



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

## **INTERIM REPORT 2018**

**August 2018**

## Part I Important Notes, Table of Contents and Definitions

The Board of Directors (or the “Board”), the Supervisory Committee as well as the directors, supervisors and senior management of Lu Thai Textile Co., Ltd. (hereinafter referred to as the “Company”) hereby guarantee the factuality, accuracy and completeness of the contents of this Report and its summary, and shall be jointly and severally liable for any misrepresentations, misleading statements or material omissions therein.

Liu Zibin, the Company’s legal representative, Zhang Hongmei, the Company’s Chief Accountant, and Zhang Keming, the Company’s Financial Manager hereby guarantee that the Financial Statements carried in this Report are factual, accurate and complete.

Except for the following directors, all the other directors attended in person the Board meeting for the review of this Report and its summary.

Name	Office title	Reason for not attending in person	Proxy entrusted to attend the meeting
Xu Zhinan	Director	For reason of work	Liu Zibin
Zeng Facheng	Director	For reason of work	Qin Guiling
Bi Xiuli	Independent Director	For reason of work	Xu Jianjun
Zhao Yao	Independent Director	For reason of work	Wang Xinyu

The Company has described in detail in this Report the possible risks. Please refer to the contents under the subheading “Risks Facing the Company and Countermeasures” in “Part IV Operating Performance Discussion and Analysis” of this Report. Securities Times, Shanghai Securities News, China Securities Journal, Ta Kung Pao (HK) and www.cninfo.com.cn have been designated by the Company for its information disclosure in 2018. And all information about the Company shall be subject to what’s disclosed by the Company on the aforesaid media. Investors are kindly reminded to pay attention to investment risks.

The Company has no interim dividend plan, either in the form of cash or stock.

This Report and its summary have been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese versions shall prevail.

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## Definitions

Term	Definition
The “Company”, “LTTC”, “Issuer” or “we”	Lu Thai Textile Co., Ltd. and its consolidated subsidiaries, except where the context otherwise requires
The Board of Directors	The Board of Directors of Lu Thai Textile Co., Ltd.
The Supervisory Committee	The Supervisory Committee of Lu Thai Textile Co., Ltd.
CSRC	The China Securities Regulatory Commission
RMB, RMB’0,000	Expressed in the Chinese currency of Renminbi, expressed in ten thousand 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”
The “Reporting Period” or “Current Period”	The period from 1 January 2018 to 30 June 2018

## Part II Corporate Information and Key Financial Information

### I Corporate Information

Stock name	LTTC, LTTC-B	Stock code	000726, 200726
Changed stock name (if any)	N/A		
Stock exchange for stock listing	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 Weiying and 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
Tel.	0533-5266188	0533-5285166
Fax	0533-5418805	0533-5418805
Email address	qinguilin@lttc.com.cn	wyzheng@lttc.com.cn, likun@lttc.com.cn

### III Other Information

#### 1. Contact Information of the Company

Indicate by tick mark whether any change occurred to the registered address, office address and their zip codes, website address and email address of the Company in the Reporting Period.

Applicable  Not applicable

No change occurred to the said information in the Reporting Period, which can be found in the 2017 Annual Report.

## 2. Media for Information Disclosure and Place where this Report is Kept

Indicate by tick mark whether any change occurred to the information disclosure media and the place for keeping the Company's periodic reports in the Reporting Period.

Applicable  Not applicable

The newspapers designated by the Company for information disclosure, the website designated by the CSRC for disclosing the Company's periodic reports and the place for keeping such reports did not change in the Reporting Period. The said information can be found in the 2017 Annual Report.

## IV Key Financial Information

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

Yes  No

Business combination under common control resulted in the retrospective restatements in the following table.

	H1 2018	H1 2017		Change (%)
		Before	Restated	Restated
Operating revenue (RMB)	3,281,014,155.43	2,990,459,696.43	2,997,093,395.84	9.47%
Net profit attributable to the listed company's shareholders (RMB)	377,355,959.02	393,069,981.55	395,130,296.26	-4.50%
Net profit attributable to the listed company's shareholders before exceptional items (RMB)	366,948,339.88	385,081,158.45	387,141,210.63	-5.22%
Net cash generated from/used in operating activities (RMB)	697,784,710.77	342,919,758.30	343,246,750.57	103.29%
Basic earnings per share (RMB/share)	0.41	0.43	0.43	-4.65%
Diluted earnings per share (RMB/share)	0.41	0.43	0.43	-4.65%
Weighted average return on equity (%)	5.13%	5.58%	5.58%	-0.45%
	30 June 2018	31 December 2017		Change (%)
		Before	Restated	Restated
Total assets (RMB)	10,233,390,492.09	10,170,624,027.75	10,170,624,027.75	0.62%
Equity attributable to the listed company's shareholders (RMB)	7,060,561,399.27	7,230,942,770.16	7,230,942,770.16	-2.36%

## V Accounting Data Differences under China's Accounting Standards for Business Enterprises (CAS) and International Financial Reporting Standards (IFRS) and Foreign Accounting Standards

### 1. Net Profit and Equity Differences under CAS and IFRS

Applicable  Not applicable

Unit: RMB

	Net profit attributable to the listed company's shareholders		Equity attributable to the listed company's shareholders	
	H1 2018	H1 2017	Ending amount	Beginning amount
Under CAS	377,355,959.02	395,130,296.26	7,060,561,399.27	7,230,942,770.16
Adjustments as per IFRS				
Effect of tax credit from homemade equipment purchases being recognized as deferred income under IFRS		164,500.00		
Under IFRS	377,355,959.02	395,294,796.26	7,060,561,399.27	7,230,942,770.16

### 2. Net Profit and Equity Differences under CAS and Foreign Accounting Standards

Applicable  Not applicable

No such differences for the Reporting Period.

### 3. Reasons for Accounting Data Differences Above

Applicable  Not applicable

## XI Exceptional Gains and Losses

Applicable  Not applicable

Unit: RMB

Item	Reporting Period	Note
Gain or loss on disposal of non-current assets (inclusive of impairment allowance write-offs)	-1,603,714.32	
Government subsidies charged to current profit or loss (exclusive of government subsidies given in the Company's ordinary course of business at fixed quotas or amounts as per government's uniform standards)	39,071,113.48	
Gain or loss on fair-value changes in trading financial assets and liabilities & investment income from disposal of trading financial assets and liabilities and available-for-sale financial assets (exclusive of effective portion of hedges that arise in the Company's ordinary course of business)	-22,104,388.63	

Non-operating income and expense other than above	2,097,576.54	
Less: Income tax effects	5,975,920.72	
Non-controlling interests effects (net of tax)	1,077,047.21	
Total	10,407,619.14	--

Explanation of why the Company classifies a gain/loss item as exceptional according to the definition in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Exceptional Gain/Loss Items, or reclassifies any exceptional item listed in the said explanatory announcement as recurrent:

Applicable  Not applicable

No such cases for the Reporting Period.



## Part III Business Summary

### I Core Business Scope of the Company in Reporting Period

Is the Company subject to any disclosure requirements for special industries?

No.

No changes occurred to the Company's core businesses, primary products, business models and major growth drivers in the Reporting Period.

Lu Thai has always adhered to its mission of "creating wealth, contributing to the society, clothing the world and weaving our way to every corner of the globe", as well as to its values of "people foremost policy, rigorous scientific attitude, client oriented principle and integrity for win-win outcome" for a long time. It is devoted to improving and expanding its industrial chain, making it a renowned textile and garment business group combing cotton growing, spinning, bleaching and dyeing, neatening, testing, garment making and marketing. Lu Thai produces and sells middle and high-grade yarn-dyed fabric and dyeing fabric for shirts and garment. It claimed its fame for its comprehensive management, R&D ability, advanced technology, international development plan and stable quality. Moreover, it also attaches great importance to improve the added value of its products, explore the emerging market and renew its service philosophy. With natural fabric as its flagship, multi-component functional fiber fabric as its spearhead and wash-and-wear non-ironing technology as its core competency, the Company kept a watchful eye on the latest consumption trend. Great attention was paid to improve its healthy product series so as to satisfy the needs from the diversified and personalized market.

Lu Thai has become the world's largest high-grade yarn dyed fabric producer and a world-class premium shirt provider. It had paved its development pattern featured in going green, low-carbon growth, science and technology and humanism. Its operation performance was always among the top comparing to its peers. 70% of Lu Thai's products are exported to over 30 countries and regions including America, the EU and Japan, of which more than 70% is under the Company's own brand. So far, the Company has taken up around 18% of the world market of yarn dyed fabric for medium- and high-end shirts.

### II Material Changes in Major Assets

#### 1. Material Changes in Major Assets

Major assets	Main reason for material changes
Construction in progress	The amount as at 30 June 2018 was RMB212,917,526.85, up 35.25% from the beginning amount, primarily driven by increased investments in Lu Thai Vietnam's second phase project and the construction projects of the Company as the parent.
Engineering materials	The amount as at 30 June 2018 was RMB152,136,560.03, up 167.31% from the beginning amount, primarily driven by a rise in Lu Thai Vietnam's equipment to be installed.

#### 2. Major Assets Overseas

Applicable  Not applicable

Asset	Formation	Asset size	Location	Operating model	Control measures to ensure asset safety	Earnings	In the Company's net assets (%)	Major impairment risk
Lu Thai (Hong Kong) Textile Co., Ltd.	Incorporated	149,581,052.94	Hong Kong	Marketing	Main management personnel sent by the Company as the parent	1,455,136.51	1.96%	None
Lu Thai (America) Textile Co., Ltd.	Incorporated	8,038,525.46	New York	Marketing	Main management personnel sent by the Company as the parent	-922,064.37	0.11%	None
Lu Thai (Cambodia) Textile Co., Ltd.	Incorporated	143,111,761.17	Svay Rieng	Manufacturing	Main management personnel sent by the Company as the parent	6,698,530.22	1.88%	None
Lu Thai (Burma) Textile Co., Ltd.	Incorporated	73,656,698.21	Rangoon	Manufacturing	Main management personnel sent by the Company as the parent	-708,600.57	0.97%	None
Lu Thai (Vietnam) Textile Co., Ltd.	Incorporated	1,437,372,805.22	Tay Ninh	Manufacturing	Main management personnel sent by the Company as the parent	40,012,706.19	18.87%	None
Lu An Garments Co., Ltd.	Incorporated	129,387,425.52	Anjiang, Vietnam	Manufacturing	Main management personnel sent by the Company as the parent	-2,713,164.81	1.70%	None

### III Core Competitiveness Analysis

Is the Company subject to any disclosure requirements for special industries?

No.

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-in draught 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 up gradation.

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.

## Part IV Operating Performance Discussion and Analysis

### I Overview

For the Reporting Period, the Company recorded operating revenue of RMB3,281 million, an operating profit of RMB452 million, a net profit attributable to the listed company's shareholders of RMB377 million and a net profit before exceptional items of RMB367 million, up 9.47%, -7.99%, -4.50% and -5.22% respectively from the same period of last year. No changes have occurred to the core businesses, the main profit sources and structure of the Company in this period.

During the Reporting Period, the Company continued to steadily promote "Improving Quality and Efficiency" and "Comprehensive Internationalization", maintaining the sound, stable and sustained development trend; made smooth progress in overseas projects and basically achieved the design expectation; initiated the establishment of the new retail platform Luthai•1987 based on the S2B2C mode and opened up online and offline OMO mode, enabling Luthai to better serve end customers together with its partners. The Company deepened its relationship with customers through proactive measures such as adjustment of product structure, integration of supply chains, design and development connection, brand cooperation, overseas expansion and e-commerce platforms and facing new characteristics and new demands of the market, kept improving product design concept and innovating service mode to satisfy customers' demands and market trend. During the Reporting Period, the Company was named as "2018 Top Twenty Enterprise of China Dyeing and Printing Industry" by CDPA, won the title of "China Quality Award for Textile Industry" granted by CNTAC, was ranked among the top 50 in the field of textile, garments, shoes and hats by China Council for Brand Development, was named as "2017 Top Ten Enterprise for Key Business Revenue in Yarn-Dyed Fabric Industry" and "2017 Top 100 Enterprise for Key Business Revenue in Cotton Textile Industry" by China Cotton Textile Association and as "Demonstration Enterprise of Social Responsibilities in Shandong".

During the Reporting Period, the Company intensified the building and training of its team of design talents and kept deepening the early-stage communication and cooperation with strategic customers in the design of fabrics and shirts, gaining favorable market response. The Company won the Award of Best Market Application for its works Modest Luxury • Distinctive Flowers in 2018 China International Fabrics Design Competition and appraising of 2019 Spring-Summer China Fashionable Fabrics. Luthai Textile won the title of "Fifth China Advanced Unit for Development of Textile Fabric Designers".

During the Reporting Period, the Company continued to persist in R&D investments, making new achievements in two national key R&D projects of the 13th Five-Year Plan as well as in the application of new materials, research of new fabrics, key technologies of new product development and research of equipment upgrading. As of the reporting period, the Company had been granted a total of 301 licensing patents, and 1 software copyright; and hosted or participated in the formulation of 40 national and industrial standards.

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 Core Businesses

Summary:

For the Reporting Period, operating revenue, cost of sales and administrative expense increased 9.47%, 15.08% and 3.77% respectively on a year-on-year basis; and selling expense, finance costs and income tax expense went down 2.08%, 1.31% and 20.36% respectively from a year earlier. Net cash generated from operating activities went up 103.29% mainly due to a rise in cash

proceeds from product sales. Net cash generated from investing activities dropped 90.13% mainly because of a rise in cash payments for fixed assets in the Current Period and the same period of last year seeing proceeds from selling marketable securities. Net cash generated from financing activities were down 74.51% mainly because of the payments for the B-stock repurchase programme. And net increase in cash and cash equivalents went up 91.18% mainly owing to a rise in net cash generated from operating activities.

Year-on-year changes in key financial data:

Unit: RMB

	H1 2018	H1 2017	Change (%)	Main reason for change
Operating revenue	3,281,014,155.43	2,997,093,395.84	9.47%	
Cost of sales	2,360,836,431.41	2,051,483,003.79	15.08%	
Selling expense	66,941,088.56	68,365,512.22	-2.08%	
Administrative expense	325,870,756.50	314,037,319.49	3.77%	
Finance costs	30,525,225.31	30,930,178.28	-1.31%	
Income tax expense	63,275,514.57	79,455,627.02	-20.36%	
R&D expense	162,596,245.80	158,802,502.01	2.39%	
Net cash generated from/used in operating activities	697,784,710.77	343,246,750.57	103.29%	A rise in cash proceeds from product sales
Net cash generated from/used in investing activities	-423,627,352.67	-222,814,977.08	-90.13%	A rise in cash payments for fixed assets in the Current Period and the same period of last year seeing proceeds from selling marketable securities
Net cash generated from/used in financing activities	-285,883,409.46	-163,823,565.09	-74.51%	Payments for the B-stock repurchase programme
Net increase in cash and cash equivalents	-5,067,323.02	-57,458,811.02	91.18%	A rise in net cash generated from operating activities

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

Applicable  Not applicable

No such changes in the Reporting Period.

Breakdown of core businesses:

Unit: RMB

	Operating revenue	Cost of sales	Gross profit margin	YoY change in operating revenue (%)	YoY change in cost of sales (%)	YoY change in gross profit margin (%)
By operating division						
Textile and apparel	2,921,119,883.93	2,058,587,657.40	29.53%	5.70%	11.01%	-3.36%
Cotton	101,088,256.72	93,918,390.99	7.09%	204.77%	208.99%	-1.27%
Electricity and	101,760,249.29	98,746,424.74	2.96%	62.49%	41.84%	14.12%

steam							
Other	37,033,179.78	35,574,083.44	3.94%	86.89%	135.64%	-19.87%	
By product category							
Fabric products	2,320,025,830.76	1,619,838,034.26	30.18%	8.28%	13.77%	-3.37%	
Shirts	601,094,053.17	438,749,623.14	27.01%	-3.19%	1.88%	-3.63%	
Cotton	101,088,256.72	93,918,390.99	7.09%	204.77%	208.99%	-1.27%	
Electricity and steam	101,760,249.29	98,746,424.74	2.96%	62.49%	41.84%	14.12%	
Other	37,033,179.78	35,574,083.44	3.94%	86.89%	135.64%	-19.87%	
By operating segment							
Hong Kong	184,569,814.29	129,348,144.91	29.92%	-8.43%	-3.72%	-3.43%	
Japan And South Korea	211,981,297.61	151,618,766.06	28.48%	-6.51%	-1.50%	-3.63%	
Southeast Asia	760,347,221.55	531,269,449.03	30.13%	25.33%	31.67%	-3.36%	
Europe and America	577,623,099.67	412,656,452.50	28.56%	-1.14%	3.63%	-3.29%	
Other	320,588,111.47	225,341,185.18	29.71%	-5.58%	-0.74%	-3.43%	
Mainland China	1,105,892,025.13	836,592,558.89	24.35%	20.16%	28.19%	-4.74%	

### III Non-Core Business Analysis

√ Applicable □ Not applicable

Unit: RMB

	Amount	In total profits (%)	Source/reason	Continuity
Investment gains	4,646,023.78	1.02%	Gains on delivery of financial assets (liabilities) such as forward exchange settlement, and losses on equities investment.	No
Gains/losses on fair value changes	-28,481,010.00	-6.28%	Losses on fair value changes of financial assets and financial liabilities	No
Asset impairment	2,121,494.84	0.47%	Losses on bad-debt provision for inventory	No
Non-operating revenue	3,011,072.58	0.66%	Claim for compensation	No
Non-operating expense	1,994,923.71	0.44%	Losses on damage and scrap of non-current assets	No

## IV Analysis of Assets and Liabilities

### 1. Material Changes in Asset Composition

Unit: RMB

	30 June 2018		30 June 2017		Change in percentage (%)	Reason for material change
	Value	As % of total assets	Value	As % of total assets		
Monetary funds	671,721,970.36	6.56%	601,918,539.58	6.27%	0.29%	
Accounts receivable	356,818,963.69	3.49%	284,403,883.10	2.96%	0.53%	
Inventories	2,017,424,627.73	19.71%	2,062,727,887.61	21.48%	-1.77%	
Investment property	23,856,705.69	0.23%	25,220,354.21	0.26%	-0.03%	
Long-term equity investment	95,806,134.43	0.94%		0.00%	0.94%	
Fixed assets	5,359,308,862.06	52.37%	5,182,031,627.12	53.96%	-1.59%	
Construction in progress	212,917,526.85	2.08%	267,448,802.45	2.78%	-0.70%	
Short-term borrowings	1,458,058,962.33	14.25%	1,170,346,491.12	12.19%	2.06%	
Long-term borrowings	69,431,359.47	0.68%	0.00	0.00%	0.68%	

### 2. Assets and Liabilities at Fair Value

√ Applicable □ Not applicable

Unit: RMB

Item	Beginning amount	Gain/loss on fair-value changes in Reporting Period	Cumulative fair-value changes charged to equity	Impairment allowance for Reporting Period	Purchased in Reporting Period	Sold in Reporting Period	Ending amount
Financial assets							
1. Financial assets at fair value through profit or loss (exclusive of derivatives)	0.00						
Subtotal of	0.00						

financial assets							
Total of above	0.00						0.00
Financial liabilities	0.00	-28,481,010.00					28,481,010.00

Material changes in the measurement attributes of the major assets in the Reporting Period:

Yes  No

### 3. Restricted Asset Rights as of End of the Reporting Period

Not applicable

## V Investments Made

### 1. Total Investments Made

Applicable  Not applicable

Investments made in the Reporting Period (RMB)	Investments made in same period of last year (RMB)	+/-%
0.00	0.00	0.00%

### 2. Significant Equity Investments Made in the Reporting Period

Applicable  Not applicable

### 3. Significant Non-Equity Investments Ongoing in the Reporting Period

Applicable  Not applicable

### 4. Financial Investments

#### (1) Securities Investments

Applicable  Not applicable

No such cases in the Reporting Period.

#### (2) Investments in Derivative Financial Instruments

Applicable  Not applicable

Unit: RMB'0,000

Operat or	Relati onship	Con nect	Type of derivative	Initial investment	Starting date	Ending date	Begin ning	Purchased in the	Sold in the Reporting	Impair ment	Ending investment	Proporti on of	Actual gain/lo
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	with the Comp any	ed trans action		amount			invest ment amount	Reporting Period	Period	provisi on (if any)	amount	closing investme nt amount in the Compan y's ending net assets	ss in the Report ing Period
Comm ercial bank	Non-c onnect ed	No	Forward exchange settlement	59,531.89	22 February 2018	25 January 2019	0	59,531.89	21,477.86		38,054.03	5.00%	68.43
Comm ercial bank	Non-c onnect ed	No	Foreign exchange option	219,775.64	30 Novemb er 2017	28 Decemb er 2018	19,800	199,975.64	134,129.87		85,645.77	11.24%	540.37
Comm ercial bank	Non-c onnect ed	No	Forward exchange transaction s	24,216.03	14 March 2018	7 Decemb er 2018	0	24,216.03	16,881		7,335.03	0.96%	24.92
Comm ercial bank	Non-c onnect ed	No	Foreign exchange swap	5,925.81	21 March 2018	11 April 2018	0	5,925.81	5,925.81		0		3.95
Total				309,449.37	--	--	19,800	289,649.37	178,414.54		131,034.83	17.20%	637.67
Capital source for derivative investment				Self-owned funds									
Lawsuit (if applicable)				Naught									
Disclosure date of board of directors announcement on approval of derivative investment (if any)				28 April 2017									
Disclosure date of general meeting of shareholders announcement on approval of 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,				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 market risk, liquidity risk and credit risk, operation risk and risk of laws and regulation. 1. Market risk: when the international and domestic economic situations change, the corresponding									

etc.)	<p>changes in exchange rates and interest rates may have an adverse impact on the financial derivatives transactions of the Company. Precautionary measures to be taken include: the Company chooses risk-controlled financial derivative tools with simple structure and good liquidity to carry out the hedging business, strictly controls the scale of financial derivatives trading by staged operations, and adjusts the strategy according to market changes in a timely manner.</p> <p>2. Liquidity risk and credit risk: a credit risk arising from failure of the contractually due Company or counterparty in performing the contract due to liquidity or factors other than liquidity. Precautionary measures to be taken include: the Company determines the upper limit of derivatives transaction amounts according to production and operation scale as well as foreign exchange income, and conducts operations by stage according to the budget of future collections and disbursement. The derivative trades are free of guarantee deposit and can still be guaranteed in performance after the contract expires by means of extension and balance settlement etc. to prevent the Company from credit damages due to lack of liquidity. The Company selects financial institutions with strong capability and good reputation as a counterparty and signs standard derivative trading contracts to strictly control credit risk of the counterparty.</p> <p>3. Operation risk:</p> <p>The derivatives had high specialty and complexity, so imperfect internal operation procedures, staffs and external events would make the Company to undertake risks during the transaction. Risk control measures: The Company promulgated strict authorization and approval system and perfect regulatory mechanism, fixed the 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 strengthening the professional ethics education and business training for them. Besides, it established the System of Reporting the Abnormal Situation Timely so as to ensure to lower the operation risks to the maximum.</p> <p>4. Risk of laws and regulation:</p> <p>The Company conducted derivatives products transaction in strict accordance with relevant laws and rules. 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. 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 transaction business. The Company conducted derivative transaction business 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 Transaction of Lu Thai Textile Co., Ltd. and the Proposal on the Plan of Lu Thai Textile Co., Ltd. for Derivative Transactions approved at the 7<sup>th</sup> Meeting of the 8<sup>th</sup> Board of Directors on 26 April 2017, and performed relevant information disclosure responsibilities.</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	<p>1. As of 30 June 2018, the Company held a total of 50 immature derivative contracts worth US\$204,285,800 in total, which were forward settlement of exchange, foreign exchange options portfolio and forward foreign exchange trading. The latest contract expiration date was January 2019. Financial derivatives occupied 17.20% of the net assets as at the period end.</p> <p>2. From January to June 2018, the total amount of the Company's matured financial derivatives was</p>

the specific use methods and the relevant assumptions and parameters.	US\$287,412,400, including an execution of US\$284,412,400 with the gains of RMB6,376,700 and an extension of US\$3 million. Of all the derivatives, the matured forward settlement of exchange was US\$33.5 million, which had been delivered in full with the gains of RMB684,300; the matured foreign exchange options was US\$219 million, including an execution of US\$216 million in accordance with the contracts with the gains of RMB5,403,700 and an extension of US\$3 million; the matured foreign exchange trading was US\$25,513,100, which had been delivered in full with the gains of RMB249,200; the matured foreign exchange swap was US\$9,399,300, which had been delivered in full with the gains of RMB39,500.
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	No significant changes
Specific opinion from independent directors on the Company's derivatives investment and risk control	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.

