinese accounting standards**

Applicable  Not applicable

**(3) Explain reasons for the differences between accounting data under domestic and overseas accounting standards, for audit data adjusting differences had been foreign audited, should indicate the name of the foreign institutions**

Effects of domestic equipment exempted from income tax

The Company exempted from income tax for buying domestic equipment. According to Chinese accounting standards, the income tax expenses are directly reduced which are recognized as deferred income related to assets by the international accounting standards. According to the regulations of the international accounting standards, this difference is amortized over the fixed using periods of year of the fixed assets and adjusting net income and net assets.



## **Section X Documents Available for Reference**

- I. Accounting statements signed by legal representative, responsible person in charge of accounting work and responsible person of accounting department;
- II. The original of Auditors' Report carried with the seal of the accounting firm, as well as the personal signatures of certified public accountants.
- III. The originals of all documents and manuscripts of Public Notices of the Company disclosed publicly on Securities Times, Shanghai Securities News and Ta Kung Pao.

Signature of the Chairman of the Board: Liu Zibin

Lu Thai Textile Co., Ltd.

31 August 2016