## VI Sale of Major Assets and Equity Interests

### 1. Sale of Major Assets

Applicable  Not applicable

No such cases in the Reporting Period.

### 2. Sale of Major Equity Interests

Applicable  Not applicable

## VII Main Controlled and Joint Stock Companies

Applicable  Not applicable

Main subsidiaries and joint stock companies with an over 10% influence on the Company's net profit

Unit: RMB

Company	Relation	Main busine	Registered	Total assets	Net assets	Operating	Operating	Net profit
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name	ship with the Company	ss scope	capital			revenues	profit	
Lu Thai (Vietnam) Textile Co., Ltd.	Subsidiary	Fabric	632,855,310.00	1,437,372,805.22	620,547,451.12	249,790,705.43	40,008,592.34	40,012,706.19

Subsidiaries obtained or disposed in the Reporting Period

Applicable  Not applicable

Particulars about the main controlled and joint stock companies:

Lu Thai (Vietnam) Co., Ltd. is a wholly-owned subsidiary of the Company established in Vietnam in 2015. With a total investment of US\$150 million, the subsidiary now has 60,000 spindles and a capacity of 30 million meters of yarn-dyed fabrics. The establishment of the subsidiary will give better play to the Company's technical experience and brand advantages in the yarn-dyed fabric industry, integrate domestic and foreign advantageous resources, effectively avoid the impact of potential trade barriers, increase the Company's internationalized production scale and maintain the Company's leading position in the global yarn-dyed fabric industry. As of the end of the Reporting Period, Lu Thai (Vietnam) Co., Ltd. had total assets of RMB1.437 billion and net assets of RMB621 million and achieved operating revenues of RMB250 million and net profits of RMB40 million. During the Reporting Period, the subsidiary achieved steady improvements in production and operation and synchronous growth of operating revenues and net profits. Currently, the introduction of the new 76,000-spinning production line to Phase II Spinning and the expansion of the annual capacity of 40 million meters of yarn-dyed fabrics are under construction as scheduled.

## VIII Structured Bodies Controlled by the Company

Applicable  Not applicable

## IX Performance Forecast for January-September 2018

Warning of possible loss or considerable YoY change in the accumulative net profit made during the period-beginning to the end of the next reporting period, as well as the reasons:

Applicable  Not applicable

## X Risks Facing the Company and Countermeasures

Risks that bring adverse impact to company development strategy and business objectives and countermeasures of the Company

(1) Economic environment: the world economy is getting better, but trade protectionism and economic policies of advanced economies, especially the uncertain risks of monetary policy, pose greater threats to the recovery of the world economy, producing a certain degree of uncertainty on the market environment that the Company faces. Meanwhile, the new development of China's economy shows more characteristics such as speed change, structural adjustment and dynamic changes. The economic trend is towards stability. To cope with these impacts, the Company will work hard to maintain the international market and develop the domestic market to balance development of domestic and foreign sales.

(2) Fluctuations in raw material prices: the raw cotton used by the Company is long-staple cotton, whose price is affected by many factors such as market supply and demand, climate, policies, exchange rates and quotas. Furthermore, with the development of environmental protection policies, the cost of dyeing auxiliaries also increased. Therefore, besides ensuring the stable supply of long-staple cotton by the subsidiary in Xinjiang, the Company must study the market dynamics to reduce the cost fluctuations due to changes in raw cotton price, and develop with the concept of green and environmental protection to meet environmental protection requirements.

(3) Exchange rate changes: at present and in the future, the Company will continue to sell its products mainly in the international market for a long period of time, and US dollars will account for a relatively larger portion in sales revenue. In addition, the main machinery and equipment and some of its raw materials of the Company are also imported. The foreign currencies payment for imports includes US dollar and other currencies. Moreover, the commissioning of the Company's overseas production base and subsequent expansion of investment will increase the use of US dollar. Therefore, the Company will still be sensitive to the impact of exchange rate changes.

In order to reduce adverse influence of exchange rate fluctuation, the Company adopted the following measures: firstly, the Company conducted foreign exchange hedging, using forward FX sales and purchase, forward foreign exchange trading and option portfolios to avoid some risks Secondly, the Company made reasonable arrangement on settlement day and currency structure and conclusion of agreements on fixed foreign exchange rate to avoid exchange rate-related risks. Thirdly, the Company adjusted the Renminbi and foreign-currency liabilities structure to control financial costs. Fourthly, according to the fluctuation trend of exchange rates, the Company properly adjusted imports of raw and auxiliary materials to partially offset the influence of exchange rate fluctuations on the Company.

## Part V Significant Events

### I Annual and Extraordinary General Meeting Convened during the Reporting Period

#### 1. General Meeting Convened during the Reporting Period

Meeting	Type	Investor participation ratio	Convened date	Disclosure date	Index to disclosed information
The 1 <sup>st</sup> Extraordinary General Meeting of 2018	Extraordinary General Meeting	0.00%	8 February 2018	9 February 2018	Announcement of Resolution (No. 2018-007) published on Securities Times, China Securities Journal, Shanghai Securities News, and Hong Kong Ta Kung Pao and <a href="http://www.cninfo.co">http://www.cninfo.co</a> on 9 February 2018.
The 2 <sup>nd</sup> Extraordinary General Meeting of 2018	Extraordinary General Meeting	0.00%	23 March 2018	24 March 2018	Announcement of Resolution (No. 2018-013) published on Securities Times, China Securities Journal, Shanghai Securities News, and Hong Kong Ta Kung Pao and <a href="http://www.cninfo.co">http://www.cninfo.co</a> on 24 March 2018.
The 2017 Annual General Meeting	Annual General Meeting	0.00%	16 May 2018	17 May 2018	Announcement of Resolution (No. 2018-025) published on Securities Times, China Securities Journal, Shanghai Securities News, and Hong Kong Ta Kung Pao and <a href="http://www.cninfo.co">http://www.cninfo.co</a> on 17 May 2018.

#### 2. Extraordinary General Meeting Convened at Request of Preference Shareholders with Resumed Voting Rights

##### Rights

Applicable  Not applicable

### II Interim Dividend Plan for the Reporting Period

Applicable  Not applicable

The Company has no interim dividend plan.

### **III Commitments of the Company's Actual Controller, Shareholders, Connected Parties and Acquirer, as well as the Company and Other Commitment Makers, Fulfilled in the Reporting Period or still Ongoing at Period-End**

Applicable  Not applicable

The Company has no interim dividend plan.

### **IV Engagement and Disengagement of CPAs Firm**

Has the Interim financial report been audited?

Yes  No

This Interim Report is unaudited.

### **V Explanations Given by Board of Directors and Supervisory Committee Regarding "Modified Auditor's Report" Issued by CPAs Firm for the Reporting Period**

Applicable  Not applicable

### **VI Explanations Given by Board of Directors Regarding "Modified Auditor's Report" Issued for Last Year**

Applicable  Not applicable

### **VII Bankruptcy and Restructuring**

Applicable  Not applicable

No such cases in the Reporting Period.

### **VIII Legal Matters**

Significant lawsuits or arbitrations:

Applicable  Not applicable

No such cases in the Reporting Period.

Other legal matters:

Applicable  Not applicable

## **IX Punishments and Rectifications**

Applicable  Not applicable

No such cases in the Reporting Period.

## **X Credit Conditions of the Company as well as its Controlling Shareholder and Actual Controller**

Applicable  Not applicable

## **XI Equity Incentive Plans, Employee Stock Ownership Plans or Other Incentive Measures for Employees**

Applicable  Not applicable

No such cases in the Reporting Period.

## **XII Significant Connected Transactions**

### **1. Connected Transactions Relevant to Routine Operations**

Applicable  Not applicable

No such cases in the Reporting Period.

### **2. Connected Transactions Regarding Purchase or Sales of Assets or Equity Interests**

Applicable  Not applicable

No such cases in the Reporting Period.

### **3. Connected Transactions Regarding Joint Investments in Third Parties**

Applicable  Not applicable

No such cases in the Reporting Period.

### **4. Credits and Liabilities with Connected Parties**

Applicable  Not applicable

No such cases in the Reporting Period.



## 5. Other Significant Connected Transactions

Applicable  Not applicable

No such cases in the Reporting Period.

## XIII. Particulars about the Non-operating Occupation of Funds by the Controlling Shareholder and Other Connected 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 connected parties during the Reporting Period.

## XIV. Significant Contracts and Execution

### 1. Entrustment, Contracting and Leasing

#### (1) Entrustment

Applicable  Not applicable

No such cases in the Reporting Period.

#### (2) Contracting

Applicable  Not applicable

No such cases in the Reporting Period.

#### (3) Leasing

Applicable  Not applicable

No such cases in the Reporting Period.

### 2. Significant Guarantees

Applicable  Not applicable

#### (1) Guarantees

Unit: RMB'0,000

Guarantees provided by the Company for external parties (excluding those for subsidiaries)
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Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a connected party or not
Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a connected party or not
Lu Thai (Vietnam) Textile Co., Ltd.	25 January 2017	6,534.2	20 January 2017	532.94	Guarantee of joint and several liability	Two years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam) Textile Co., Ltd.	25 January 2017	5,227.36	20 January 2017		Guarantee of joint and several liability	Two years since the approval of the board of the Company	No	Yes
Lu An Garments Co., Ltd.	25 January 2017	3,920.52	20 January 2017		Guarantee of joint and several liability	Two years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam) Textile Co., Ltd.	25 January 2017	26,790.22	20 January 2017	7,389.65	Guarantee of joint and several liability	Five years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam) Textile Co., Ltd.	25 January 2017	19,602.6	20 January 2017		Guarantee of joint and several liability	Two years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam) Textile Co., Ltd. / Lu An Garments Co., Ltd.	25 January 2017	6,534.2	20 January 2017	3,701.28	Guarantee of joint and several liability	Two years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam)	25 January 2017	17,969.05	20 January 2017	7,259.53	Guarantee of joint and several	Five years since the approval of the	No	Yes

Textile Co., Ltd.					liability	board of the Company		
Xinjiang Lu Thai Harvest Cotton Co., Ltd.	14 October 2017	15,000	12 October 2017	10,000	Guarantee of joint and several liability	Three years since the approval of the board of the Company	No	Yes
Lu Thai (Vietnam) Textile Co., Ltd.	27 October 2017	67,955.68	25 October 2017	14,756.08	Guarantee of joint and several liability	Five years since the approval of the board of the Company	No	Yes
Total amount of approved guarantee for subsidiaries during the Reporting Period (B1)				0	Total amount of actual guarantee for subsidiaries during the Reporting Period (B2)	43,488.64		
Total amount of approved guarantee for subsidiaries at the end of the Reporting Period (B3)				169,533.83	Total amount of actual guarantee for subsidiaries at the end of the Reporting Period (B4)	43,639.48		
Guarantees provided by subsidiaries for subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a connected party or not
Xinjiang Lu Thai Textile Co., Ltd.	14 October 2017	30,000	12 October 2017	20,000	Guarantee of joint and several liability	12 months	No	Yes
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)	20,000		
Total guarantee line that has been approved for the subsidiaries at the end of the Reporting Period (C3)				30,000	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)				0	Total actual occurred amount of guarantee during the Reporting Period (A2+B2+C2)	63,488.64		
Total guarantee line that has been approved at the end of the Reporting				199,533.83	Total actual guarantee balance at the end of the Reporting	63,639.48		

Period (A3+B3+C3)	Period (A4+B4+C4)
Proportion of total guarantee amount (A4+B4+C4) to the net assets of the Company	9.01%
Of which:	
Amount of guarantee provide for shareholders, actual controller and related parties (D)	0
Amount of guarantee provided directly or indirectly for guarantee objects with asset-liability ratio reaching over 70% (E)	0
Balance between 50% of net assets and total amount of guarantee which exceeds 50% of net assets (F)	30,000
Sum total of the above three guaranteed amounts (D+E+F)	30,000
Explanation on possible bearing joint responsibility of liquidation due to immature guarantee (if any)	According to "Agreement on Counter Guarantee" signed on 12 October 2017 between Lu Thai Company and Xinjiang Lu Thai Company, Xinjiang Lu Thai Company, the warrantee Xinjiang Lu Thai Company provided the corresponding amount of counter guarantee for Lu Thai Company.
Explanation about external guarantee violating established procedure (if any)	The Company never provided guarantees for companies except controlling subsidiaries.

Notes for details about guarantee by complex method

## (2) Illegal Provision of Guarantees for External Parties

Applicable  Not applicable

No such cases in the Reporting Period.

## 3. Other Significant Contracts

Applicable  Not applicable

No such cases in the Reporting Period.

## XV. Social Responsibilities

### 1. Significant Environment Protection

Indicate by tick mark whether the Company or any of its subsidiaries is a heavily polluting business identified by the environmental protection authorities of China

Name of the Company or its	Name of main pollutants	Emission method	Number of discharge	Distribution of discharge	Emission concentration	Carried emission standard of pollutants	Total emission	Verified total emission	Excessive emission

subsidiaries	and characteristics		e outlet	outlet					n
Lu Thai Textile Co., Ltd	COD and ammonia nitrogen	Continuous discharge	2	Huangjiapu Industrial Park; East Zone Industrial Park	COD≤165mg/L; ammonia nitrogen≤10mg/L	Emission standard of water pollutants in textile dyeing and finishing industry: GB 4287-2012	COD is 330.82t, and ammonia nitrogen is 19.89t	COD is 1495.08t, and ammonia nitrogen is 149.51t	Naught
Lufeng Weaving & Dyeing Co., Ltd.	COD and ammonia nitrogen	Continuous discharge	1	Lufeng chief discharge outlet	COD≤135mg/L; ammonia nitrogen≤3mg/L	Emission standard of water pollutants in textile dyeing and finishing industry: GB 4287-2012	COD is 162t, and ammonia nitrogen is 3.03t	COD is 575.985t, and ammonia nitrogen is 57.6t	Naught
Zibo Xinsheng Thermal Power Co., Ltd.	SO <sub>2</sub> , NQx, and smoke	Continuous discharge	4	Production plant of Xinsheng Thermal Power	SO <sub>2</sub> : ≤35mg/m <sup>3</sup> , NQx: ≤100(50)mg/m <sup>3</sup> , and smoke≤10(5)mg/m <sup>3</sup>	Ultra-low emission No. 2 modification list LZJBF (2016) No. 46 of Emission standard of air pollutants of Thermal Power Plant in Shandong Province	The first half year of 2018: SO <sub>2</sub> is 27.65t, NQx is 145.37t, and smoke is 4.97t	SO <sub>2</sub> is 286.01t/a, NQx is 817.18t/a, and smoke is 81.72t/a.	Naught
Lu Thai (Vietnam) Textile Co., Ltd.	Sewage	Discharge into sewage plant in the park district after treatment	1	Beside sewage plant	/	QCVN40: 2011/BTNMT	Sewage: 309,200t	/	Naught
Lu Thai (Vietnam) Textile Co., Ltd.	Exhaust gas	Direct discharge after treatment	2	Beside boiler room	/	QCVN19: 2009/BTNMT	Exhaust gas: 95 million m <sup>3</sup>	/	Naught

## Construction of pollution prevention equipment and operation condition

Lu Thai Textile Co., Ltd. and its majority-owned subsidiary Lufeng Weaving & Dyeing Co., Ltd. strictly implement the "Three Simultaneous" management system for environmental protection in project constructions. The companies are equipped with complete facilities for waste gas and waste water treatment. In 2018, Lu Thai Textile Co., Ltd. and its majority-owned subsidiary Lufeng

Weaving & Dyeing Co., Ltd. carried out the waste water treatment system transformation project to improve the treated water quality by systematic and comprehensive reform, further improving the river water quality and local ecological environment. The newly added online monitoring devices for total phosphorus and total nitrogen in 2018 monitor and detect the pollutants discharge index comprehensively. Support teams were set up to be responsible for daily operation maintenance and inspection to guarantee the normal operation of facilities. Both the exhaust emission and waste water discharge meet the emission standards.

The wholly-owned subsidiary Zibo Xinsheng Thermal Power Co., Ltd. enforces the "Three Simultaneous" management system for environmental protection in extension project construction in accordance with the government requirements, and adopts the "limestone-gypsum method" to reduce emission concentration of sulfur dioxide, the "SNCR+SCR method" to reduce emission concentration of nitrogen oxides, and the "five-field electrostatic precipitator + wet electrostatic precipitator" to reduce soot emission concentration. The overall system works well.

The waste water treatment project of the wholly-owned subsidiary Lu Thai (Vietnam) Textile Co., Ltd. is designed to treat 3,000 tons of sewage water daily. The Company adopts a comprehensive treatment process of "pre-materialization + A2O biochemistry + post-materialization + ozone oxidation" for waste water treatment, and the treated water quality is better than the QCVN 40:2011/BTNMT A-level emission standards stipulated by the Vietnam government. The treated waste water is all discharged to the waste water treatment station in the park. Treated water quality analysis for January to June 2018: The COD (mean value) was 47.73 mg/L, the chrominance (mean value) was 44.4, the ammonia nitrogen (mean value) was 1.4 mg/L, and the total phosphorus (mean value) was 0.13 mg/L. All the parameters met the A-level emission standards set in the "Regulations on Parameters of Industrial Drainage in Vietnam" (QCVN40:2011/BTNMT). Waste water discharge in the whole year met the standards without violation. The total amount of waste water discharged in January to June 2018 was 309,200 tons, among which, the chemical oxygen demand (COD) was 14.758 tons, ammonia nitrogen (NH<sub>3</sub>-N) was 432.88 kg and total phosphorus (TP) was 40.196 kg. The Company is equipped with multi-pipe and water film dust-separation devices to process the exhaust gas discharged from boilers of the Company. From January to June 2018, all the equipment was in normal operation, and the exhaust gas inspection parameters were lower than the QCVN19:2009/BTNMT emission standards set by Vietnam government. From January to June 2018, the total amount of sulfur dioxide emissions was 34.2 tons, and the total amount of nitrogen oxides emissions was 58.14 tons.

#### Project Environmental Impact Assessment and Other Administrative Permission for Environmental Protection

In 2018, the environmental assessment project for technical upgrading of high-grade printed fabric production line of the majority-owned subsidiary Lufeng Weaving & Dyeing Co., Ltd. has been approved and entered the trial operation stage while the trial operation stage of the environmental assessment project for high-grade grey fabric production line has been completed and is ready to enter the acceptance stage; the liquid membrane separation of dyeing waste water and treatment station comprehensive upgrading projects have entered the commissioning stage. The wholly-owned subsidiary Zibo Xinsheng Thermal Power Co., Ltd. got the "Approval of Environmental Impact Assessment Report of the Environmental Protection Department of Shandong Province on the Extension Project of Zibo Xinsheng Thermal Power Co., Ltd." (LHS [2015] No. 241) in accordance with the regulations, and the first phase of the project was put into trial operation at the end of 2017. The completion acceptance of the environmental protection project for the spinning and dyeing zone of the wholly-owned subsidiary Lu Thai (Vietnam) Co., Ltd. has been recognized, and the EIA report for the spinning and dyeing industrial park Phase II is under application.

#### Emergency plan for environmental incidents

The head office and factories in eastern district of Lu Thai Textile Co., Ltd., and its majority-owned subsidiary Lufeng Weaving & Dyeing Co., Ltd. prepared the Emergency Plan for Environmental Incidents, which was filed with Zibo Environmental Protection Bureau Xichuan Branch. The wholly-owned subsidiary Zibo Xinsheng Thermal Power Co., Ltd. has formulated the "Emergency Plan for Environmental Incidents" and filed it with the environmental protection management department. The identification and risk assessment of environmental risk sources, prevention and early warning mechanisms, emergency protection and supervision and management were included in the plan. The wholly-owned subsidiary Lu Thai (Vietnam) Co., Ltd. has prepared emergency plans for different environmental incidents to reduce their impacts.

#### Environmental self-monitoring program

In accordance with the requirements of environmental protection authorities, Lu Thai Textile Co., Ltd. formulates environmental self-testing plan for the following year in December of each year, and implements the self-monitoring plan to submit data to Zibo Automatic Environmental Monitoring System. The wholly-owned subsidiary Zibo Xinsheng Thermal Power Co., Ltd. complies with the requirements of superior environmental protection authorities to meet discharge standards by online real-time monitoring of environmental protection data. The wholly-owned subsidiary Lu Thai (Vietnam) Co., Ltd. installed an on-line monitoring device for real-time treated water quality monitoring. In addition, the Company invites external qualified testing organizations to carry out inspections on waste water, sludge and exhaust gas every quarter, and provides reports to environmental inspection departments.

Other environment information that should be disclosed

No

Other related environment protection information

No

## **2. Targeted Measures Taken to Help People Lift themselves out of Poverty**

The Company didn't conduct any targeted anti-poverty projects temporarily in the Reporting Period, no subsequent plan for targeted anti-poverty also.

## **XIX Other Significant Events**

Applicable  Not applicable

The Company implemented the project of repurchasing part of B shares in the Reporting Period. As of 30 June 2018, the Company had accumulatively repurchased 17,674,849 shares, accounting for 1.9158% of total share capital. For details, see relevant announcement about the repurchase of B shares.

## **XVII. Significant Events of Subsidiaries**

Applicable  Not applicable

## Part VI Share Changes and Shareholder Information

### I. Share Changes

#### 1. Share Changes

Unit: share

	Before		Increase/decrease (+/-)					After	
	Number	Percentage (%)	New issues	Bonus shares	Bonus issue from profit	Other	Subtotal	Number	Percentage (%)
I. Shares subject to trading moratorium	119,079,944	12.91%				264,499	264,499	119,344,443	12.94%
3. Other domestic shares	847,544	0.09%				264,499	264,499	1,112,043	0.12%
Shares held by domestic individuals	847,544	0.09%				264,499	264,499	1,112,043	0.12%
4. Shares held by overseas shareholders	118,232,400	12.82%						118,232,400	12.82%
Including: Shares held by overseas legal persons	118,232,400	12.82%						118,232,400	12.82%
II. Shares not subject to trading moratorium	803,522,367	87.09%				-264,499	-264,499	803,257,868	87.06%
1. RMB ordinary shares	561,150,431	60.82%				-186,725	-186,725	560,963,706	60.80%
2. Domestically listed foreign shares	242,371,936	26.27%				-77,774	-77,774	242,294,162	26.26%
III. Total of shares	922,602,311	100.00%				0	0	922,602,311	100.00%

Reasons for the share changes

 Applicable  Not applicable

Due to the changes of locked shares from the resignation of some supervisors and senior executives, the “limited sales condition shares-domestic natural person holding” of the Company increased 264,499 shares.

Approval of share changes

 Applicable  Not applicable

Transfer of share ownership

 Applicable  Not applicable

Effects of share changes on the basic EPS, diluted EPS, net assets per share attributable to common shareholders of the Company and



other financial indexes over the prior year and the prior period

Applicable  Not applicable

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

Applicable  Not applicable

## 2. Changes in Restricted Shares

Applicable  Not applicable

## II. Issuance and Listing of Securities

Applicable  Not applicable

## III. Total Number of Shareholders and Their Shareholdings

Unit: share

Total number of ordinary shareholders at the period-end	57,783		Total number of preference shareholders with resumed voting rights at the period-end (if any) (see Note 8)	0				
5% or greater ordinary shareholders or the top 10 ordinary shareholders								
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total shares held at the period-end	Increase/decrease during the Reporting Period	Number of restricted shares held	Number of non-restricted shares held	Pledged or frozen shares	
							Status	Number
Zibo Lucheng Textile Investment Co., Ltd.	Domestic non-state-owned legal person	15.21%	140,353,583	0	0	140,353,583		
Tailun (Thailand) Textile Co., Ltd.	Foreign legal person	12.82%	118,232,400	0	118,232,400	0		
Hong Kong Securities Clearing Co. Ltd	Foreign legal person	3.32%	30,593,555	12,767,400	0	30,593,555		
Central Huijin Assets Management Co., Ltd.	State-owned legal person	2.20%	20,315,300	0	0	20,315,300		
T.Rowe Price Intl Discovery Fund	Foreign legal person	2.16%	19,948,219	0	0	19,948,219		
China Securities Finance Corporation Limited	Domestic non-state-owned legal person	1.70%	15,679,091	0	0	15,679,091		

	person							
Hong Kong Monetary Authority-self-owned funds	Foreign legal person	1.25%	11,540,893	3,126,256	0	11,540,893		
National Social Security Fund Portfolio 103	Other	0.87%	7,999,947	7,999,947	0	7,999,947		
Hua'an New Silk Road Theme Equity Securities Investment Fund	Other	0.83%	7,650,000	-3,340,000	0	7,650,000		
Bosera Selected Mixed Securities Investment Fund	Other	0.81%	7,500,000	7,500,000	0	7,500,000		
Strategic investors or general corporations becoming top-ten shareholders due to placing of new shares (if any) (see Note 3)	Naught							
Connected or acting-in-concert parties among the shareholders above	Zibo Lucheng Textile Investment Co., Ltd. is the largest shareholder and the actual controller of the Company. Tailun (Thailand) Textile Co., Ltd. is the second largest shareholder and the foreign sponsor of the Company. All the other shareholders are holding tradable A-shares or B-shares. And it is unknown whether there is any related party or acting-in-concert party among them.							
Shareholdings of the top ten non-restricted ordinary shareholders								
Name of shareholder	Number of non-restricted shares held at the period-end	Type of shares		Number				
		Type	Number					
Zibo Lucheng Textile Investment Co., Ltd.	140,353,583	RMB share	ordinary	140,353,583				
Hong Kong Securities Clearing Co. Ltd	30,593,555	RMB share	ordinary	30,593,555				
Central Huijin Assets Management Co., Ltd.	20,315,300	RMB share	ordinary	20,315,300				
T.Rowe Price Intl Discovery Fund	19,948,219	Domestically listed share	foreign	19,948,219				
China Securities Finance Corporation Limited	15,679,091	RMB share	ordinary	15,679,091				
Hong Kong Monetary Authority-self-owned funds	11,540,893	RMB share	ordinary	11,540,893				
National Social Security Fund Portfolio 103	7,999,947	RMB share	ordinary	7,999,947				

Hua'an New Silk Road Theme Equity Securities Investment Fund	7,650,000	RMB ordinary share	7,650,000
Bosera Selected Mixed Securities Investment Fund	7,500,000	RMB ordinary share	7,500,000
Foreningen AP Invest F.M.B.A.	6,879,562	Domestically listed foreign share	6,879,562
Explanation on connected 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 and the actual controller of the Company. Tailun (Thailand) Textile Co., Ltd. is the second largest shareholder and the foreign sponsor of the Company. All the other shareholders are holding tradable A-shares or B-shares. And it is unknown whether there is any related party or acting-in-concert party among them.		
Particular about shareholder participate in the securities lending and borrowing business (if any) (note 4)	Naught		

Indicate by tick mark whether any of the top ten common shareholders or the top ten non-restricted common shareholders of the Company conducted any promissory repo during the Reporting Period.

Yea  No

No such cases in the Reporting Period.

#### IV. Change of the Controlling Shareholder or the Actual Controller

Change of the controlling shareholder in the Reporting Period

Applicable  Not applicable

There was no any change of the controlling shareholder of the Company in the Reporting Period.

Change of the actual controller in the Reporting Period

Applicable  Not applicable

There was no any change of the actual controller of the Company in the Reporting Period.

## Part VII Preferred Shares

Applicable  Not applicable

No preferred shares in the Reporting Period.

## Part VIII Directors, Supervisors and Senior Management

### I Changes in Shareholdings of Directors, Supervisors and Senior Management

Applicable  Not applicable

Name	Office title	Incumbent/for mer	Beginning shareholding (share)	Increase in the Current Period (share)	Decrease in the Current Period (share)	Ending shareholding (share)	Number of granted restricted shares at the period-begin (share)	Number of restricted shares granted in the Current Period (share)	Number of granted restricted shares at the period-end (share)
Liu Zibin	Chairman and GM	Current	148,290			148,290			
Xu Zhinan	Vice President	Current							
Fujiwara Hidetoshi	Director	Current							
Chen Ruimou	Director	Current							
Zeng Facheng	Director	Current							
Wang Fangshui	Director, Vice GM, and Chief Engineer	Current	146,753			146,753			
Liu Deming	Director	Current							
Qin Guiling	Director and Secretary of the Board	Current	126,542			126,542			
Zhang Hongmei	Director and 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							
Zhang Shougang	Supervisory Committee Chairman	Current	73,100			73,100			
Liu Zilong	Supervisor	Current	10,000			10,000			
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 Zhanqi	Vice GM, GM of Lufeng Company	Current	80,300			80,300			
Fujiwara Matsuzaka	Manager of Japan Office	Current							
Zhang Keming	Financial Manager	Current	77,700			77,700			
Li Wenji	CIO	Current	10,000			10,000			
Pan Pingli	Customs Manager	Former	134,296			134,296			
Lv Yongchen	Vice GM of Lufeng Company	Current	33,750			33,750			
Yu Shouzheng	Energy Business Manager	Current	83,100			83,100			
Wang Changzhao	GM assistant, Fabric Marketing Manager	Current	22,500			22,500			

Quan Peng	Brand Marketing manager	Current	27,750			27,750			
Shang Chenggan	Manager of Garments Production Department	Current	30,000			30,000			
Du Lixin	GM of Lu Thai (Vietnam)	Current							
Guo Heng	Manager of Business Management	Current							
Zhang Wei	GM assistant and Manager of Strategy Planning Department	Current							
Li Tongmin	Supervisory Committee Chairman	Former	176,164			176,164			
Total	--	--	1,413,595	0	0	1,413,595	0	0	0

## II Changes in Directors, Supervisors and Executive Officers

√ Applicable □ Not applicable

Name	Position	Type	Date	Reason
Li Tongmin	Supervisory Committee Chairman	Left	18 January 2018	Retired
Qin Guiling	Vice GM	Dismissed	18 January 2018	Job turnover
Zhang Shougang	Vice GM	Dismissed	18 January 2018	Job turnover
Zhang Shougang	Supervisory Committee Chairman	Elected	8 February 2018	
Pan Pingli	Customs Manager	Dismissed	18 January 2018	Job turnover
Du Lixin	GM of Lu Thai (Vietnam)	Employed	18 January 2018	
Guo Heng	Manager of Business Management	Employed	18 January 2018	
Zhang Wei	GM assistant and Manager of Strategy Planning Department	Employed	18 January 2018	

## **Part IX Corporate Bonds**

Are there any corporate bonds publicly offered and listed on the stock exchange, which were undue before the approval date of this Report or were due but could not be redeemed in full?

No

## Part X Financial Report

### I. Auditor's Report

Whether the interim report has been audited?

Yes  No

The interim report of the Company has not been audited.

### II. Financial Statements

The unit of the financial statements attached: RMB

#### 1. Consolidated Balance Sheet

Prepared by Lu Thai Textile Co., Ltd.

30 June 2018

Unit: RMB

Item	30 June 2018	31 December 2017
Current assets:		
Monetary assets	671,721,970.36	693,989,293.38
Derivative financial assets		
Notes receivable	115,709,268.88	139,276,742.34
Accounts receivable	356,818,963.69	334,080,524.05
Prepayments	134,524,113.79	146,463,066.38
Interest receivable	874,571.14	590,003.07
Dividends receivable		
Other receivables	76,480,721.09	56,182,782.04
Financial assets purchased under resale agreements		
Inventories	2,017,424,627.73	2,100,661,221.93
Assets classified as held for sale		
Current portion of non-current assets		
Other current assets	150,806,143.77	118,588,703.34
Total current assets	3,524,360,380.45	3,589,832,336.53
Non-current assets:		



Available-for-sale financial assets	85,733,000.00	84,533,000.00
Held-to-maturity investments		
Long-term receivables	650,000.00	
Long-term equity investments	95,806,134.43	97,536,732.02
Investment property	23,856,705.69	24,563,544.58
Fixed assets	5,359,308,862.06	5,421,295,850.03
Construction in progress	212,917,526.85	157,421,820.68
Engineering materials	152,136,560.03	56,913,806.06
Proceeds from disposal of fixed assets		
Productive living assets		
Intangible assets	491,291,914.65	498,948,301.48
R&D expense		
Goodwill	20,613,803.29	20,613,803.29
Long-term prepaid expense	110,885,589.66	107,877,194.52
Deferred income tax assets	75,315,743.25	74,697,159.71
Other non-current assets	80,514,271.73	36,390,478.85
Total non-current assets	6,709,030,111.64	6,580,791,691.22
Total assets	10,233,390,492.09	10,170,624,027.75
Current liabilities:		
Short-term borrowings	1,458,058,962.33	1,135,124,996.40
Financial liabilities at fair value through profit or loss	28,481,010.00	
Derivative financial liabilities		
Notes payable	3,118,556.78	7,301,771.85
Accounts payable	283,653,868.64	366,265,132.65
Advances from customers	99,307,372.64	119,785,945.48
Financial assets sold under repurchase agreements		
Handling charges and commissions payable		
Payroll payable	246,282,564.04	316,836,488.95
Taxes payable	42,752,421.70	33,055,090.58
Interest payable	2,079,744.07	1,572,231.86
Dividends payable	441,113.64	441,113.64
Other payables	157,412,933.90	127,090,009.25
Liabilities directly associated with assets classified as held for sale		
Current portion of non-current liabilities		62,750,292.49

Other current liabilities		
Total current liabilities	2,321,588,547.74	2,170,223,073.15
Non-current liabilities:		
Long-term borrowings	69,431,359.47	
Long-term payables		
Long-term payroll payable	92,458,178.53	93,843,473.02
Specific payables		
Provisions		
Deferred income	126,957,174.18	126,737,092.32
Deferred income tax liabilities	3,112,735.33	2,904,899.46
Other non-current liabilities	1,840,000.00	1,840,000.00
Total non-current liabilities	293,799,447.51	225,325,464.80
Total liabilities	2,615,387,995.25	2,395,548,537.95
Owners' equity:		
Share capital	922,602,311.00	922,602,311.00
Capital reserves	699,493,647.48	699,493,593.82
Less: Treasury shares	121,952,709.49	
Other comprehensive income	44,370,228.14	16,810,574.22
Specific reserve		
Surplus reserves	962,933,579.06	962,933,579.06
General reserve		
Retained profits	4,553,114,343.08	4,629,102,712.06
Total equity attributable to owners of the Company as the parent	7,060,561,399.27	7,230,942,770.16
Non-controlling interests	557,441,097.57	544,132,719.64
Total owners' equity	7,618,002,496.84	7,775,075,489.80
Total liabilities and owners' equity	10,233,390,492.09	10,170,624,027.75

Legal representative: Liu Zibin

Chief Accountant: Zhang Hongmei

Financial Manager: Zhang Keming

## 2. Balance Sheet of the Company as the Parent

Unit: RMB

Item	30 June 2018	31 December 2017
Current assets:		
Monetary assets	155,738,414.91	267,809,829.78

Financial assets at fair value through profit or loss		
Derivative financial assets		
Notes receivable	73,448,876.87	93,244,480.81
Accounts receivable	283,715,100.32	305,903,590.98
Prepayments	48,847,481.49	81,471,605.69
Interest receivable		220,590.38
Dividends receivable		
Other receivables	442,255,215.86	519,788,239.57
Inventories	1,167,143,139.52	1,164,055,145.96
Assets classified as held for sale		
Current portion of non-current assets		
Other current assets	104,977,154.77	53,657,308.33
Total current assets	2,276,125,383.74	2,486,150,791.50
Non-current assets:		
Available-for-sale financial assets	73,733,000.00	72,533,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	2,165,499,250.47	1,816,493,348.06
Investment property	15,170,780.40	15,536,968.08
Fixed assets	2,665,189,699.04	2,811,046,847.91
Construction in progress	71,255,813.53	25,703,496.87
Engineering materials	21,630,265.23	1,609,204.75
Proceeds from disposal of fixed assets		
Productive living assets		
Intangible assets	245,840,436.86	249,994,817.83
R&D expense		
Goodwill		
Long-term prepaid expense		
Deferred income tax assets	45,569,866.60	51,474,007.76
Other non-current assets	14,937,345.52	27,077,391.31
Total non-current assets	5,318,826,457.65	5,071,469,082.57
Total assets	7,594,951,841.39	7,557,619,874.07
Current liabilities:		
Short-term borrowings	705,343,347.97	622,438,413.87

Financial liabilities at fair value through profit or loss	18,847,500.00	
Derivative financial liabilities		
Notes payable	1,401,325.50	6,124,239.92
Accounts payable	233,442,898.51	147,883,359.29
Advances from customers	56,386,065.62	52,314,250.61
Payroll payable	183,941,763.51	240,391,459.47
Taxes payable	33,744,215.20	17,297,415.92
Interest payable	2,013,677.88	973,134.21
Dividends payable	441,113.64	441,113.64
Other payables	201,727,467.65	22,933,385.28
Liabilities directly associated with assets classified as held for sale		
Current portion of non-current liabilities		
Other current liabilities		
Total current liabilities	1,437,289,375.48	1,110,796,772.21
Non-current liabilities:		
Long-term borrowings		
Long-term payables		
Long-term payroll payable	92,458,178.53	93,843,473.02
Specific payables		
Provisions		
Deferred income	81,699,952.30	80,580,249.14
Deferred income tax liabilities	184,950.00	4,950.00
Other non-current liabilities		
Total non-current liabilities	174,343,080.83	174,428,672.16
Total liabilities	1,611,632,456.31	1,285,225,444.37
Owners' equity:		
Share capital	922,602,311.00	922,602,311.00
Capital reserves	759,836,756.57	759,836,702.91
Less: Treasury shares	121,952,709.49	
Other comprehensive income	1,048,050.00	28,050.00
Specific reserve		
Surplus reserves	959,824,839.42	959,824,839.42
Retained profits	3,461,960,137.58	3,630,102,526.37
Total owners' equity	5,983,319,385.08	6,272,394,429.70

Total liabilities and owners' equity	7,594,951,841.39	7,557,619,874.07
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### 3. Consolidated Income Statement

Unit: RMB

Item	H1 2018	H1 2017
1. Revenue	3,281,014,155.43	2,997,093,395.84
Including: Operating revenue	3,281,014,155.43	2,997,093,395.84
2. Operating costs and expenses	2,840,765,404.50	2,517,282,163.05
Including: Cost of sales	2,360,836,431.41	2,051,483,003.79
Taxes and surtaxes	54,470,407.88	51,503,327.13
Selling expense	66,941,088.56	68,365,512.22
Administrative expense	325,870,756.50	314,037,319.49
Finance costs	30,525,225.31	30,930,178.28
Asset impairment loss	2,121,494.84	962,822.14
Add: Gain on changes in fair value (“-” for loss)	-28,481,010.00	1,110,700.00
Investment income (“-” for loss)	4,646,023.78	1,385,535.34
Including: Share of profit or loss of joint ventures and associates	-1,730,597.59	
Foreign exchange gain (“-” for loss)		
Asset disposal income (“-” for loss)	-522,286.65	-1,191,082.48
Other income	36,532,224.59	10,580,637.29
3. Operating profit (“-” for loss)	452,423,702.65	491,697,022.94
Add: Non-operating income	3,011,072.58	4,365,273.28
Less: Non-operating expense	1,994,923.71	4,648,925.39
4. Profit before taxation (“-” for loss)	453,439,851.52	491,413,370.83
Less: Income tax expense	63,275,514.57	79,455,627.02
5. Net profit (“-” for net loss)	390,164,336.95	411,957,743.81
5.1 Net profit from continuing operations (“-” for net loss)	390,164,336.95	411,957,743.81
5.2 Net profit from discontinued operations (“-” for net loss)		
Net profit attributable to owners of the Company as the parent	377,355,959.02	395,130,296.26
Net profit attributable to non-controlling interests	12,808,377.93	16,827,447.55
6. Other comprehensive income, net of tax	27,559,653.92	-14,785,091.90
Attributable to owners of the Company as the parent	27,559,653.92	-14,785,091.90
6.1 Items that will not be reclassified to profit or loss		
6.1.1 Changes in net liabilities or assets caused by		

remeasurements on defined benefit pension schemes		
6.1.2 Share of other comprehensive income of investees that will not be reclassified to profit or loss under equity method		
6.2 Items that may subsequently be reclassified to profit or loss	27,559,653.92	-14,785,091.90
6.2.1 Share of other comprehensive income of investees that will be reclassified to profit or loss under equity method		
6.2.2 Gain/Loss on changes in fair value of available-for-sale financial assets	1,020,000.00	
6.2.3 Gain/Loss arising from reclassification of held-to-maturity investments to available-for-sale financial assets		
6.2.4 Effective gain/loss on cash flow hedges		
6.2.5 Differences arising from translation of foreign currency-denominated financial statements	26,539,653.92	-14,785,091.90
6.2.6 Other		
Attributable to non-controlling interests		
7. Total comprehensive income	417,723,990.87	397,172,651.91
Attributable to owners of the Company as the parent	404,915,612.94	380,345,204.36
Attributable to non-controlling interests	12,808,377.93	16,827,447.55
8. Earnings per share		
8.1 Basic earnings per share	0.41	0.43
8.2 Diluted earnings per share	0.41	0.43

Where business mergers under the same control occurred in the current period, the net income achieved by the merged parties before the business mergers was RMB0.00, with the amount for last year being RMB0.00.

Legal representative: Liu Zibin

Chief Accountant: Zhang Hongmei

Financial Manager: Zhang Keming

#### 4. Income Statement of the Company as the Parent

Unit: RMB

Item	H1 2018	H1 2017
1. Operating revenue	2,504,395,230.25	2,482,323,588.80
Less: Cost of sales	1,861,404,465.69	1,766,681,024.07
Taxes and surtaxes	40,307,584.75	37,477,779.18
Selling expense	38,315,465.09	43,320,775.03
Administrative expense	214,766,851.49	210,435,426.62
Finance costs	11,391,279.87	8,369,769.83
Asset impairment loss	-1,182,154.91	262,131.70

Add: Gain on changes in fair value (“-” for loss)	-18,847,500.00	1,110,700.00
Investment income (“-” for loss)	1,917,402.93	19,258,397.61
Including: Share of profit or loss of joint ventures and associates	-1,730,597.59	
Asset disposal income (“-” for loss)	-9,032,750.08	-243,716.20
Other income	27,986,366.59	5,169,055.33
2. Operating profit (“-” for loss)	341,415,257.71	441,071,119.11
Add: Non-operating income	1,865,030.22	2,207,064.75
Less: Non-operating expense	1,119,027.21	3,935,434.10
3. Profit before taxation (“-” for loss)	342,161,260.72	439,342,749.76
Less: Income tax expense	56,959,321.51	65,645,694.09
4. Net profit (“-” for net loss)	285,201,939.21	373,697,055.67
4.1 Net profit from continuing operations (“-” for net loss)	285,201,939.21	373,697,055.67
4.2 Net profit from discontinued operations (“-” for net loss)		
5. Other comprehensive income, net of tax	1,020,000.00	
5.1 Items that will not be reclassified to profit or loss		
5.1.1 Changes in net liabilities or assets caused by remeasurements on defined benefit pension schemes		
5.1.2 Share of other comprehensive income of investees that will not be reclassified into profit or loss under equity method		
5.2 Items that may subsequently be reclassified to profit or loss	1,020,000.00	
5.2.1 Share of other comprehensive income of investees that will be reclassified into profit or loss under equity method		
5.2.2 Gain/Loss on changes in fair value of available-for-sale financial assets	1,020,000.00	
5.2.3 Gain/Loss arising from reclassification of held-to-maturity investments to available-for-sale financial assets		
5.2.4 Effective gain/loss on cash flow hedges		
5.2.5 Differences arising from translation of foreign currency-denominated financial statements		
5.2.6 Other		
6. Total comprehensive income	286,221,939.21	373,697,055.67
7. Earnings per share		
7.1 Basic earnings per share	0.31	0.41
7.2 Diluted earnings per share	0.31	0.41

## 5. Consolidated Cash Flow Statement

Unit: RMB

Item	H1 2018	H1 2017
<b>1. Cash flows from operating activities:</b>		
Proceeds from sale of commodities and rendering of services	3,222,986,999.01	2,965,847,838.31
Tax rebates	114,081,775.79	103,287,108.06
Cash generated from other operating activities	58,830,516.70	50,784,884.88
Subtotal of cash generated from operating activities	3,395,899,291.50	3,119,919,831.25
Payments for commodities and services	1,580,866,513.00	1,633,500,466.75
Cash paid to and for employees	866,022,073.85	819,888,473.79
Taxes paid	138,363,376.99	179,630,100.30
Cash used in other operating activities	112,862,616.89	143,654,039.84
Subtotal of cash used in operating activities	2,698,114,580.73	2,776,673,080.68
Net cash generated from/used in operating activities	697,784,710.77	343,246,750.57
<b>2. Cash flows from investing activities:</b>		
Proceeds from disinvestments		
Investment income		439,800.00
Net proceeds from disposal of fixed assets, intangible assets and other long-lived assets	936,526.59	1,257,813.92
Net proceeds from disposal of subsidiaries or other business units		
Cash generated from other investing activities	13,528,136.07	70,035,606.25
Subtotal of cash generated from investing activities	14,464,662.66	71,733,220.17
Payments for acquisition of fixed assets, intangible assets and other long-lived assets	438,092,015.33	294,548,197.25
Payments for investments		
Net increase in pledged loans granted		
Net payments for acquisition of subsidiaries and other business units		
Cash used in other investing activities		
Subtotal of cash used in investing activities	438,092,015.33	294,548,197.25
Net cash generated from/used in investing activities	-423,627,352.67	-222,814,977.08
<b>3. Cash flows from financing activities:</b>		
Capital contributions received	500,000.00	500,000.00
Including: Capital contributions by non-controlling interests to subsidiaries	500,000.00	500,000.00
Increase in borrowings obtained	1,554,914,896.37	1,143,078,297.25



Net proceeds from issuance of bonds		
Cash generated from other financing activities	39,317,500.00	10,300,000.00
Subtotal of cash generated from financing activities	1,594,732,396.37	1,153,878,297.25
Repayment of borrowings	1,235,496,710.59	833,454,881.16
Payments for interest and dividends	469,601,858.04	484,246,981.18
Including: Dividends paid by subsidiaries to non-controlling interests		
Cash used in other financing activities	175,517,237.20	0.00
Subtotal of cash used in financing activities	1,880,615,805.83	1,317,701,862.34
Net cash generated from/used in financing activities	-285,883,409.46	-163,823,565.09
4. Effect of foreign exchange rate changes on cash and cash equivalents	6,658,728.34	-14,067,019.42
5. Net increase in cash and cash equivalents	-5,067,323.02	-57,458,811.02
Add: Cash and cash equivalents, beginning of the period	676,639,212.86	659,116,137.67
6. Cash and cash equivalents, end of the period	671,571,889.84	601,657,326.65

## 6. Cash Flow Statement of the Company as the Parent

Unit: RMB

Item	H1 2018	H1 2017
1. Cash flows from operating activities:		
Proceeds from sale of commodities and rendering of services	2,547,140,430.96	2,436,886,166.08
Tax rebates	70,272,032.57	75,165,906.24
Cash generated from other operating activities	36,415,607.59	15,897,897.32
Subtotal of cash generated from operating activities	2,653,828,071.12	2,527,949,969.64
Payments for commodities and services	1,356,047,613.94	1,526,580,047.50
Cash paid to and for employees	605,320,730.04	587,514,691.21
Taxes paid	87,174,263.36	97,827,376.39
Cash used in other operating activities	65,254,416.78	75,176,222.57
Subtotal of cash used in operating activities	2,113,797,024.12	2,287,098,337.67
Net cash generated from/used in operating activities	540,031,047.00	240,851,631.97
2. Cash flows from investing activities:		
Proceeds from disinvestments		
Investment income		17,976,433.62
Net proceeds from disposal of fixed assets, intangible assets and other long-lived assets	71,378,849.40	1,272,813.92
Net proceeds from disposal of subsidiaries or other business units		

Cash generated from other investing activities	408,047,687.20	143,584,458.87
Subtotal of cash generated from investing activities	479,426,536.60	162,833,706.41
Payments for acquisition of fixed assets, intangible assets and other long-lived assets	75,495,986.86	35,162,185.30
Payments for investments	350,352,500.00	7,934,750.00
Net payments for acquisition of subsidiaries and other business units		
Cash used in other investing activities	329,863,300.00	162,588,600.00
Subtotal of cash used in investing activities	755,711,786.86	205,685,535.30
Net cash generated from/used in investing activities	-276,285,250.26	-42,851,828.89
3. Cash flows from financing activities:		
Capital contributions received		
Increase in borrowings obtained	905,214,428.57	921,800,512.27
Net proceeds from issuance of bonds		
Cash generated from other financing activities	173,828,100.00	
Subtotal of cash generated from financing activities	1,079,042,528.57	921,800,512.27
Repayment of borrowings	821,108,369.41	597,328,780.40
Payments for interest and dividends	455,588,046.43	464,854,599.26
Cash used in other financing activities	175,517,237.20	
Sub-total of cash used in financing activities	1,452,213,653.04	1,062,183,379.66
Net cash generated from/used in financing activities	-373,171,124.47	-140,382,867.39
4. Effect of foreign exchange rate changes on cash and cash equivalents	-2,646,087.14	-8,267,806.48
5. Net increase in cash and cash equivalents	-112,071,414.87	49,349,129.21
Add: Cash and cash equivalents, beginning of the period	267,809,829.78	177,016,859.63
6. Cash and cash equivalents, end of the period	155,738,414.91	226,365,988.84

## 7. Consolidated Statements of Changes in Owners' Equity

H1 2018

Unit: RMB

Item	H1 2018												
	Equity attributable to owners of the Company as the parent										Non-controlling interests	Total owners' equity	
	Share capital	Other equity instruments			Capital reserves	Less: Treasury shares	Other comprehensive income	Specific reserve	Surplus reserves	General reserve			Retained profits
Preferred shares		Perpetual bonds	Other										
1. Balances as of end of prior year	922,602,311.00				699,493,593.82		16,810,574.22		962,933,579.06		4,629,102,712.06	544,132,719.64	7,775,075,489.80
Add: Adjustments for changed accounting policies													
Adjustments for corrections of previous errors													
Adjustments for business combinations involving enterprises under common control													
Other adjustments													
2. Balances as of beginning of the year	922,602,311.00				699,493,593.82		16,810,574.22		962,933,579.06		4,629,102,712.06	544,132,719.64	7,775,075,489.80
3. Increase/					53.66	121,952,709.49	27,559,653.92				-75,988,368.98	13,308,377.93	-157,072,992.96





4. Balances as of end of the period	922,602,311.00				699,493,647.48	121,952,709.49	44,370,228.14		962,933,579.06		4,553,114,343.08	557,441,097.57	7,618,002,496.84
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H1 2017

Unit: RMB

Item	H1 2017												
	Equity attributable to owners of the Company as the parent										Non-controlling interests	Total owners' equity	
	Share capital	Other equity instruments			Capital reserves	Less: Treasury shares	Other comprehensive income	Specific reserve	Surplus reserves	General reserve			Retained profits
Preferred shares		Perpetual bonds	Other										
1. Balances as of end of prior year	922,602,311.00				761,280,557.83		53,293,544.89		891,870,522.68		4,341,866,189.19	475,088,111.17	7,446,001,236.76
Add: Adjustments for changed accounting policies													
Adjustments for corrections of previous errors													
Adjustments for business combinations involving enterprises under common control													
Other adjustments													
2. Balances as of beginning of the	922,602,311.00				761,280,557.83		53,293,544.89		891,870,522.68		4,341,866,189.19	475,088,111.17	7,446,001,236.76

year														
3. Increase/decrease in the period (“-” for decrease)					-61,786,964.01			-36,482,970.67		71,063,056.38		287,236,522.87	69,044,608.47	329,074,253.04
3.1 Total comprehensive income								-36,482,970.67				841,150,934.75	42,168,174.85	846,836,138.93
3.2 Capital increased and reduced by owners					-61,786,964.01								38,900,000.00	-22,886,964.01
3.2.1 Ordinary shares increased by shareholders													500,000.00	500,000.00
3.2.2 Capital increased by holders of other equity instruments														
3.2.3 Share-based payments included in owners’ equity														
3.2.4 Other					-61,786,964.01								38,400,000.00	-23,386,964.01
3.3 Profit distribution										71,063,056.38		-553,914,411.88	-12,023,566.38	-494,874,921.88
3.3.1 Appropriation to surplus reserves										71,063,056.38		-71,063,056.38		

3.3.2 Appropriation to general reserve													
3.3.3 Appropriation to owners (or shareholders)											-482,851,355.50	-12,023,566.38	-494,874,921.88
3.3.4 Other													
3.4 Carryforwards within owners' equity													
3.4.1 Increase in capital (or share capital) from capital reserves													
3.4.2 Increase in capital (or share capital) from surplus reserves													
3.4.3 Surplus reserves used to make up losses													
3.4.4 Other													
3.5 Specific reserve													
3.5.1 Withdrawn for the period													



3.5.2 Used during the period													
3.6 Other													
4. Balances as of end of the period	922,602,311.00				699,493,593.82		16,810,574.22		962,933,579.06		4,629,102,712.06	544,132,719.64	7,775,075,489.80

## 8. Statements of Changes in Owners' Equity of the Company as the Parent

H1 2018

Unit: RMB

Item	H1 2018										
	Share capital	Other equity instruments			Capital reserves	Less: Treasury shares	Other comprehensive income	Specific reserve	Surplus reserves	Retained profits	Total owners' equity
		Preferred shares	Perpetual bonds	Other							
1. Balances as of end of prior year	922,602,311.00				759,836,702.91		28,050.00		959,824,839.42	3,630,102,526.37	6,272,394,429.70
Add: Adjustments for changed accounting policies											
Adjustments for corrections of previous errors											
Other adjustments											
2. Balances as of beginning of the year	922,602,311.00				759,836,702.91		28,050.00		959,824,839.42	3,630,102,526.37	6,272,394,429.70
3. Increase/ decrease in the period ("-" for decrease)					53.66	121,952,709.49	1,020,000.00			-168,142,388.79	-289,075,044.62
3.1 Total comprehensive income							1,020,000.00			285,201,939.21	286,221,939.21
3.2 Capital increased and reduced by owners					53.66	121,952,709.49					-121,952,655.83



3.5.2 Used during the period											
3.6 Other											
4. Balances as of end of the period	922,602,311.00				759,836,756.57	121,952,709.49	1,048,050.00		959,824,839.42	3,461,960,137.58	5,983,319,385.08

H1 2017

Unit: RMB

Item	H1 2017										
	Share capital	Other equity instruments			Capital reserves	Less: Treasury shares	Other comprehensive income	Specific reserve	Surplus reserves	Retained profits	Total owners' equity
		Preferred shares	Perpetual bonds	Other							
1. Balances as of end of prior year	922,602,311.00				759,793,238.92				888,761,783.04	3,451,836,174.44	6,022,993,507.40
Add: Adjustments for changed accounting policies											
Adjustments for corrections of previous errors											
Other adjustments											
2. Balances as of beginning of the year	922,602,311.00				759,793,238.92				888,761,783.04	3,451,836,174.44	6,022,993,507.40
3. Increase/ decrease in the period ("-" for decrease)					43,463.99		28,050.00		71,063,056.38	178,266,351.93	249,400,922.30
3.1 Total comprehensive income							28,050.00			710,630,563.81	710,658,613.81
3.2 Capital increased and reduced by owners					43,463.99						43,463.99
3.2.1 Ordinary shares increased by shareholders											
3.2.2 Capital increased by holders of other equity											

instruments											
3.2.3 Share-based payments included in owners' equity											
3.2.4 Other					43,463.99						43,463.99
3.3 Profit distribution									71,063,056.38	-532,364,211.88	-461,301,155.50
3.3.1 Appropriation to surplus reserves									71,063,056.38	-71,063,056.38	
3.3.2 Appropriation to owners (or shareholders)										-461,301,155.50	-461,301,155.50
3.3.3 Other											
3.4 Carryforwards within owners' equity											
3.4.1 Increase in capital (or share capital) from capital reserves											
3.4.2 Increase in capital (or share capital) from surplus reserves											
3.4.3 Surplus reserves used to make up losses											
3.4.4 Other											
3.5 Specific reserve											
3.5.1 Withdrawn for the period											
3.5.2 Used during the period											
3.6 Other											
4. Balances as of end of the period	922,602,311.00				759,836,702.91		28,050.00		959,824,839.42	3,630,102,526.37	6,272,394,429.70

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### 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 3 February 1993, the Company is approved by the former Ministry of Foreign Trade and Economy of the State (1993) in WJMZEHZ No. 59 to convert into a joint-stock enterprise. Zibo Administration for Industry and Commerce issued the Company corporate business license with the registration No. of QGLZZZ No. 000066. In July 1997, the Company is approved by the Securities Committee of the Department of the State in the ZWF (1997) No. 47 to issue 80 million shares of domestically listed foreign share( B-shares) at the price of RMB 1.00 per share. Upon approved by Shenzhen Stock Exchange with No. (1997) 296 Listing Notice, the Company is listed on the Shenzhen Stock Exchange on 19 August 1997 with B-shares stock code of 200726. On 24 November 2000, approved by ZJGSZ [2000] No.199 by CSRC, the Company increased publication of 50 million shares of general share (A-shares) at the book value of RMB 1.00, which are listed on the Shenzhen Stock Exchange on 25 December 2000 with A-shares stock code of 000726 through approval by Shenzhen Stock Exchange with No. (2000) 162 Listing Notice. As approved by 2000 Annual 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 Annual 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 Annual 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 25 December 2003, the inner employees’ shares reach 3 years since listing on the A-share stock market, and they set out circulation on 26 December 2003. As approved by the Annual General Meeting 2006 held in June 2007, the Company implemented the plan on converting 10 shares to all its shareholders with capital reserves for every 10 shares. After capitalization, the registered capital of the Company was RMB 844.8648 million. The Company, in accordance with the official reply on approving Lu Thai Textile Co., Ltd. to issue additional shares (ZJXK [2008] No. 890 document) from CSRC, issued the Renminbi common shares (A shares) amounting to 150 million shares on 8 December 2008. According to the relevant resolution of the 2<sup>nd</sup> Special Extraordinary General Meeting of 2011, the relevant resolution of the 15<sup>th</sup> Meeting 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 RMB 14.09 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

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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 the 6<sup>th</sup> Board of 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> Meeting 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. As per the Proposal on Buy-back of Some A- and B-shares considered and approved as a resolution at the 1<sup>st</sup> special meeting of shareholders on 5 August 2015, the Company repurchased 33,156,200 domestically listed foreign shares (B-shares). According to the Agreement about Repurchase of Part of the Company's B Shares by the Resolutions on the 2<sup>nd</sup> Extraordinary General Meeting of 2018 on 23 March 2018, the Company repurchased 17.6748 million domestically listed foreign shares (B shares). As of 30 June 2018, the registered capital of the Company was RMB922.6023 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 production and sales of the purified water projects.

The Company's financial statements have been approved for issue by the Board of Directors of the Company on 20 August 2018.

There were 16 subsidiaries included into the consolidation scope of the Company from January to June 2018, and for the details, please refer to Notes VIII. "Equities among Other Entities".

## **IV Basis for 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 42 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.

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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, the financial statements were based on historical costs for measurement. Non-current asset held for sale was priced according to the lower one between the amount of fair value minus estimated costs and the original book value which complies with the conditions of holding for sale. If impairment occurred on an asset, an impairment reserve was withdrawn accordingly pursuant to relevant requirements.

## **V. Significant Accounting Policies and Estimates**

Specific accounting policies and accounting estimates indicators:

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 for details, please refer to each description of Notes V. As for the notes to the important accounting judgment and estimations made by the management level, please refer to Notes V. 28 “Other important accounting policies and estimations”.

### **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 2018, business results and cash flows for the January to June of 2018, 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 January 1<sup>st</sup> and ends on December 31<sup>st</sup> 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

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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 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 for Business Combinations under the Common Control and Not under the Common Control**

Business combinations, it is refer 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



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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 V. 6 (2)), Whether the deals are “package deal” or not, belong to the “package deal”, see the previous paragraphs described in this section and Notes V. 13 “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

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

## **6. Preparation of the 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.

If any changes in the relevant facts or situations result in any changes in the elements involved in the aforesaid definition of "control", the Company shall carry out a reassessment.

### **(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

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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 acquirer 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 Notes V. 13 “Long Term Equity Investment” or Notes V. 9 “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 loses 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. ① These deals are at 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; ③ The occurrence of 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 Notes V. 13. (2) ④ in this section) 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 loss of control, when the Company losing control on its subsidiary.

## **7. Confirmation Standard for Cash and Cash Equivalent**

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

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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.

For the preparation for consolidated financial statement involved in foreign operations, if there are items of foreign currency monetary of net investment in foreign operations in essence, then the balance of exchange generated by changes in exchange rate shall included into other comprehensive income; when disposing foreign operations, it shall be converted into the disposal of the current profits 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

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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

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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

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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

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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



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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

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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 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: receivables involved in disputes, lawsuits or arbitrations; receivables with clear signs that the debtor is not likely to repay; and the like.

## 11. Inventory

Is the Company subject to any disclosure requirements for special industries?

No.

### (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

Inventories shall be measured at actual cost when acquired, and the cost of the inventories including the procurement cost, processing cost and other costs. Grey yarn, dyed yarn, and plus material shall be measured at first-in first-out method when acquired and delivered; other inventories shall be measured as per the weighted average method

### (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 by the difference of the cost of individual item less its realizable value.

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.

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(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. Assets Held for Sale

The Company classifies an asset into held-for-sale when its book value is mainly recovered by selling (including the exchanges of non-monetary assets with commercial substance) instead of a non-current asset or disposal group. Specific standards are simultaneously satisfying the following conditions: A asset or disposal group can be sold immediately under current conditions based on the practice of selling such assets or disposal groups in similar transactions; the Company has already made a resolution on sale plan and obtained a confirmed purchase commitment; and the sale is expected to will be completed within one year. A disposal group refers to a group of assets that are disposed of together as a whole by sale or other means in a transaction and the liabilities directly related to these assets transferred in the transaction. Where the asset group or combination of asset groups to which a disposal group belongs apportions the goodwill acquired in the business combination in accordance with the "Accounting Standards for Enterprises No. 8 - Asset Impairment", the disposal group shall include the goodwill allocated to it.

When the Company initially measures or re-measures on the balance sheet date the non-current assets and disposal groups classified as held-for-sale, If the book value is higher than the fair value minus the net amount of the sale costs, the book value will be written down to the net amount of fair value minus the sale costs, and the amount written down will be recognized as impairment loss of assets and included in the current profit and loss, and provision for impairment of held-for-sale assets will be made at the same time. For the confirmed amount of impairment loss of assets of the disposal groups held for sale, the book value of goodwill of the disposal groups will be offset first, and then the book value of various non-current assets applicable to the measurement of Accounting Standards for Business Enterprises No. 42 - Non-current Assets and Disposal Groups Held for Sale and Termination of Operations (hereinafter referred to as "Held for sale standards") in the disposal groups will be offset according to the proportions. If the net amount that the fair value of the disposal groups held for sale on the follow-up balance sheet date minus the sale costs increases, the previous written-down amount will be restored, and reversed to the asset impairment loss confirmed after the assets being classified as held-for-sale. The reversed amount will be included in the current profit or loss. And its book value shall be increased proportionately to the proportion of the book value of various non-current assets measured by the disposal group in addition to goodwill applicable to the measurement of held-for-sale norms; The book value of deducted goodwill and the non-current assets applicable to the measurement of held-for-sale norms will not be reversed if the asset impairment loss is recognized before it is classified as held for sale.

Non-current assets held for sale or non-current assets in the disposal group are not subject to depreciation or amortization. Interest and other expenses of liabilities in the disposal group held for sale will be confirmed as before.

When a non-current asset or disposal group ceases be classified as held-for-sale or a non-current asset is removed out from the held-for-sale disposal group due to failure in meeting the

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classification conditions for the category of held-for-sale, it will be measured by one of the followings whichever is lower: (1) The book value before being classified as held for sale will be adjusted according to the depreciation, amortization or impairment that would have been recognized under the assumption that it was not classified as held for sale; (2) The recoverable amount.

### 13. 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 Notes V. 9 “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 polices 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.

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 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.

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

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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

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transferred assets, should not be neutralized.

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 January 1, 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 Notes V. 6. (2) "Method on preparation of combined financial statements".

For other ways on disposal of long-term equity investment, the balance between the book value of the disposed equity and its actual payment gained shall be recorded into current profits and losses.

For the long-term equity investment measured by adopting equity method, 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.

#### 14. Investment Real Estate

Measurement model of investment real estate

Costing method measurement

Depreciation or amortization method

The investment real estate refers to the real estate gaining the rent or capital appreciation or both. It includes rented land use right, holding land use right to be transferred after the appreciation and rented building, etc.

The investment real estate is measured initially according to the cost. The subsequent expenses related with the investment real estate shall be calculated into the cost of investment real estate if the economic benefit related with the asset may flow in and the cost may be measured reliably. Other subsequent expenses shall be calculated in the current profits and losses at the occurrence.

The Company adopts the cost mode to conduct the subsequent measurement on the investment real estate, depreciates or amortizes according to the policy consistent with the house building or land use right.

The devaluation test method and devaluation provision method for the investment real estate can be seen in Notes V. 20 "Long-term Asset Devaluation".

When the self-use real estate or stock is converted to the investment real estate or the investment real estate is converted to the self-use real estate, the book value before the conversion shall be the entry value after the conversion.

When the investment real estate is disposed, or out of usage permanently, and it is expected not to get the economic benefit from the disposal, the confirmation on the investment real estate shall be terminated. The disposal income for the sales, transferring, scrap or damage of the investment real estate deducing the book value and related tax shall be calculated in the current profits and losses.

#### 15. 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 reliable 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
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Housing and building	Average method of useful life	5-30	0-10%	3.00-20.00
Machinery equipments	Average method of useful life	10-18	0-10%	5.00-10.00
Transportation vehicle	Average method of useful life	5	0-10%	18.00-20.00
Electronic equipments and others	Average method of useful life	5	0-10%	18.00-20.00

### (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.

### 16. 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 Notes V. 20 “Long-term assets impairment”.

### 17. Borrowing Costs

Borrowing costs include interest on borrowings, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings. The capitalization of borrowing costs, which can be directly attributable to asset acquisition or construction, starts when asset expenditure or borrowing cost are generated, or the asset acquisition or construction is launched to enable the asset to meet the predefined conditions for use or sale, and ends when the acquired or constructed asset conforming to capitalization conditions meet the predefined conditions for use or sale. The other borrowing costs are recognized as expenses in the current period.

The actual interest expenses incurred in the current period of specific borrowings shall be capitalized by subtracting the interest income earned by the bank from unused borrowing funds or investment income gained from temporary investment. For general borrowings, the amount to be capitalized shall be determined based on the weighted average of total asset expenditure exceeding

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the specific borrowing multiplied by the capitalization rate of general borrowings. The capitalization rate is determined based on the weighted average interest rate of general borrowings. During the capitalization period, the foreign exchange differences on foreign currency specific borrowings shall be capitalized. The exchange differences on foreign currency general borrowings shall be included in the current profits and losses.

Assets eligible for capitalization refer to assets such as fixed assets, investment real estate and inventory that require a considerable amount of time for acquisition or construction to be ready for use or sale.

If the acquisition or construction process of the assets eligible for capitalization is stopped unexpectedly for more than 3 months, the capitalization of borrowing costs shall be suspended until the asset acquisition or construction resumes.

## **18. 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.

## 19. 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

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shall be treated as fixed assets.

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

At the end of period, the 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.

For details of impairment testing method and provision-making method for intangible assets, see Notes V. 20 “Long-term assets impairment”.

## **(2) Accounting Policy for Internal Research and Development Expenditures**

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.

## **20. 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

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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.

## **21. 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 land contract fees, land rental fees and house rental fees, and etc. And the long-term deferred expense shall be amortized by the straight-line method averagely within the benefit period.

## **22. Payroll**

### **(1) Accounting Treatment of Short-term Compensation**

The payroll of the Company mainly includes: short-term employees compensation, welfare after departure, demission welfare, and the welfare of other long-term staffs, of which:

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

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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 basic endowment insurance and unemployment insurance and welfare plans after demission include setting drawing plan. Where the setting drawing plan is adopted, 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 Demission Welfare**

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 demission welfare owing to the relieving plan of the labor relation or the downsizing advice, should confirm the liabilities of the employees' salary from the demission welfare on the earlier day between the cost confirmed by the Company and the cost related to the reorganization of the payment of the demission welfare and includes which in the current gains and losses. But as for the demission welfare be estimated that could not be completed paid within 12 months after the end of the annual Reporting Period, should be handled according to the other long-term employee's salary.

#### **(4) Accounting Treatment of the Welfare of Other Long-term Staffs**

The internal retire plan of the employees should be handled by adopting the same principles of the above demission 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 (demission welfare) when met with the recognition conditions of the estimated liabilities.

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.

### **23. Revenue**

Is the Company subject to any disclosure requirements for special industries?

No.

#### **(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.

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As for the revenues from the domestic sales products, the Company delivers 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't 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't 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't 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.



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## 24. Government Subsidies

### (1) Judgment Basis and Accounting Treatment of Government Subsidies Related to Assets

The government subsidy refers to the Company gets the monetary and non-monetary assets for free from the government, excluding the capital that the government invests as the investor who enjoys the corresponding owner's equity. It can be divided into the asset-related government subsidy and income-related government subsidy. The Company defines the obtained government subsidy for the acquisition and construction or forming the long-term asset in other ways as the asset-related government subsidy; other government subsidies are defined as the income-related government subsidy. If the government document does not clearly prescribe the subsidy object, the following ways shall be adopted to divide the subsidy into the income-related government subsidy and asset-related government subsidy: (1) The government document clears the specific project for the subsidy, it shall divide according to the relative ratio of asset expenditure amount and entry cost expenditure amount to be formed in the budget of specific project, review according to the division ratio at each balance sheet date, and change when necessary; (2) The government document only makes the general expression on the usage without indicated specific project, it shall be the income-related government subsidy. If the government subsidy is monetary asset, it shall be measured according to the received or receivable amount. If the government subsidy is non-monetary asset, it shall be measured according to the fair value; if the fair value can't be got reliably, it shall be measured according to the nominal amount. The government subsidy measured according to the nominal amount shall be calculated in the current profits and losses directly.

The asset-related government subsidy shall be confirmed as the deferred income, and it shall be calculated into the current profits and losses by stages in reasonable and systematic way within the service life of related asset.

Government subsidies related to routine activities of the Company shall be calculated into other income or offset related costs according to the essence of economic business; government subsidies that have nothing to do with routine activities shall be calculated into non-operating income.

When the confirmed government subsidy needs to be returned and there is the related deferred income balance, the related deferred income book balance shall be deducted, and the surpassing part shall be calculated into the current profits and losses; If in other situations, it shall be calculated in the current profits and losses directly.

### (2) Judgment Basis and Accounting Treatment of Government Subsidies Pertinent to Incomes

The Company usually confirms and measures the government subsidy according to the received amount when receiving actually. However, the financial support fund which can be received complying with the related conditions prescribed in the financial support policy indicated by the conclusive evidence shall be measured according to the receivable amount. The following conditions shall be met for the government subsidy measured by the receivable amount: (1) The receivable subsidy amount has been confirmed by the authorized government department, or it can be measured reasonably according to the officially released provisions related with the financial fund management method, and it is expected there is no major uncertainty for the amount; (2) It is based on the financial support project and financial fund management method actively opened

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released officially by the local financial department and according to the provision in *Government Information Disclosure Provisions*, the management method shall be universal (any enterprise complying with the prescribed condition can apply) rather than for the specific enterprise; (3) The related subsidy approval document has clearly promised the appropriate term, and the appropriation of the amount shall have the corresponding financial budget for the guarantee, therefore, it can ensure to receive within the prescribed term reasonably.

The income-related government subsidy to compensate the related expense and loss later shall be confirmed as the deferred income, and it shall be calculated in the current profits and losses during the period to confirm the related costs or losses; the occurred related costs or losses for compensation shall be calculated in the current profits and losses directly.

For government subsidy including the asset-related government subsidy and the income-related government subsidy at one time, accounting treatment shall be conducted respectively to distinguish the different parts; if it is difficult to distinguish, then it shall be classified into the income-related government subsidy

## **25. 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 this Reporting Period 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 excepted future. Otherwise, the Group should recognize the deferred income tax liabilities arising form 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

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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.

## **26. 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

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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.

**27. Repurchase of Shares**

No gains or losses shall be recognized when the consideration and transaction fees paid in share

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repurchases reduce the shareholders' equity and the Company's shares are repurchased, transferred or cancelled.

Transfer of treasury stocks shall be included into the capital reserves according to the difference between the actually received amount and the book value of the treasury stocks. If the capital reserves are insufficient for adjustment, the surplus reserves and retained profits shall be adjusted accordingly. For cancellation of treasury stocks, the share capital shall be reduced according to the par value and number of shares cancelled and the capital reserves shall be adjusted according to the difference between the book value of the treasury stocks and the par value. If the capital reserves are insufficient for adjustment, the surplus reserves and retained profits shall be adjusted accordingly.

## **28. Other Significant Accounting Policies 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.

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### (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) Impairment provisions of non-financial non-current assets

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

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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) 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.

(9) 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.

(10) Measurement of fair value

Some of assets and liabilities in financial statement of the Company are measured by fair value. When estimating the fair value of a asset or liability, the Company adopts the available and observable market data. During the process of confirming the fair value of various assets and liabilities, relevant information of the adopted valuation technique and input value was disclosure in Note X.

## **29. Changes in Main Accounting Policies and Estimates**

### **(1) Change of Accounting Policies**

Applicable  Not applicable

### **(2) Significant Changes in Accounting Estimates**

Applicable  Not applicable

## VI Taxes

### 1. Main Taxes and Tax Rates

Category of tax	Taxable basis	Tax rate
VAT	Calculated the output tax at 17%, 16%, 11%, 10%, 6%, 5%, 3%, and 0% of taxable income and paid the VAT by the amount after deducting the deductible withholding VAT at current period.	17%, 6%, 11%, 10%, 6%, 5%, 3%, 0%
Urban maintenance and construction tax	Paid at 7%, 5%, 1% of the circulating tax actually paid	7%, 5%, 1%
Enterprise income tax	Paid at 0%, 15%, 16.5% and 25% of taxable income respectively	0%, 15%, 16.5%, 25%

Notes of the disclosure situation of the taxpaying bodies with different enterprises income tax rate

Taxpayer	Income tax rate
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%
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%
Zibo Chengshun Heating Co., Ltd. (hereinafter referred to as "Chengshun Heating")	25%
Zibo Helijie Energy-saving Technology Service Co., Ltd. (hereinafter referred to as "Helijie")	25%
Xinjiang Lu Thai Textile Co., Ltd. (hereinafter referred to as "Xinjiang Textile")	15%
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) Textile Co., Ltd. (hereinafter referred to as "Lu Thai Vietnam")	0%
Lu An Garments Co., Ltd. (hereinafter referred to as "Lu An Garments")	0%
Lu Thai (America) Textile Co., Ltd. (hereinafter referred to as "Lu Thai America")	Refer to 2. Tax Preference presented as follows for details

## 2. Tax Preference

According to the "On the Recognition of 2078 Enterprises as High-tech Enterprises for 2017 such as WeihaiTuozhan Fiber Co., Ltd." (LK Zi[2018 ] No. 37) issued Department of Science and Technology of Shandong Province, Shandong Provincial Finance Department, State Administration of Taxation of Shandong Province and Local Taxation Bureau of Shandong Province, the Company and the holding subsidiary Lufeng Weaving and Dyeing Co., Ltd. were identified as high-tech enterprises. Pursuant to Article 28 of the "Law of the PRC on Enterprise Income Tax" and the No. 76 Announcement published by the State Administration of Taxation in 2015, namely "Management of Preferential Policy on Corporate Income Tax" and the "Measures for the Administration of the Recognition of Hi-tech Enterprises" GKFH [2016] No. 195 revised and published by the Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation, the Company and the holding subsidiary Lufeng Weaving and Dyeing Co., Ltd. enjoy a corporate income tax rate of 15%.

According to the "Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Tax Policy Issues concerning Further Implementing the Western China Development Strategy " (CS[2011] No. 58), Xinjiang Textile Co., Ltd., the subsidiary of Lu Thai in Xinjiang, enjoys a preferential corporate income tax rate of 15%.

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%.

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-owned subsidiary Lu Thai (Vietnam) Textile Co., Ltd. shall enjoy the preference of enterprise income tax at 3 years' starting term + 4 years' duty-free term + 9 years' half-tax term according to the investment license issued by Vietnamese Fudong Industrial Zone Management

Committee, and it will enter into 2 years' duty-free term if it is profitable within 3 years' starting term. The enterprise income tax rate shall be 20% after the preference term ends. The Company shall enjoy 10% of the preference tax rate within 15 years since the tax year to get the first production and operation income, and the enterprise income tax rate shall be 20% after the preference term ends.

The wholly-owned subsidiary Lu An Garments Co., Ltd. shall enjoy the preference of enterprise income tax at 3 years' starting term + 2 years' duty-free term + 4 years' half-tax term according to the investment license issued by Vietnamese Anjiang Province Economic Zone Management Committee, and it will enter into duty-free term if the profitability is realized at any year within 3 years' starting term. The Company shall enjoy 17% of the preference tax rate within 10 years since the tax year to get the first production and operation income, and the enterprise income tax rate shall be 20% after the preference term ends.

Lu Thai America, the wholly-owned subsidiary of the Company registered in New York, America, was imposed the federal enterprise income tax at progressive tax rate in excess of specific amount of 15%-39%, and imposed the New York Enterprise income tax at the rate of 6.5%. The income tax rate shall be 6.5% when the sales income in New York was below US\$1 million, while 8.85% when above US\$1 million.

## VII. Notes to Main Items of Consolidated Financial Statements

### 1. Monetary Funds

Unit: RMB

Item	Ending balance	Beginning balance
Cash on hand	3,982,351.33	8,040,420.28
Bank deposits	667,589,538.44	668,598,792.58
Other monetary funds	150,080.59	17,350,080.52
Total	671,721,970.36	693,989,293.38
Of which: total amount deposited overseas	310,358,555.04	54,911,636.96

Other notes:

On 30 June 2018, the monetary fund with restricted ownership of the Company was of RMB 150,080.52 (31 December 2017: RMB17,350,080.52), which was guarantee deposit of RMB150,080.52 by the Company's subsidiary Lufeng Weaving & Dyeing

### 2. Notes Receivable

#### (1) Notes Receivable Listed by Category

Unit: RMB

Item	Ending balance	Beginning balance
Bank acceptance bill	24,304,548.05	28,926,913.53

L/C	91,404,720.83	110,349,828.81
Total	115,709,268.88	139,276,742.34

**(2) 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	178,434,467.09	
Total	178,434,467.09	

**3. Accounts Receivable**

**(1) Accounts Receivable Disclosed by Category**

Unit: RMB

Category	Ending balance					Beginning balance				
	Carrying amount		Bad debt provision		Carrying value	Carrying amount		Bad debt provision		Carrying value
	Amount	Proportion	Amount	With drawal proportion		Amount	Proportion	Amount	With drawal proportion	
Accounts receivable withdrawal of bad debt provision of by credit risks characteristics	375,832,028.96	100.00%	19,013,065.27	5.06%	356,818,963.69	351,991,919.14	100.00%	17,911,395.09	5.09%	334,080,524.05
Total	375,832,028.96	100.00%	19,013,065.27	5.06%	356,818,963.69	351,991,919.14	100.00%	17,911,395.09	5.09%	334,080,524.05

Accounts receivable with significant single amount for which bad debt provision separately accrued at the period-end:

Applicable  Not applicable

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

Applicable  Not applicable

Unit: RMB

Aging	Ending balance
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	Accounts receivable	Bad debt provision	Withdrawal proportion
Subitem within 1 year			
Subtotal within 1 year	373,199,150.22	18,659,957.51	5.00%
1 to 2 years	2,028,679.82	202,867.98	10.00%
2 to 3 years	310,198.92	62,039.78	20.00%
Over 3 years	294,000.00	88,200.00	30.00%
Total	375,832,028.96	19,013,065.27	5.06%

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

Applicable  Not applicable

### (2) Bad Debt Provision Withdrawn, Reversed or Recovered in the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB1,101,670.18; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

### (3) Top 5 Accounts Receivable in Ending Balance Collected according to the Arrears Party

The total top 5 accounts receivable in ending balance collected according to the arrears party for the Company was RMB105,332,965.56, accounting for 28.03% of the total ending balance of accounts receivable, and the total ending balance of bad debt provision correspondingly withdrawn was RMB5,266,648.28.

## 4. Prepayment

### (1) Prepayment Listed by Aging Analysis

Unit: RMB

Aging	Ending balance		Beginning balance	
	Amount	Proportion	Amount	Proportion
Within 1 year	133,166,462.98	98.99%	145,673,771.77	99.46%
1 to 2 years	1,347,850.81	1.00%	625,210.35	0.43%
2 to 3 years	0.00	0.00%	162,029.49	0.11%
Over 3 years	9,800.00	0.01%	2,054.77	0.00%
Total	134,524,113.79	--	146,463,066.38	--

### (2) Top 5 Prepayment in Ending Balance Collected according to the Prepayment Target

The total top 5 prepayment in ending balance collected according to the prepayment target for the Company was RMB54,276,853.14, accounting for 40.35% of total ending balance of prepayment.

## 5. Interest Receivable

### (1) Category of Interest Receivable

Unit: RMB

Item	Ending balance	Beginning balance
Fixed term deposits	874,571.14	590,003.07
Total	874,571.14	590,003.07

## 6. Other Accounts Receivable

### (1) Other Accounts Receivable Disclosed by Category

Unit: RMB

Category	Ending balance					Beginning balance				
	Carrying amount		Bad debt provision		Carrying value	Carrying amount		Bad debt provision		Carrying value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Other accounts receivable withdrawn bad debt provision according to credit risks characteristics	83,485,377.63	100.00%	7,004,656.54	8.39%	76,480,721.09	62,067,808.10	100.00%	5,885,026.06	9.48%	56,182,782.04
Total	83,485,377.63	100.00%	7,004,656.54	8.39%	76,480,721.09	62,067,808.10	100.00%	5,885,026.06	9.48%	56,182,782.04

Other accounts receivable with significant single amount for which bad debt provision separately accrued at the period-end:

Applicable  Not applicable

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

Applicable  Not applicable

Unit: RMB

Aging	Ending balance		
	Other accounts receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			
Subtotal of within 1 year	70,295,023.36	3,514,751.15	5.00%
1 to 2 years	2,313,867.15	231,386.72	10.00%
2 to 3 years	44,274.42	8,854.87	20.00%
Over 3 years	10,832,212.70	3,249,663.80	30.00%

Total	83,485,377.63	7,004,656.54	8.39%
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In the groups, other accounts receivable adopted balance percentage method to withdraw bad debt provision

Applicable  Not applicable

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

Applicable  Not applicable

## (2) Bad Debt Provision Withdrawn, Reversed or Recovered in the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB1,119,630.48; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

## (3) Other Account Receivable Classified by Account Nature

Unit: RMB

Nature	Ending carrying amount	Beginning carrying amount
Export taxes refund	18,877,922.77	26,928,248.68
Advance payment	45,328,177.05	19,470,920.20
Cash Pledge & Margin	5,523,371.84	5,915,873.52
Borrowings and petty cash	3,587,192.13	1,533,438.12
Other	10,168,713.84	8,219,327.58
Total	83,485,377.63	62,067,808.10

## (4) Top 5 Other Accounts Receivable in Ending Balance Collected according to the Arrears Party

Unit: RMB

Name of the entity	Nature	Ending balance	Aging	Proportion to total ending balance of other accounts receivable	Ending balance of bad debt provision
Advances for agricultural machinery	Advance	20,144,428.21	Within 1 year	24.13%	1,007,221.41
Export taxes refund receivable	Export taxes refund	16,212,237.17	Within 1 year	19.41%	810,611.86
Advance money receivable of the fundraising houses	Advance	7,393,934.63	Within 1 year	8.86%	369,696.73
Farmland premium	Premium	5,607,294.08	Within 1 year	6.72%	280,364.70
Advances for farm land leveling and canal projects in Xinjiang	Advance	4,811,384.69	Within 1 year	5.76%	240,569.23
Total	--	54,169,278.78	--	64.88%	2,708,463.93

## 7. Inventory

### (1) Category of Inventory

Unit: RMB

Item	Ending balance			Beginning balance		
	Carrying amount	Depreciation reserves	Carrying value	Carrying amount	Depreciation reserves	Carrying value
Raw materials	894,061,853.37		894,061,853.37	859,429,529.00	1,172,453.02	858,257,075.98
Goods in process	458,253,436.36		458,253,436.36	508,535,945.66		508,535,945.66
Inventory goods	668,773,766.10	32,279,398.47	636,494,367.63	754,961,464.17	51,653,377.28	703,308,086.89
Consumptive living assets	1,477,285.41	355,425.24	1,121,860.17	1,531,621.67	404,221.67	1,127,400.00
Assigned processing products	27,493,110.20		27,493,110.20	29,432,713.40		29,432,713.40
Total	2,050,059,451.44	32,634,823.71	2,017,424,627.73	2,153,891,273.90	53,230,051.97	2,100,661,221.93

Whether the Company needs to comply with the disclosure requirements of Shenzhen Stock Exchange Industry Information Disclosure Guidelines No. 4 - Listed Companies Engaged in Seed Industry and Planting Business

No

### (2) Falling Price Reserves of Inventory

Unit: RMB

Item	Beginning balance	Increased amount		Decreased amount		Ending balance
		Withdrawal	Other	Reverse or write-off	Other	
Raw materials	1,172,453.02			1,172,453.02		
Inventory goods	51,653,377.28	-99,805.82		19,274,172.99		32,279,398.47
Consumptive living assets	404,221.67			48,796.43		355,425.24
Total	53,230,051.97	-99,805.82		20,495,422.44		32,634,823.71

### (3) Notes to the Inventory with the Ending Balance Including Capitalized Borrowing Expenses

Not applicable

**(4) The Withdrawal Basis for Inventory Falling Price Reserves and Reasons for Write-back or Write-off during the Reporting Period**

Item	Specific basis of withdrawal of inventory falling price reserves	Reasons for write-back	Reasons for write-off
Raw materials	The lower one between cost of each item of inventory and its realizable net value		Disposed in the Reporting Period
Inventory goods	The lower one between cost of each item of inventory and its realizable net value		Sold in the Reporting Period
Consumptive living assets	The lower one between cost of each item of inventory and its realizable net value		Sold in the Reporting Period

Notes: ①The inventory falling price reserves shall be made based on the balance of inventory cost and the realizable net value regarding the former is higher than the latter, which is caused by the quality problem of some raw materials, the gray yarn and dyed yarn in finished products, by the long stock age of some shirts and fabric and by the decrease of market price of the consumptive living asset Hu sheep at the end of the Reporting Period.

②The subsidiary of the Company-Xinjiang Lu Thai Textile-obtained the short-term borrowing of RMB100,000,000.00 from the bank taking the inventories with the carrying value of RMB67,984,874.74 as a pledge.

**8. Other Current Assets**

Unit: RMB

Item	Ending balance	Beginning balance
VAT input tax to be deducted	44,426,042.78	68,286,428.20
Prepaid income tax to be deducted	2,629,302.17	302,275.14
Financial products	50,000,000.00	50,000,000.00
B-share repurchase account	53,750,798.82	
Total	150,806,143.77	118,588,703.34

**9. Available-for-sale Financial Assets**

**(1) List of Available-for-sale Financial Assets**

Unit: RMB



Item	Ending balance			Beginning balance		
	Carrying amount	Depreciation reserves	Carrying value	Carrying amount	Depreciation reserves	Carrying value
Available-for-sale debt instruments:	61,233,000.00		61,233,000.00	60,033,000.00		60,033,000.00
Available-for-sale equity instruments:	67,282,600.00	42,782,600.00	24,500,000.00	67,282,600.00	42,782,600.00	24,500,000.00
Measured at fair value	61,233,000.00		61,233,000.00	60,033,000.00		60,033,000.00
Measured at cost	67,282,600.00	42,782,600.00	24,500,000.00	67,282,600.00	42,782,600.00	24,500,000.00
Total	128,515,600.00	42,782,600.00	85,733,000.00	127,315,600.00	42,782,600.00	84,533,000.00

### (2) Available-for-sale Financial Assets Measured by Fair Value at the Period-end

Unit: RMB

Category of available-for-sale financial assets	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Equity instrument costs/debt instrument amortization costs		60,000,000.00	60,000,000.00
Fair value		61,233,000.00	61,233,000.00
Accumulative amount of changes in fair value included in other comprehensive income		1,233,000.00	1,233,000.00

### (3) Available-for-sale Financial Assets Measured by Cost at the Period-end

Unit: RMB

Investee	Carrying amount				Depreciation reserves				Shareholding proportion in the investee	Cash bonus during the Reporting Period
	Period-beginning	Increase	Decrease	Period-end	Period-beginning	Increase	Decrease	Period-end		
Yantai Rongchang Pharmacy Co., Ltd. (hereinafter refer to as "Rongchang Pharmacy")	55,282,600.00			55,282,600.00	42,782,600.00			42,782,600.00	3.13%	
Shandong Hongqiao Power Co., Ltd. (Hongqiao Power)	12,000,000.00			12,000,000.00					19.38%	

Total	67,282,600.00			67,282,600.00	42,782,600.00			42,782,600.00	--	
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#### (4) Changes in the Depreciation of Available-for-sale Financial Assets during the Reporting Period

Unit: RMB

Category of the available-for-sale financial assets	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Beginning balance of impairment withdrawn	42,782,600.00		42,782,600.00
Ending balance of impairment withdrawn	42,782,600.00		42,782,600.00

### 10. Long-term Accounts Receivable

#### (1) List of Long-term Accounts receivable

Unit: RMB

Item	Ending balance			Beginning balance			Interval of discount rate
	Carrying amount	Bad debt provision	Carrying value	Carrying amount	Bad debt provision	Carrying value	
Financing lease accounts	650,000.00		650,000.00				29.40%
Of which: unrealized financing income	145,204.18		145,204.18				
Total	650,000.00		650,000.00				--

### 11. Long-term Equity Investment

Unit: RMB

Investees	Beginning balance	Increase/decrease								Ending balance	Ending balance of depreciation reserves	
		Additonal investment	Reduced investment	Gains and losses recognized under the equity method	Adjustment of other comprehensive income	Changes of other equity	Cash bonus or profits announced to issue	Withdrawal of depreciation reserves	Other			
I. Joint ventures												
II. Associated enterprises												
Ningbo Mei	97,536,732.02			-1,730,597.59							95,806,134.43	

shan Bonded Poer Area Haohong Equity Investment Partnership (L.P) (hereinafter referred to as “Haohong Investment”)										
Subtotal	97,536,732.02			-1,730,597.59						95,806,134.43
Total	97,536,732.02			-1,730,597.59						95,806,134.43

## 12. Investment Property

### (1) Investment Property Adopted the Cost Measurement Mode

Applicable  Not applicable

Unit: RMB

Item	Houses and buildings	Land use right	Construction in progress	Total
I. Original carrying value				
1. Beginning balance	35,982,382.40			35,982,382.40
2. Increased amount of the period				
(1) Outsourcing				
(2) Transfer from inventory\fixed assets\construction in progress				
(3) Enterprise combination increase				
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				
4. Ending balance	35,982,382.40			35,982,382.40
II. Accumulative depreciation and accumulative amortization				
1. Beginning balance	11,418,837.82			11,418,837.82
2. Increased amount of the period	706,838.89			706,838.89
(1) Withdrawal or amortization	706,838.89			706,838.89
3. Decreased amount of the period				

(1) Disposal				
(2) Other transfer				
4. Ending balance	12,125,676.71			12,125,676.71
III. Depreciation reserves				
1. Beginning balance				
2. Increased amount of the period				
(1) Withdrawal				
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				
4. Ending balance				
IV. Carrying value				
1. Ending carrying value	23,856,705.69			23,856,705.69
2. Beginning carrying value	24,563,544.58			24,563,544.58

## (2) Investment Property Adopted the Fair Value Measurement Mode

Applicable  Not applicable

## 13. Fixed Assets

### (1) List of Fixed Assets

Unit: RMB

Item	Houses and buildings	Machinery equipment	Transportation equipment	Electronic equipment and others	Total
I. Original carrying value					
1. Beginning balance	3,136,008,729.48	6,013,226,456.60	75,605,860.26	118,680,314.89	9,343,521,361.23
2. Increased amount of the period	625,984.09	220,691,369.26	3,002,436.32	4,940,100.33	229,259,890.00
(1) Purchase	8,387.68	103,632,024.02	3,002,436.32	3,872,410.24	110,515,258.26
(2) Transfer from construction in progress	617,596.41	117,059,345.24		1,067,690.09	118,744,631.74
(3) Enterprise combination increase					
3. Decreased amount of the period	61,665,913.62	109,299,112.67	2,623,436.05	692,964.26	174,281,426.60

(1) Disposal or Scrap	2,273,039.58	9,678,561.86	2,676,654.36	730,095.66	15,358,351.46
(2) Transferred into investment property					
(3) Transferred into construction in progress	63,326,344.11	104,747,451.53		11,980.00	168,085,775.64
(4) Other decrease	-3,933,470.07	-5,126,900.72	-53,218.31	-49,111.40	-9,162,700.50
4. Ending balance	3,074,968,799.95	6,124,618,713.19	75,984,860.53	122,927,450.96	9,398,499,824.63
II. Accumulative depreciation					
1. Beginning balance	888,764,731.56	2,869,058,997.31	53,792,239.67	78,471,588.54	3,890,087,557.08
2. Increased amount of the period	48,755,271.49	147,932,075.47	2,467,451.93	4,944,608.19	204,099,407.08
(1) Withdrawal	48,755,271.49	147,932,075.47	2,467,451.93	4,944,608.19	204,099,407.08
3. Decreased amount of the period	22,399,548.45	60,416,202.84	2,326,468.59	689,045.79	85,831,265.67
(1) Disposal or Scrap	335,639.84	7,970,480.70	2,344,130.34	696,971.60	11,347,222.48
(2) Transferred into construction in progress	22,311,100.92	52,974,322.84		10,782.00	75,296,205.76
(3) Other decrease	-247,192.31	-528,600.70	-17,661.75	-18,707.81	-812,162.57
4. Ending balance	915,120,454.60	2,956,574,869.94	53,933,223.01	82,727,150.94	4,008,355,698.49
III. Depreciation reserves					
1. Beginning balance	2,893,416.89	29,123,503.34	27,269.67	93,764.22	32,137,954.12
2. Increased amount of the period					
(1) Withdrawal					
3. Decreased amount of the period		1,302,690.04			1,302,690.04
(1) Disposal or Scrap		1,302,690.04			1,302,690.04
4. Ending balance	2,893,416.89	27,820,813.30	27,269.67	93,764.22	30,835,264.08
IV. Carrying value					
1. Ending carrying value	2,156,954,928.46	3,140,223,029.95	22,024,367.85	40,106,535.80	5,359,308,862.06
2. Beginning carrying value	2,244,350,581.03	3,115,043,955.95	21,786,350.92	40,114,962.13	5,421,295,850.03

## (2) Fixed Assets Leased out by Operation Lease

Unit: RMB

Item	Ending carrying value
Houses and buildings	19,075,215.72

### (3) Fixed Assets Failed to Accomplish Certification of Property

Unit: RMB

Item	Carrying value	Reason
Weaving and yarn dyeing workshop	103,467,194.39	Ongoing inspection, surveying, verification to application procedures by Housing authorities
Employee's dormitory building of eastern area of industrial park	42,283,610.59	Same with above
Spinning Fourth factory workshop	92,197,016.21	Same with above
Employee's dormitory building of western area of industrial park	123,773,968.11	Same with above
Eastern sample plant	30,318,302.04	Same with above
Lufeng weaving dye workshop	128,263,529.32	Same with above
Xinjiang construction project of 100,000-spindle spinning production line	64,027,681.05	Same with above

Note: The original carrying value and other decrease in accumulative depreciation of fixed assets in the Reporting Period were exchange rate difference generated from the conversion of overseas subsidiaries' recording currency into RMB due to the fluctuation of the exchange rates.

### 14. Construction in Progress

#### (1) List of Construction in Progress

Unit: RMB

Item	Ending balance			Beginning balance		
	Carrying amount	Depreciation on reserves	Carrying value	Carrying amount	Depreciation on reserves	Carrying value
Roof transformation engineering of for the whole eastern weaving complex workshop (Phase II)	33,997,010.54		33,997,010.54			
Reform project of Xinsheng Thermal Power	9,719,978.74		9,719,978.74	6,192,038.65		6,192,038.65
Expansion project of Xinsheng Thermal Power	5,697,893.74		5,697,893.74	744,000.00		744,000.00
Expansion project of Xinsheng Thermal Power (Phase II)	9,864,619.23		9,864,619.23			
Heat supply engineering of Chengshun Heating	5,028,045.18		5,028,045.18	1,805,751.30		1,805,751.30

Reform engineering of 100,000-spindle spinning				77,875,603.13		77,875,603.13
Lu Thai (Vietnam) project	34,325,323.53		34,325,323.53	34,325,323.53		34,325,323.53
Spinning Phase II of Lu Thai (Vietnam) project	40,564,949.43		40,564,949.43	4,922,411.28		4,922,411.28
Yarn Dye Phase II of Lu Thai (Vietnam) project	17,584,838.00		17,584,838.00			
Project of Lu An Garments	16,468,087.74		16,468,087.74	3,371,413.19		3,371,413.19
Other retails projects	39,666,780.72		39,666,780.72	28,185,279.60		28,185,279.60
Total	212,917,526.85		212,917,526.85	157,421,820.68		157,421,820.68

## (2) Changes in Significant Construction in Progress during the Reporting Period

Unit: RMB

Item	Budget	Beginning balance	Increased amount	Transferred in fixed assets	Other decreased amount	Ending balance	Proportion of accumulated investment in constructions to budget	Job schedule	Accumulated amount of interest capitalization	Of which: amount of capitalized interests for the Reporting Period	Capitalization rate of interests for the Reporting Period	Capital resources
Roof transformation engineering of for the whole eastern weaving complex workshop (Phase II)	36,000,000.00		33,997,010.54			33,997,010.54	94.00%	94.00%				Other

Reform project of Xinsheng Thermal Power	20,000,000.00	6,192,038.65	3,527,940.09			9,719,978.74	49.00%	49.00%				Other
Expansion project of Xinsheng Thermal Power	240,000,000.00	744,000.00	4,953,893.74			5,697,893.74	86.00%	86.00%				Other
Expansion project of Xinsheng Thermal Power (Phase II)	97,950,000.00		9,864,619.23			9,864,619.23	10.00%	10.00%				Other
Heat supply engineering of Chengshun Heating	38,000,000.00	1,805,751.30	3,222,293.88			5,028,045.18	99.00%	99.00%				Other
Reform engineering of 100,000-spindle spinning	156,000,000.00	77,875,603.13	38,710,587.12	116,586,190.25			100.00%	100.00%				Other
Lu Thai (Vietnam) project	242,282,300.00	34,325,323.53				34,325,323.53	99.00%	99.00%				Other



Spinning Phase II of Lu Thai (Vietnam) project	52,750,000.00	4,922,411.28	35,233,707.58		-408,830.57	40,564,949.43	76.00%	76.00%				Other
Yarn Dye Phase II of Lu Thai (Vietnam) project	110,300,000.00		17,584,838.00			17,584,838.00	16.00%	16.00%				Other
Project of Lu An Garments	93,035,700.00	3,371,413.19	13,573,989.65	512,433.99	-35,118.89	16,468,087.74	91.00%	91.00%				Other
Other retails projects		28,185,279.60	13,127,508.62	1,646,007.50		39,666,780.72						Other
<b>Total</b>	<b>1,086,318,000.00</b>	<b>157,421,820.68</b>	<b>173,796,388.45</b>	<b>118,744,631.74</b>	<b>-443,949.46</b>	<b>212,917,526.85</b>	<b>--</b>	<b>--</b>				<b>--</b>

## 15. Engineering Materials

Unit: RMB

Item	Ending balance	Beginning balance
Specific materials		
Specific equipment	152,136,560.03	56,913,806.06
<b>Total</b>	<b>152,136,560.03</b>	<b>56,913,806.06</b>

## 16. Intangible Assets

### (1) List of Intangible Assets

Unit: RMB

Item	Land use right	Patent right	Non-patent right	Software use rights	Brand use rights	Total
I. Original carrying value						

1. Beginning balance	604,760,289.56	1,985,176.47		6,710,503.67	300,000.00	613,755,969.70
2. Increased amount of the period				1,106,048.24		1,106,048.24
(1) Purchase				1,106,048.24		1,106,048.24
(2) Internal R&D						
(3) Business combination increase						
3. Decreased amount of the period						
(1) Disposal						
4. Ending balance	604,760,289.56	1,985,176.47		7,816,551.91	300,000.00	614,862,017.94
II. Accumulated amortization						
1. Beginning balance	111,042,573.91	1,422,710.04		2,252,384.27	90,000.00	114,807,668.22
2. Increased amount of the period	6,873,241.70	99,258.84		1,774,934.53	15,000.00	8,762,435.07
(1) Withdrawal	6,873,241.70	99,258.84		1,774,934.53	15,000.00	8,762,435.07
3. Decreased amount of the period						
(1) Disposal						
4. Ending balance	117,915,815.61	1,521,968.88		4,027,318.80	105,000.00	123,570,103.29
III. Depreciation reserves						
1. Beginning balance						
2. Increased amount of the period						
(1) Withdrawal						
3. Decreased amount of the period						
(1) Disposal						
4. Ending balance						
IV. Carrying value						
1. Ending carrying value	486,844,473.95	463,207.59		3,789,233.11	195,000.00	491,291,914.65
2. Beginning carrying value	493,717,715.65	562,466.43		4,458,119.40	210,000.00	498,948,301.48

The proportion of intangible assets formed from the internal R&D of the Company at the Period-end to the ending balance of intangible assets was 0.00%.

## 17. R&D Expense

Unit: RMB

Item	Beginning balance	Increase		Decrease		Ending balance
		Internal R&D expense	Other	Recognized as intangible assets	Transferred into the current profit or loss	
R&D of products		162,596,245.80			162,596,245.80	
Total		162,596,245.80			162,596,245.80	

## 18. Goodwill

### (1) Original Carrying Value of Goodwill

Unit: RMB

Name of the invested units or events generating goodwill	Beginning balance	Increase	Decrease	Ending 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

### (2) Impairment Provision for Goodwill

Unit: RMB

Name of the invested units or events generating goodwill	Beginning balance	Increase	Decrease	Ending balance
Xinsheng Power				
Helijie				

Notes of the testing process of goodwill impairment, parameters and the recognition method of goodwill impairment losses:

Refer to Note V-20 for details of the testing process of goodwill impairment.

## 19. Long-term Prepaid Expense

Unit: RMB

Item	Beginning balance	Increased	Amortization	Other decreased	Ending balance
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		amount	amount of the period	amount	
Land contracting fee of Xinjiang Luthai	26,693,642.92		543,109.50		26,150,533.42
Decoration fee of Xinjiang Lu Thai	865,660.06		96,940.31		768,719.75
Land rent of overseas subsidiaries	80,148,619.17	3,713,555.49	761,994.05	-866,155.88	83,966,336.49
Housing rent of overseas subsidiaries	169,272.37		171,406.99	-2,134.62	
<b>Total</b>	<b>107,877,194.52</b>	<b>3,713,555.49</b>	<b>1,573,450.85</b>	<b>-868,290.50</b>	<b>110,885,589.66</b>

Other notes

Note: Other decrease was the exchange rate difference generated from the conversion of overseas subsidiaries' recording currency into RMB due to the fluctuation of exchange rates.

## 20. Deferred Income Tax Assets/Deferred Income Tax Liabilities

### (1) Deferred Income Tax Assets Had Not Been Off-set

Unit: RMB

Item	Ending balance		Beginning balance	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for impairment of assets	123,762,792.64	19,984,983.02	140,256,135.72	22,531,008.74
Internal unrealized profit	109,048,430.64	14,813,500.08	100,706,925.35	11,627,841.87
One-time listed decoration expenses	5,405,702.23	1,351,425.56	5,405,702.23	1,351,425.56
Payroll payable	124,021,657.72	18,701,206.18	124,021,657.72	18,701,206.18
Deferred income	126,957,174.18	20,464,628.41	126,737,092.32	20,485,677.36
<b>Total</b>	<b>489,195,757.41</b>	<b>75,315,743.25</b>	<b>497,127,513.34</b>	<b>74,697,159.71</b>

### (2) Deferred Income Tax Liabilities Had not Been Off-set

Unit: RMB

Item	Ending balance		Beginning balance	
	Deductible temporary difference	Deferred income tax liabilities	Deductible temporary difference	Deferred income tax liabilities
Depreciation of fixed	16,979,223.43	2,927,785.33	16,820,058.15	2,899,949.46

assets				
Available-for-sale financial assets	1,233,000.00	184,950.00	33,000.00	4,950.00
Total	18,212,223.43	3,112,735.33	16,853,058.15	2,904,899.46

### (3) List of Unrecognized Deferred Income Tax Assets

Unit: RMB

Item	Ending balance	Beginning balance
Deductible temporary difference	8,507,616.96	11,690,891.52
Deductible losses	28,067,909.91	27,993,886.84
Total	36,575,526.87	39,684,778.36

### (4) Deductible Losses of Unrecognized Deferred Income Tax Assets will Due in the Following Years

Unit: RMB

Years	Ending amount	Beginning amount	Notes
Y2018	97,981.65	97,981.65	
Y2019	1,456,659.23	1,456,659.23	
Y2020	18,458,244.61	18,458,244.61	
Y2021	4,250,703.45	4,250,703.45	
Y2022	3,730,297.90	3,730,297.90	
Y2023	74,023.07		
Total	28,067,909.91	27,993,886.84	--

## 21. Other Non-current Assets

Unit: RMB

Item	Ending balance	Beginning balance
Prepayment for equipment	78,517,334.73	28,984,077.85
Prepayment for land	1,996,937.00	7,406,401.00
Total	80,514,271.73	36,390,478.85

## 22. Short-term Borrowings

### (1) Category of Short-term Borrowings

Unit: RMB

Item	Ending balance	Beginning balance
Mortgage loan	150,000,000.00	440,000,000.00
Guaranteed loan	527,722,734.36	28,254,022.53
Credit loan	780,336,227.97	666,870,973.87
Total	1,458,058,962.33	1,135,124,996.40

Notes of the category for short-term loans:

Note: for the type and amount of the pledged assets for mortgage loan, please refer to Note VII-7,16 and 58.

### 23. Financial Liabilities at Fair Value through Profit or Loss

Unit: RMB

Item	Ending balance	Beginning balance
Trading financial liabilities	28,481,010.00	
Of which: issued trading bonds		
Derivative financial liabilities	28,481,010.00	
Other		
Financial liabilities designated to be measured at fair value through profit or loss		
Total	28,481,010.00	

### 24. Notes Payable

Unit: RMB

Category	Ending balance	Beginning balance
Trade acceptance	2,039,106.28	2,441,810.45
Bank's acceptance bill	1,079,450.50	4,859,961.40
Total	3,118,556.78	7,301,771.85

The total overdue but unpaid notes payable at the period-end were RMB0.00.

### 25. Accounts Payable

#### (1) List of Accounts Payable

Unit: RMB

Item	Ending balance	Beginning balance
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Purchase of goods	188,533,806.46	219,463,023.43
Engineering equipment	83,642,879.87	134,864,245.66
Other	11,477,182.31	11,937,863.56
Total	283,653,868.64	366,265,132.65

## 26. Advances from Customers

### (1) List of Advances from Customers

Unit: RMB

Item	Ending balance	Beginning balance
Advance from goods	99,307,372.64	119,785,945.48
Total	99,307,372.64	119,785,945.48

## 27. Payroll Payable

### (1) List of Payroll Payable

Unit: RMB

Item	Beginning balance	Increase	Decrease	Ending balance
I. Short-term salary	316,812,093.17	841,207,933.99	911,760,588.44	246,259,438.72
II. Post-employment benefit-defined contribution plans	24,395.78	75,787,694.44	75,788,964.90	23,125.32
III. Termination benefits		180,688.20	180,688.20	
Total	316,836,488.95	917,176,316.63	987,730,241.54	246,282,564.04

### (2) List of Short-term Salary

Unit: RMB

Item	Beginning balance	Increase	Decrease	Ending balance
1. Salary, bonus, allowance, subsidy	267,328,134.33	757,339,575.32	831,946,327.90	192,721,381.75
2. Employee welfare		27,175,649.69	27,175,649.69	
3. Social insurance	35,231.00	34,876,878.81	34,874,630.67	37,479.14
Of which: 1. Medical insurance premiums	28,800.70	27,627,857.60	27,627,430.47	29,227.83
Work-related injury insurance	5,065.07	3,570,163.13	3,568,361.67	6,866.53
Maternity insurance	1,365.23	3,678,858.08	3,678,838.53	1,384.78

4. Housing fund	1,293.00	8,133,982.10	8,135,275.10	
5. Labor union budget and employee education budget	49,447,434.84	13,681,848.07	9,628,705.08	53,500,577.83
Total	316,812,093.17	841,207,933.99	911,760,588.44	246,259,438.72

### (3) List of Defined Contribution Plans

Unit: RMB

Item	Beginning balance	Increase	Decrease	Ending balance
1. Basic pension benefits	22,636.70	72,984,343.09	72,984,781.91	22,197.88
2. Unemployment insurance	1,759.08	2,803,351.35	2,804,182.99	927.44
Total	24,395.78	75,787,694.44	75,788,964.90	23,125.32

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 18% and 0.7% 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.

### 28. Taxes Payable

Unit: RMB

Item	Ending balance	Beginning balance
VAT	2,760,614.68	2,639,133.26
Corporate income tax	21,524,297.71	13,934,074.08
Personal income tax	3,214,555.49	1,453,967.09
Urban maintenance and construction tax	2,967,638.49	3,036,340.88
Stamp tax	347,321.70	400,579.00
Property tax	4,667,520.13	4,618,710.82
Land use tax	4,486,008.66	4,537,230.07
Education surcharge	1,293,949.35	1,314,401.95
Local education surcharge	862,632.88	876,267.97
Local water conservancy facility construction fund	214,710.11	217,869.46
Resource tax	139,102.00	26,516.00
Environmental protection tax	274,070.50	
Total	42,752,421.70	33,055,090.58



## 29. Interest Payable

Unit: RMB

Item	Ending balance	Beginning balance
Interest payable on short-term borrowings	2,079,744.07	1,572,231.86
Total	2,079,744.07	1,572,231.86

## 30. Dividends Payable

Unit: RMB

Item	Ending balance	Beginning balance
Dividends payable to individual shareholders by the Company	441,113.64	441,113.64
Total	441,113.64	441,113.64

Other notes, including significant dividends payable unpaid for over one year, the unpaid reason shall be disclosed:

Notes: the dividends payable unpaid for over one year were the cash dividend of previous year not received by individual shareholders.

## 31. Other Accounts Payable

### (1) Other Accounts Payable Listed by Nature of Account

Unit: RMB

Item	Ending balance	Beginning balance
Deposits and cash deposits etc.	18,572,061.86	19,600,682.80
Collecting payment on behalf of others	19,770,608.87	17,030,878.91
Intercourse funds	95,570,959.03	66,354,397.71
Other	23,499,304.14	24,104,049.83
Total	157,412,933.90	127,090,009.25

### (2) Significant Other Accounts Payable Aging over One Year

Unit: RMB

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

## 32. Non-current Liabilities Due within One Year

Unit: RMB

Item	Ending balance	Beginning balance
Long-term borrowings due within one year		62,750,292.49
Total		62,750,292.49

### 33. Long-term Borrowings

#### (1) Category of Long-term Borrowings

Unit: RMB

Item	Ending balance	Beginning balance
Guarantee loan	69,431,359.47	62,750,292.49
Less: long-term borrowings due within one year		-62,750,292.49
Total	69,431,359.47	

### 34. Long-term Payroll Payable

#### (1) List of Long-term Payroll Payable

Unit: RMB

Item	Ending balance	Beginning balance
III. Other long-term welfare	92,458,178.53	93,843,473.02
Total	92,458,178.53	93,843,473.02

### 35. Deferred Income

Unit: RMB

Item	Beginning balance	Increase	Decrease	Ending balance	Reason for formation
Government subsidies	126,737,092.32	2,417,500.00	2,342,622.32	126,811,970.00	Government subsidies
Unrealized financing incomes		237,606.84	92,402.66	145,204.18	Finance lease
Total	126,737,092.32	2,655,106.84	2,435,024.98	126,957,174.18	--

Item involving government subsidies:

Unit: RMB

Item	Beginning balance	Amount of newly subsidy	Amount recorded into non-operat	Amount recorded into other income in the	Amount offset cost in the Reporting	Other change s	Ending balance	Related to assets/related income
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			ing income in the Reporting Period	Reporting Period	Period			
Land	59,265,769.33			696,578.94			58,569,190.39	Related to the assets
Equipment	64,626,322.95	417,500.00		1,579,543.40			63,464,279.55	Related to the assets
Production living assets	691,000.04			66,499.98			624,500.06	Related to the assets
Overseas investment	100,000.00	400,000.00					500,000.00	Related to the assets
R&D	2,054,000.00	1,600,000.00					3,654,000.00	Related to the income
Total	126,737,092.32	2,417,500.00	0.00	2,342,622.32	0.00	0.00	126,811,970.00	--

Other notes:

### 36. Other Non-current Liabilities

Unit: RMB

Item	Ending balance	Beginning balance
Other	1,840,000.00	1,840,000.00
Total	1,840,000.00	1,840,000.00

### 37. Share Capital

Unit: RMB

	Beginning balance	Increase/decrease (+/-)					Ending balance
		New shares issued	Bonus shares	Bonus issue from profit	Other	Subtotal	
The sum of shares	922,602,311.00						922,602,311.00

### 38. Capital Reserves

Unit: RMB

Item	Beginning balance	Increase	Decrease	Ending balance
Capital premium (premium on stock)	640,470,910.34			640,470,910.34

Other capital reserves	59,022,683.48	53.66		59,022,737.14
Total	699,493,593.82	53.66	0.00	699,493,647.48

### 39. Treasury Shares

Unit: RMB

Item	Beginning balance	Increase	Decrease	Ending balance
Shares of the Company acquired for decrease in registered capital	0.00	121,952,709.49	0.00	121,952,709.49
Total		121,952,709.49		121,952,709.49

### 40. Other Comprehensive Income

Unit: RMB

Item	Beginning balance	Reporting Period					Ending balance
		Income before taxation in the Current Period	Less: recorded in other comprehensive income in prior period and transferred in profit or loss in the Current Period	Less: Income tax expense	Attributable to owners of the Company as the parent after tax	Attributable to non-controlling interests after tax	
II. Other comprehensive income that may subsequently be reclassified to profit or loss	16,810,574.22	27,739,653.92		180,000.00	27,559,653.92		44,370,228.14
Profit or loss generated from changes in fair value of available-for-sale financial assets	28,050.00	1,200,000.00		180,000.00	1,020,000.00		1,048,050.00
Differences arising from translation of foreign currency-denomin	16,782,524.22	26,539,653.92			26,539,653.92		43,322,178.14

ated financial statements							
Total of other comprehensive income	16,810,574.22	27,739,653.92		180,000.00	27,559,653.92		44,370,228.14

#### 41. Surplus Reserves

Unit: RMB

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	959,592,006.48			959,592,006.48
Discretionary surplus reserves	3,341,572.58			3,341,572.58
Total	962,933,579.06			962,933,579.06

#### 42. Retained Profits

Unit: RMB

Item	Reporting Period	Same period of last year
Beginning balance of retained profits before adjustments	4,629,102,712.06	4,341,866,189.19
Beginning balance of retained profits after adjustments	4,629,102,712.06	4,341,866,189.19
Add: Net profit attributable to owners of the Company as the parent	377,355,959.02	841,150,934.75
Less: Withdrawal of statutory surplus reserves		71,063,056.38
Dividend of ordinary shares payable	453,344,328.00	482,851,355.50
Ending retained profits	4,553,114,343.08	4,629,102,712.06

List of adjustment of beginning retained profits:

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

### 43. Operating Revenue and Cost of Sales

Unit: RMB

Item	Reporting Period		Same Period of last year	
	Operating revenue	Cost of sales	Operating revenue	Cost of sales
Main operations	3,161,001,569.72	2,286,826,556.57	2,879,100,712.82	1,969,571,645.66
Other operations	120,012,585.71	74,009,874.84	117,992,683.02	81,911,358.13
Total	3,281,014,155.43	2,360,836,431.41	2,997,093,395.84	2,051,483,003.79

### 44. Taxes and Surtaxes

Unit: RMB

Item	Reporting Period	Same Period of last year
Urban maintenance and construction tax	17,451,386.91	16,393,442.71
Education Surcharge	7,605,633.12	7,180,677.97
Property tax	10,374,539.75	9,865,797.76
Land use tax	9,379,056.90	9,262,257.89
Vehicle and vessel usage tax	75,652.02	71,177.18
Stamp duty	1,989,710.41	1,973,396.29
Local education surcharge	5,070,422.01	4,787,118.66
Local water conservancy facility construction fund	1,262,384.77	1,969,458.67
Resource tax	220,654.00	
Environmental protection tax	1,040,967.99	
Total	54,470,407.88	51,503,327.13

### 45. Selling Expense

Unit: RMB

Item	Reporting Period	Same Period of last year
Salary	19,297,126.63	18,231,453.63
Transport fees	20,928,650.85	19,456,296.25
Advertising expense	5,420,732.63	8,178,116.43
Mall costs	875,238.41	0.00
Port surcharge	6,170,035.18	5,798,672.52
Depreciation charge	2,532,810.28	2,631,285.73
Business travel charges	1,629,252.55	2,401,690.68

Rental charges	556,033.51	687,727.39
Other	9,531,208.52	10,980,269.59
Total	66,941,088.56	68,365,512.22

#### 46. Administrative Expense

Unit: RMB

Item	Reporting Period	Same Period of last year
R&D expenses	162,596,245.80	158,802,502.01
Salary	49,380,053.99	50,247,742.67
Depreciation charge	13,579,871.22	12,850,463.13
Warehouse funding	14,923,489.16	14,931,054.00
Travel expense	8,855,345.37	12,066,196.48
Rental charges	8,383,823.95	6,524,734.12
Labor-union expenditure	8,029,634.53	7,312,516.87
Employee education budget	5,642,213.54	5,469,769.99
Amortization of intangible assets	5,669,585.44	5,452,967.89
Transport fees	3,049,340.29	3,489,273.36
Other	45,761,153.21	36,890,098.97
Total	325,870,756.50	314,037,319.49

#### 47. Finance Costs

Unit: RMB

Item	Reporting Period	Same Period of last year
Interest expense	22,535,312.05	14,653,232.24
Less: Interest income	7,403,493.02	2,645,051.42
Less: Amount of capitalized interest		
Foreign exchange gains or losses	11,511,469.36	15,375,073.21
Other	3,881,936.92	3,546,924.25
Total	30,525,225.31	30,930,178.28

#### 48. Asset Impairment Loss

Unit: RMB

Item	Reporting Period	Same Period of last year
I. Bad debt loss	2,221,300.66	-1,283,546.44

II. Inventory falling price loss	-99,805.82	2,246,368.58
Total	2,121,494.84	962,822.14

#### 49. Gain on Changes in Fair Value

Unit: RMB

Sources	Reporting Period	Same period of last year
Financial assets at fair value through profit or loss		1,110,700.00
Financial liabilities at fair value through profit or loss	-28,481,010.00	
Total	-28,481,010.00	1,110,700.00

#### 50. Investment Income

Unit: RMB

Item	Reporting Period	Same Period of last year
Long-term equity investment income accounted by equity method	-1,730,597.59	
Investment income from disposal of financial assets at fair value through profit or loss	6,376,621.37	1,385,535.34
Total	4,646,023.78	1,385,535.34

#### 51. Asset Disposal Income

Unit: RMB

Sources	Reporting Period	Same period of last year
Income from disposal of fixed assets	-522,286.65	-1,191,082.48

#### 52. Other Income

Unit: RMB

Sources	Reporting Period	Same period of last year
2016 Incentive Fund for international and provincial R&D platforms (CCQZ [2018] No.13 and No.2)	2,517,200.00	
2017 Provincial Specific Fund for service industry development (ZCQZ [2017] No.169)	133,000.00	
2017 Central Specific Fund for foreign trade and economic development (ZCQZ [2017] No.179)	48,200.00	
2017 Municipal Specific fund for foreign trade and economic development (ZCQZ [2017] No.168)	131,200.00	



Municipal Specific Fund for R&D of application technology (ZKF [2017] No.100)	400,000.00	
2017 Municipal Specific Fund for patent development (ZCJZ [2018] No.23)	32,000.00	
2017 Award for Shandong science and technology (LZF [2018] No.10)	200,000.00	
Subsidy for leading talents in Mount Tai (ZZF [2018] No.14)	1,000,000.00	
Subsidy for Zibo Gifted Person Plan (ZZF [2018] No.14)	700,000.00	
Specific Raised Fund for integration of IT application with industrialization (ZCQZ [2017] No.189)	4,735,700.00	
Government subsidy in premium of ECI (CCQZ [2018] No.9)	373,200.00	
Government subsidy for new industry format of Foreign trade (CCQZ [2018] No.9)	10,600.00	
Government subsidy for international market development project (CCQZ [2018] No.8)	23,200.00	
Government subsidy for leading enterprises in export (CCQZ [2018] No.8)	100,000.00	
2017 Government subsidy for 17 <sup>th</sup> Asia International Textile Machine and Fittings Exhibition (CCQZ [2018] No.11)	5,400.00	
Government subsidy for TEXWORLD held in Feb. 2017 (CCQZ [2018] No.11)	40,000.00	
Government subsidy for 30 <sup>th</sup> Vietnam HCM Exhibition of Textile & Clothing Industry held in April 2017 (CCQZ [2018] No.11)	21,300.00	
Government subsidy for LT. GRFF (CCQZ [2018] No.11)	1,700,000.00	
Government subsidy for international qualification certification (CCQZ [2018] No.11)	10,000.00	
Specific government subsidy for corporate management improvement (ZGXWF [2018] No.1)	304,450.00	
2016 Government subsidy for freight of cotton out of Xinjiang (XCJ [2017] No.206)	464,400.00	
Government subsidy for capital of supporting infrastructure construction of Lu Thai Group (CCFSZ [2018] No.34)	16,527,500.00	
Zibo Qilu Cup Industrial Design Rewards	30,000.00	
Government subsidy for social insurance and post subsidy of people with job hunting difficulties hired during Jan. to May of 2018 (LCS [2011] No.55)	1,042,819.75	
2016 subsidy for outstanding energy-saving enterprises in Zibo (ZZZ [2017] No.118)	300,000.00	
Fund for green cotton project with high yield and high efficiency	500,000.00	
Specific fund for agricultural industrialized development	600,000.00	
Compensatory resettlement fund from land acquisition for highway	500,390.33	
2017 4 <sup>th</sup> subsidy for freight of cotton yarn	908,274.23	
2017 4 <sup>th</sup> electricity price subsidy	305,711.64	
2017 4 <sup>th</sup> quarter social insurance subsidy	246,565.76	
2017 Pre-employment training subsidy for textile enterprises	278,490.56	
Deferred income amortization	2,342,622.32	
2016 power industrial city 30 policies support fund (special fund for business management Zicaiqizhi [2016] No. 205)		3,036,000.00

Special fund for development of service sector (Chuancaiqizhi[2017] No. 16, No. 17)		70,500.00
Subsidy for Elite Program of Zibo (Zizhengbanzi[2016] No. 159)		500,000.00
Receiving subsidy from the academician workstation (Cheque No: 14916508)		200,000.00
Progress of Science and Technology Award		50,000.00
Reward fund for enterprises with an advantage in patent creation in 2016 (Zizhizi[2017] No. 22)		30,000.00
Fund for energy-saving		30,000.00
Fund for supporting talents		300,000.00
Funding for Municipal Key Talents Introduce Project		50,000.00
Export credit insurance premiums		135,200.00
Subsidy for Las Vegas Show		56,000.00
Government subsidy for brand construction		740,200.00
Government subsidy for service trade		20,000.00
Progress of Science and Technology Award in of Zibo in 2016		50,000.00
Counterpart funding for post doctorates		50,000.00
Special subsidy liquidation fund for textile and garment in 2016		3,871,234.20
Deferred income amortization		1,391,503.09
Total	36,532,224.59	10,580,637.29

### 53. Non-operating Income

Unit: RMB

Item	Reporting Period	Same Period of last year	Amount recorded in the current non-recurring profit or loss
Gains from damage and scrap of non-current assets	12,598.97		12,598.97
Government subsidies unrelated to normal operations of the Company		130,000.00	
Other	2,998,473.61	4,235,273.28	2,998,473.61
Total	3,011,072.58	4,365,273.28	3,011,072.58

### 54. Non-operating Expense

Unit: RMB

Item	Reporting Period	Same Period of last year	Amount recorded in the current non-recurring profit or loss
Donations	7,246.70	3,010,000.00	7,246.70
Losses from damage and scrap	1,094,026.64	781,154.66	1,094,026.64

of non-current assets			
Other	893,650.37	857,770.73	893,650.37
Total	1,994,923.71	4,648,925.39	1,994,923.71

## 55. Income Tax Expense

### (1) List of Income Tax Expense

Unit: RMB

Item	Reporting Period	Same Period of last year
Current income tax expense	63,894,098.11	82,330,397.98
Deferred income tax expense	-618,583.54	-2,874,770.96
Total	63,275,514.57	79,455,627.02

### (2) Adjustment Process of Accounting Profit and Income Tax Expense

Unit: RMB

Item	Reporting Period
Profit before taxation	453,439,851.52
Current income tax expense accounted at statutory/applicable tax rate	68,015,977.73
Influence of applying different tax rates by subsidiaries	-917,425.56
Influence of income tax before adjustment	629,616.91
Influence of non-taxable income	-9,000,551.96
Influence of not deductible costs, expenses and losses	3,795,257.08
Influence of deductible temporary difference or deductible losses of unrecognized deferred income tax in the Reporting Period	752,640.37
Income tax expense	63,275,514.57

## 56. Cash Flow Statement

### (1) Cash Generated from Other Operating Activities

Unit: RMB

Item	Reporting Period	Same Period of last year
Government subsidies	38,328,491.16	32,282,179.48
Claim income	1,639,520.19	1,325,325.55
Recovery of employee borrowings, petty cash and deposit	7,332,632.94	293,762.05

Collection for employees	2,811,301.35	278,441.53
Other	8,718,571.06	16,605,176.27
<b>Total</b>	<b>58,830,516.70</b>	<b>50,784,884.88</b>

## (2) Cash Used in Other Operating Activities

Unit: RMB

Item	Reporting Period	Same Period of last year
Freight and miscellaneous charges	30,263,702.56	29,710,088.63
Rental charges	5,121,075.62	12,119,156.17
Advertising expense	361,478.56	2,594,594.92
Business travel charges	17,701,778.95	16,603,736.64
Insurance	9,043,863.69	3,345,635.81
Audit advisory announcement fee	4,654,078.64	2,901,671.62
Decoration & repair expenses	1,092,271.20	4,151,211.04
Donation	207,152.51	4,226,982.21
Pre-payment	967,632.15	24,679,803.50
Payment of employee borrowings, petty cash and deposit	9,938,512.86	5,521,282.60
Other	33,511,070.15	37,799,876.70
<b>Total</b>	<b>112,862,616.89</b>	<b>143,654,039.84</b>

## (3) Cash Generated from Other Investing Activities

Unit: RMB

Item	Reporting Period	Same Period of last year
Interest income	7,141,264.70	2,642,590.05
Income from forward foreign exchange	6,274,421.37	1,385,535.34
Sale of securities		66,007,480.86
Option cost	112,450.00	
<b>Total</b>	<b>13,528,136.07</b>	<b>70,035,606.25</b>

## (4) Cash Used in Other Investing Activities

Unit: RMB

Item	Reporting Period	Same Period of last year
forward settlement exchange loss	0.00	0.00

Payment of deposit for the L/C of equipment purchase	0.00	0.00
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### (5) Cash Generated from Other Financing Activities

Unit: RMB

Item	Reporting Period	Same Period of last year
Return of loan guarantees	17,200,000.00	8,000,000.00
Recovery of intercourse accounts	21,300,000.00	2,300,000.00
Government subsidies related to assets	817,500.00	0.00
Total	39,317,500.00	10,300,000.00

### (6) Cash Used in Other Financing Activities

Unit: RMB

Item	Reporting Period	Same Period of last year
Return of the B-share buy-back amount	175,517,237.20	0.00
Total	175,517,237.20	0.00

## 57. Supplemental Information for Cash Flow Statement

### (1) Supplemental Information for Cash Flow Statement

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	390,164,336.95	411,957,743.81
Add: Provision for impairment of assets	2,121,494.84	962,822.14
Depreciation of fixed assets, oil-gas assets, and productive living assets	204,806,245.97	206,209,335.09
Amortization of intangible assets	8,762,435.07	7,901,439.13
Amortization of long-term prepaid expenses	1,573,450.85	2,182,955.03
Losses from disposal of fixed assets, intangible assets and other long-lived assets (gains: negative)	522,286.65	1,972,237.14
Losses from scrap of fixed assets (gains: negative)	1,081,427.67	
Losses from changes in fair value (gains: negative)	28,481,010.00	-1,110,700.00
Finance costs (gains: negative)	29,182,177.28	27,385,715.40
Investment loss (gains: negative)	-4,646,023.78	-1,385,535.34

Decrease in deferred income tax assets (gains: negative)	-618,583.54	-2,805,205.65
Increase in deferred income tax liabilities ("—" means decrease)	207,835.87	-69,565.31
Decrease in inventory (gains: negative)	103,831,822.46	-222,720,851.30
Decrease in accounts receivable generated from operating activities (gains: negative)	-10,014,110.37	35,400,564.44
Increase in accounts payable used in operating activities (decrease: negative)	-56,853,595.15	-122,634,204.01
Other	-817,500.00	
Net cash generated from/used in operating activities	697,784,710.77	343,246,750.57
2. Significant investing and financing activities without involvement of cash receipts and payments	--	--
3. Net increase/decrease of cash and cash equivalent:	--	--
Ending balance of cash	671,571,889.84	601,657,326.65
Less: beginning balance of cash	676,639,212.86	659,116,137.67
Net increase in cash and cash equivalents	-5,067,323.02	-57,458,811.02

## (2) Cash and Cash Equivalent

Unit: RMB

Item	Ending balance	Beginning balance
I. Cash	671,571,889.84	676,639,212.86
Including: Cash on hand	3,982,351.33	8,040,420.28
Bank deposit on demand	667,589,538.44	668,598,792.58
Other monetary fund on demand	0.07	
III. Ending balance of cash and cash equivalents	671,571,889.84	676,639,212.86

## 58. Assets with Restricted Ownership or Right to Use

Unit: RMB

Item	Ending carrying value	Reason for restriction
Monetary capital	150,080.52	cash deposit of L/G
Inventory	67,984,874.74	Mortgaged for short-term borrowings
Fixed assets	101,474,035.19	Mortgaged for short-term borrowings
Total	169,608,990.45	--

## 59. Foreign Currency Monetary Items

### (1) Foreign Currency Monetary Items

Unit: RMB

Item	Ending foreign currency balance	Exchange rate	Ending balance converted to RMB
Monetary capital	--	--	
Including: USD	35,333,824.63	6.6166	233,789,784.06
EUR	589,293.86	7.6515	4,508,981.98
HKD	11,259,904.56	0.8431	9,493,225.55
JPY	1,814,848.00	0.0599	108,709.39
THB	190.19	0.1998	38.00
SGD	1.90	4.8386	9.19
GBP	2,850.86	8.6551	24,674.47
AUD	131.03	4.8633	637.24
CHF	23,407.90	6.6350	155,311.42
SEK	920.00	0.7328	674.18
MMK	381,590,866.86	0.004887	1,864,834.59
Dong	832,968,600,275.00	0.000291	242,393,862.68
Accounts receivable	--	--	
Including: USD	35,861,603.26	6.6166	237,281,884.13
EUR			
HKD	3,017,862.52	0.8431	2,544,359.89
Dong	19,943,156,276.00	0.000291	5,803,458.48
Long-term borrowings	--	--	
Including: USD	10,493,510.18	6.6166	69,431,359.47
EUR			
HKD			
Notes receivable:			
Including: USD	13,814,454.68	6.6166	91,404,720.83
Other accounts receivable			
Including: USD	198,313.13	6.6166	1,312,158.66
HKD	6,500.00	0.8431	5,480.15
JPY	1,813,040.00	0.0599	108,601.10

EUR	10,000.00	7.6515	76,515.00
MMK	1,090,000.00	0.004887	5,326.83
Dong	4,714,754,917.00	0.000291	1,371,993.68
Accounts payable:			
Including: USD	1,459,263.63	6.6166	9,655,363.74
JPY	998.37	0.0599	59.80
EUR	498,001.11	7.6515	3,810,455.50
MMK	54,124,376.26	0.004887	264,505.83
Dong	8,063,790,891.00	0.000291	2,346,563.15
Other accounts payable:			
Including: USD	5,455.33	6.6166	36,095.74
HKD	5,813,035.34	0.8431	4,900,970.10
Dong	389,536,742.00	0.000291	113,355.19
Short-term borrowings:			
Including: USD	91,703,604.26	6.6166	606,766,067.97
Dong	588,635,375,814.00	0.000291	171,292,894.36

**(2) Notes to Overseas Entities Including: for Significant Oversea Entities, Main Operating Place, Recording Currency and Selection Basis Shall Be Disclosed; if there Are Changes in Recording Currency, Relevant Reasons Shall Be Disclosed.**

√ Applicable □ Not applicable

The operating places of Company's subsidiaries Lu Thai( Hong Kong), Lu Thai(Cambodia), Lu Thai(Burma), Lu Thai(America), and Lu Thai(Vietnam), and 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. Equity in Other Entities

### 1. Equity in Subsidiary

#### (1) Subsidiaries

Name	Main operating place	Registration place	Nature of business	Holding percentage (%)		Way of gaining
				Directly	Indirectly	
Beijing Innovative	Beijing	Beijing	Wholesale and retail industry	60.00%		Set-up
Luthai (Hong Kong)	Hong	Hong Kong	Wholesale and	100.00%		Set-up



	Kong		retail industry			
Shanghai Luthai	Shanghai	Shanghai	Wholesale and retail industry	100.00%		Set-up
Xinjiang Luthai	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 industry	100.00%		Set-up
Xinsheng Power	Zibo	Zibo	Manufacturing industry	100.00%		Business combination not under the same control
Xinjiang Textile (sub-subsidiary)	Xinjiang	Xinjiang	Manufacturing industry		59.92%	Set-up
Helijie (sub-subsidiary)	Zibo	Zibo	Service		100.00%	Business combination not under the same control
Chengshun Heating (sub-subsidiary)	Zibo	Zibo	Manufacturing industry		100.00%	Business combination 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 Garments	Vietnam	Vietnam	Manufacturing industry	100.00%		Set-up

## (2) Significant Non-wholly-owned Subsidiary

Unit: RMB

Name	Shareholding proportion of non-controlling shareholders	The profit or loss attributable to the non-controlling shareholders	Declaring dividends distributed to non-controlling shareholders	Balance of non-controlling shareholders at the period-end
Xinjiang Luthai	40.08%	4,822,646.19		201,265,723.17

Lufeng Weaving & Dyeing	25.00%	7,920,513.21	355,592,421.35
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### (3) The Main Financial Information of Significant Not Wholly-owned Subsidiary

Unit: RMB

Name	Ending balance						Beginning 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 Luthai	488,075,178.89	578,451,477.03	1,066,526,655.92	555,782,242.59	4,974,927.16	560,757,169.75	533,910,300.91	552,920,939.85	1,086,831,240.76	593,505,546.28	4,950,675.96	598,456,222.24
Lufeng Weaving & Dyeing	817,800,218.73	833,800,294.71	1,651,600,513.44	193,995,287.89	29,276,476.20	223,271,764.09	756,065,670.02	841,883,193.85	1,597,948,863.87	168,738,484.34	29,616,032.10	198,354,516.44

Unit: RMB

Name	Reporting Period				Same period of last year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Xinjiang Luthai	342,127,462.81	3,505,617.21	3,505,617.21	96,172,947.55	259,171,106.59	14,636,728.56	14,636,728.56	79,439,238.74
Lufeng Weaving & Dyeing	793,449,942.60	28,734,401.92	28,734,401.92	16,773,852.80	791,134,076.11	66,827,430.66	66,827,430.66	69,665,169.07

## 2. Equity in Joint Ventures or Associated Enterprises

### (1) Significant Joint Ventures or Associated Enterprises

Unit: RMB

	Ending balance/Reporting Period	Beginning balance/The same period of last year
	Haohong Investment	Haohong Investment
Current assets	70,056,089.94	128,880,401.95
Non-current assets	217,511,055.06	163,879,055.06
Total assets	287,567,145.00	292,759,457.01
Current liabilities	150,000.00	150,000.00

Total liabilities	150,000.00	150,000.00
Equity attributable to shareholders of the Company as the parent	287,417,145.00	292,609,457.01
Net assets shares calculated at the shareholding proportion	95,806,134.43	97,536,732.02
Carrying value of investment to associated enterprises	95,806,134.43	97,536,732.02
Net profit	-5,192,312.01	
Total comprehensive income	-5,192,312.01	

## IX. The Risk Related to 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 VI”. 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.

### (I) 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 2018, 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	Period-end	Period-beginning
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Cash and cash equivalents	492,340,742.75	556,296,995.92
Notes receivable	91,404,720.83	110,349,828.81
Account receivable	245,629,702.50	252,210,660.04
Other accounts receivable	2,880,075.42	6,010,153.41
Accounts payable	16,076,948.02	44,343,006.71
Other accounts payable	5,050,421.03	4,566,032.47
Short-term borrowings	778,058,962.33	695,124,996.40
Long-term borrowings due with one year		62,750,292.49
Long-term borrowings	69,431,359.47	

## (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, refer to Note VII-22 and 33).

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		Same period of last year	
	Influence to the profits	Influence to equity of shareholders	Influence to the profits	Influence to equity of shareholders
Increase 100 BP	-3,208,984.32	-1,891,755.11	-8,376,485.24	-7,702,361.91
Decrease 100 BP	3,208,984.32	1,891,755.11	8,376,485.24	7,702,361.91

## 2. Credit Risk

On 30 June 2018, 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 manage liquidity risk, the Company keep administrators deemed sufficient cash and cash equivalents and supervised it to meet the need of the operation of the Company and reduce the influence of cash flow volatility. The Company management supervised the usage of bank loan and ensured to comply with the loan agreement.

In the end of Reporting Period, the Company held cash and bank deposit of RMB672 million. In

recent two years, the average of net cash flow of operation activities was RMB1.176 billion. The Company believed that the liquidity risk was insignificant.

## X. The Disclosure of Fair Value

### 1. Ending Fair Value of Assets and Liabilities at Fair Value

Unit: RMB

Item	Ending 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	--	--	--	--
(II) Available-for-sale financial assets		61,233,000.00		61,233,000.00
(1) Debt instrument investment		61,233,000.00		61,233,000.00
(2) Equity instrument investment				
(3) Other				
The total amount of assets consistently measured at fair value		61,233,000.00		61,233,000.00
(5) Trading financial liabilities	28,481,010.00			28,481,010.00
Of which: issued trading bonds				
Derivative financial liabilities	28,481,010.00			28,481,010.00
Other				
The total amount of liabilities consistently measured at fair value	28,481,010.00			28,481,010.00

### 2. Market Price Recognition Basis for Consistent and Inconsistent Fair Value Measurement Items at Level 1

The fair value of financial liabilities at level 1 was determined in accordance with the quotation of future foreign exchange of the bank on 30 June 2018.

### 3. Valuation Technique Adopted and Nature and Amount Determination of Important Parameters for Consistent and Inconsistent Fair Value Measurement Items at Level 2

For the fund investment without active markets in available-for-sale financial assets, the fair value was determined in accordance with the evaluation on the balance sheet date provided by the asset manager.

## XI. Connected Party and Connected Transaction

### 1. Information Related to the Company as the Parent of the Company

Name	Registration place	Nature of business	Registered capital	Proportion of share held by the Company as the parent against the Company (%)	Proportion of voting rights owned by the Company as the parent against the Company (%)
Zibo Lucheng Textile Investment Co., Ltd.	Zibo	Textile, chemistry and investment	RMB63,260,000	15.21%	15.21%

Notes to information on the Company as the parent of the Company:

The final controllers of the Company are Mr. Liu Zibin and Mr. Liu Deming.

### 2. Subsidiaries of the Company

Refer to Note VIII-1. Equity in Subsidiaries.

### 3. Information on the Joint Ventures and Associated Enterprises of the Company

Refer to Note VIII-2. Equity in Joint Ventures or Associated Enterprises.

### 4. Information on Other Connected Parties

Name	Relationship with the Company
Zibo Stanluian Cosmetics Co., Ltd. (hereinafter called "Stanluian")	Joint-stock company of the Company as the parent
Zibo Taimei Ties Co., Ltd. (hereinafter called Taimei Ties)	Majority-owned subsidiary of the Company as the parent
Zibo Limin Purified Water Co., Ltd. (hereinafter called Limin Purified Water)	Wholly-owned subsidiary of the Company as the parent
Zibo Luqun Land Co., Ltd (hereinafter called Luqun Land)	Wholly-owned subsidiary of the Company as the parent
Zibo Lurui Fine Chemical Co., Ltd. (hereinafter referred to as Lurui Chemical)	Majority-owned subsidiary of the Company as the parent
Zibo Lujia Property Management Co., Ltd. (hereinafter referred to as Lujia Property)	Wholly-owned subsidiary of the Company as the parent
Shandong Chengshun Petrochemical Co., Ltd. (hereinafter referred to as Chengshun Petrochemical)	Wholly-owned subsidiary of the Company as the parent
Hongkong Donghai International Co., Ltd. (hereinafter referred to as "Donghai International")	Wholly-owned subsidiary of the Company as the parent

## 5. List of Connected Transactions

### (1) Information on Acquisition of Goods and Reception of Labor Service (Unit:RMB'0,000)

Information on acquisition of goods and reception of labor service

Unit: RMB

Connected party	Content	Reporting Period	The approval trade credit	Whether exceed trade credit or not	Same period of last year
Zibo Lucheng Textile Investment Co., Ltd.	Processing of towel, sock, oil product, supermarket retail, household chemicals and boot etc.	6,462,966.30	7,750,000.00	No	6,638,544.04
Taimei Ties	Goods processing fee			No	641,693.32
Limin Purified Water	Recycled water, sewage treatment	12,624,335.83	14,310,000.00	No	11,460,424.24
Chengshun Petrochemical	Gas	15,016,102.73	18,000,000.00	No	8,940,846.94
Lurui Fine Chemical	Auxiliaries	53,067,182.08	63,600,000.00	No	44,827,622.22

Information of sales of goods and provision of labor service

Unit: RMB

Connected party	Content	Reporting Period	Same period of last year
Lucheng Textile	Sales of materials, electricity, running water, draught water etc.	268,002.48	534,393.58
Taimei Ties	Sales of electricity, heating charges		12,289.62
Stanluian Company	Sales of materials, electricity, and running water	6,926.79	29,595.68
Limin Purified Water	Sales of materials, electricity and lunch components etc.	72,279.13	1,365.29
Lurui Fine Chemical	Sales of drinking water, water & electricity and lunch components	88,729.05	105,936.42
Lujia Property	Sales of materials and recycled water	35,871.66	44,777.40

### (2) Information on Connected Lease

The Company was lessor:

Unit: RMB

Name of lessee	Category of leased assets	The lease income confirmed in the Reporting Period	The lease income confirmed in the same period of last year
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Zibo Lucheng Textile Investment Co., Ltd.	Houses and buildings	48,965.14	15,428.58
Lurui Fine Chemical	Houses and buildings	4,091.82	4,091.82

The Company was lessee:

Unit: RMB

Name of lessor	Category of leased assets	The lease fee confirmed in the Reporting Period	The lease fee confirmed in the same period of last year
Zibo Lucheng Textile Investment Co., Ltd.	Rent of land	1,807,428.60	1,807,428.60
Zibo Lucheng Textile Investment Co., Ltd.	Rent of gas station	250,857.12	250,857.12
Zibo Lucheng Textile Investment Co., Ltd.	Rent of land and buildings	5,748,600.80	5,634,857.16
Luqun Property	Rent of land and buildings	697,142.82	697,142.82

### (3) Information on Inter-bank Lending of Capital of Related Parties

Unit: RMB

Connected party	Amount	Start date	End date	Note
<b>Borrowing</b>				
Zibo Lucheng Textile Investment Co., Ltd.	80,520,000.00	2 Aug. 2017	31 Dec. 2018	Borrowed by the Company's subsidiaries Xinsheng Power and Chengshun Heating
Lujia Property	600,000.00	30 Mar. 2017	31 Dec. 2018	Borrowed by the Company's subsidiary Chengshun Heating
Stanluian Company	1,450,000.00	17 Aug. 2017	31 Dec. 2018	Borrowed by the Company's subsidiary Chengshun Heating
Taimei Ties	1,300,000.00	31 Mar. 2017	31 Dec. 2018	Borrowed by the Company's subsidiary Chengshun Heating
<b>Lending</b>				

## 6. Accounts Receivable and Payable of Connected Party

### (1) Accounts Receivable

Unit: RMB

Item	Connected party	Ending carrying amount	Beginning carrying amount
Accounts payable:	Lurui Fine Chemical	3,774,559.50	
Other accounts payable:	Zibo Lucheng Textile Investment Co., Ltd.	83,474,436.64	60,456,317.14



Other accounts payable:	Lujia Property	633,132.50	620,010.00
Other accounts payable:	Stanluian Company	1,505,541.04	1,473,828.33
Other accounts payable:	Taimei Ties	1,391,374.16	1,362,942.08

## XII. Commitments and Contingency

### 1. Significant Commitments

Significant commitments on the balance sheet date

#### Capital commitments

Item	Ending balance (RMB'0,000)	Beginning balance (RMB'0,000)
Commitments signed but hasn't been recognized in financial statements		
-- Commitment for constructing and purchasing long-lived assets	16,665.29	6,364.72
Total	16,665.29	6,364.72

### 2. Contingency

#### (1) In Despite of no Significant Contingency to Disclose, the Company Shall Also Make Relevant Statements.

There was no significant contingency for the Company to disclose.

## XIII. Notes of Main Items in the Financial Statements of the Company as the Parent

### 1. Accounts Receivable

#### (1) Accounts Receivable Disclosed by Category

Unit: RMB

Category	Ending balance					Beginning balance				
	Carrying amount		Bad debt provision		Carrying value	Carrying amount		Bad debt provision		Carrying value
	Amount	Proportion	Amount	With drawal proportion		Amount	Proportion	Amount	With drawal proportion	
Accounts	298,726,378.20	100.00	15,011,277.88	5.03	283,715,100.32	322,076,206.04	100.00	16,172,615.06	5.02	305,903,590.98

receivable withdrawal of bad debt provision of by credit risks characteristics		%		%			%		%	
Total	298,726,378.20	100.00%	15,011,277.88	5.03%	283,715,100.32	322,076,206.04	100.00%	16,172,615.06	5.02%	305,903,590.98

Accounts receivable with significant single amount for which bad debt provision separately accrued at the period-end:

Applicable  Not applicable

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

Applicable  Not applicable

Unit: RMB

Aging	Ending balance		
	Accounts receivable	Bad debt provision	Withdrawal proportion
Subitem within 1 year			
Subtotal within 1 year	297,847,596.66	14,892,379.84	5.00%
1 to 2 years	568,582.62	56,858.26	10.00%
2 to 3 years	310,198.92	62,039.78	20.00%
Total	298,726,378.20	15,011,277.88	5.03%

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

Applicable  Not applicable

## (2) Bad Debt Provision Withdrawn, Reversed or Recovered in the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB-1,161,337.18; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

## (3) Top 5 Accounts Receivable in Ending Balance Collected according to the Arrears Party

The total top5 accounts receivable in ending balance collected according to the arrears party for the Company was RMB101,861,233.11, accounting for 34.10% of total ending balance of accounts receivable, and the total accounts receivable correspondingly withdrawn was RMB5,093,061.66.

## 2. Other Accounts Receivable

### (1) Other Accounts Receivable Disclosed by Category

Unit: RMB

Category	Ending balance	Beginning balance
----------	----------------	-------------------

	Carrying amount		Bad debt provision		Carrying value	Carrying amount		Bad debt provision		Carrying value
	Amount	Proportion	Amount	With drawal proportion		Amount	Proportion	Amount	With drawal proportion	
Other accounts receivable with significant single amount for which bad debt provision separately accrued	410,476,728.06	92.21%			410,476,728.06	486,974,195.33	93.16%			486,974,195.33
Other accounts receivable withdrawn bad debt provision according to credit risks characteristics	34,673,033.83	7.79%	2,894,546.03	8.35%	31,778,487.80	35,729,408.00	6.84%	2,915,363.76	8.16%	32,814,044.24
<b>Total</b>	<b>445,149,761.89</b>	<b>100.00%</b>	<b>2,894,546.03</b>	<b>0.65%</b>	<b>442,255,215.86</b>	<b>522,703,603.33</b>	<b>100.00%</b>	<b>2,915,363.76</b>	<b>0.56%</b>	<b>519,788,239.57</b>

Other accounts receivable with significant single amount for which bad debt provision separately accrued at the period-end:

√ Applicable □ Not applicable

Unit: RMB

Other accounts receivable (unit)	Ending balance			
	Other accounts receivable	Bad debt provision	Withdrawal proportion	Withdrawal reason
Lu Thai (Vietnam)	353,963,796.16			no impairment for the individual test
Lu An Garments	56,512,931.90			no impairment for the individual test
<b>Total</b>	<b>410,476,728.06</b>		<b>--</b>	<b>--</b>

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

√ Applicable □ Not applicable

Unit: RMB

Aging	Ending balance		
	Other accounts receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			

Subtotal of within 1 year	28,291,279.16	1,414,563.96	5.00%
1 to 2 years	2,172,721.63	217,272.16	10.00%
2 to 3 years			20.00%
Over 3 years	4,209,033.04	1,262,709.91	30.00%
Total	34,673,033.83	2,894,546.03	8.35%

Notes to the determination basis for the Group:

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

Applicable  Not applicable

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

Applicable  Not applicable

### (2) Bad Debt Provision Withdrawn, Reversed or Recovered in the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB-20,817.73; the amount of the reversed or collected part during the Reporting Period was of RMB0.00.

### (3) Other Account Receivable Classified by Account Nature

Unit: RMB

Nature	Ending carrying amount	Beginning carrying amount
Intercourse funds	410,476,728.06	486,974,195.33
Export rebates	11,876,418.09	16,370,989.66
Payment on behalf	12,069,966.78	14,593,482.76
Guarantee deposit and cash deposit	2,434,068.07	2,532,658.50
Borrowings and petty cash	1,489,937.80	1,044,226.03
Other	6,802,643.09	1,188,051.05
Total	445,149,761.89	522,703,603.33

### (4) Top 5 Other Accounts Receivable in Ending Balance Collected according to the Arrears Party

Unit: RMB

Name of the entity	Nature	Ending balance	Aging	Proportion to total ending balance of other accounts receivable	Ending balance of bad debt provision
Lu Thai (Vietnam)	Intercourse funds	353,963,796.16	Within 1 year	79.51%	
Lu An Garments	Intercourse funds	56,512,931.90	Within 1 year	12.70%	
Refund of tax for export receivable	Export rebates	11,876,418.09	Within 1 year	2.67%	593,820.90

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	7,263,748.25	Within 1 year	1.63%	363,187.41
B-share dividend refunds receivable from securities registration and settlement companies	B-share dividend refunds receivable from securities registration and settlement companies	4,791,546.35	Within 1 year	1.08%	239,577.32
Total	--	434,408,440.75	--	97.59%	1,196,585.63

### 3. Long-term Equity Investment

Unit: RMB

Item	Ending balance			Beginning balance		
	Carrying amount	Depreciation reserve	Carrying value	Carrying amount	Depreciation reserve	Carrying value
Investment to subsidiaries	2,069,693,116.04	0.00	2,069,693,116.04	1,744,156,616.04	25,200,000.00	1,718,956,616.04
Investment to joint ventures and associated enterprises	95,806,134.43		95,806,134.43	97,536,732.02		97,536,732.02
Total	2,165,499,250.47		2,165,499,250.47	1,841,693,348.06	25,200,000.00	1,816,493,348.06

#### (1) Investment to the Subsidiary

Unit: RMB

Investee	Beginning balance	Increase	Decrease	Ending balance	Depreciation reserve withdrawn	Ending balance of depreciation reserve
Beijing Innovative	25,200,000.00		25,200,000.00	0.00		
Xinjiang Luthai	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		
Luthai (Hong Kong)	128,771,800.00			128,771,800.00		
Shanghai Luthai	20,000,000.00			20,000,000.00		
Lu Thai	108,242,335.38			108,242,335.38		

(Cambodia)						
Lu Thai (America)	10,209,050.00				10,209,050.00	
Lu Thai(Burma)	62,337,238.57				62,337,238.57	
Beijing Youxian	13,500,000.00	4,500,000.00			18,000,000.00	
Lu Thai (Vietnam)	318,034,810.00	314,820,500.00			632,855,310.00	
Lu An Garments	32,813,060.00	31,416,000.00			64,229,060.00	
<b>Total</b>	<b>1,744,156,616.04</b>	<b>350,736,500.00</b>	<b>25,200,000.00</b>		<b>2,069,693,116.04</b>	<b>0.00</b>

## (2) Investment to Joint Ventures and Associated Enterprises

Unit: RMB

Investee	Beginning balance	Increase/decrease								Ending balance	Ending balance of depreciation reserve
		Additonal investment	Reduced investment	Gains and losses recognized under the equity method	Adjustment of other comprehensive income	Change of other equity	Cash bonus or profits announced to issue	Withdrawal of impairment provision	Other		
I. Joint ventures											
II. Associated enterprises											
Haohong Investment	97,536,732.02			-1,730,597.59						95,806,134.43	
Subtotal	97,536,732.02			-1,730,597.59						95,806,134.43	
Total	97,536,732.02			-1,730,597.59						95,806,134.43	

## 4. Operating Revenue and Cost of Sales

Unit: RMB

Item	Reporting Period		Same period of last year	
	Operating revenue	Cost of sales	Operating revenue	Cost of sales
Main operations	2,360,871,867.81	1,740,109,055.52	2,368,342,984.34	1,674,625,537.10
Other operations	143,523,362.44	121,295,410.17	113,980,604.46	92,055,486.97
Total	2,504,395,230.25	1,861,404,465.69	2,482,323,588.80	1,766,681,024.07

## 5. Investment Income

Unit: RMB

Item	Reporting Period	Same period of last year
Long-term equity investment income accounted by cost method		17,976,433.62
Long-term equity investment income accounted by equity method	-1,730,597.59	
Investment income from disposal of financial assets at fair value through profit or loss	3,648,000.52	1,281,963.99
Total	1,917,402.93	19,258,397.61

## 6. Other

### XIV. Supplementary Materials

#### 1. Items and Amounts of Non-recurring Profit or Loss

√ Applicable □ Not applicable

Unit: RMB

Item	Amount	Note
Gains/losses from the disposal of non-current assets	-1,603,714.32	
Government grants recognized in the current period, except for those acquired in the ordinary course of business or granted at certain quotas or amounts according to the government's unified standards	39,071,113.48	
Gain/loss from change of fair value of trading financial assets and liabilities, and investment gains from disposal of trading financial assets and liabilities and available-for-sale financial assets, other than valid hedging related to the Company's common businesses	-22,104,388.63	
Other non-operating income and expense other than the above	2,097,576.54	
Less: Income tax effects	5,975,920.72	
Non-controlling interests effects	1,077,047.21	
Total	10,407,619.14	--

Explain the reasons if the Company classifies an item as an non-recurring gain/loss according to the definition in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Non-recurring 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 ordinary shareholders of the Company	5.13%	0.41	0.41
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	4.99%	0.40	0.40

### 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	Ending balance	Beginning balance
According to Chinese accounting standards	377,355,959.02	395,130,296.26	7,060,561,399.27	7,230,942,770.16
Items and amounts adjusted according to international accounting standards:				
Impact on domestic equipment tax credit recognized as deferred income under international accounting standards		164,500.00		
According to international accounting standards	377,355,959.02	395,294,796.26	7,060,561,399.27	7,230,942,770.16

#### (2) Differences of Net profit and Net assets Disclosed in Financial Reports Prepared under Overseas and Chinese Accounting Standards

Applicable  Not applicable



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## **Part XI Documents Available for Reference**

1. The financial statements signed and stamped by the Company's legal representative, Chief Accountant and Financial Manager.
2. The originals of all the Company's announcements and documents disclosed to the public during the Reporting Period on Securities Times, Shanghai Securities News, China Securities Journal and Ta Kung Pao.

Chairman of the Board: Liu Zibin

Lu Thai Textile Co., Ltd.

22 August 2018