# SUMMARY

## OVERVIEW

We are one of the leading PRC menswear brands. According to a market study report we commissioned from Frost & Sullivan, our LILANZ brand (which was known as LILANG prior to September 2008) ranked first in terms of retail sales for the years ended 31 December 2007 and 2008 within the mainstream PRC brands market, which comprises second and lower tier cities, and accounted for approximately 29.0% and 31.3% of the menswear market by retail sales in the PRC in 2007 and 2008, respectively. See "Industry Overview — The PRC Menswear Market" for a further discussion. In 2007 and 2008, Forbes China magazine recognised Lilang China as one of "China's Best Small & Medium-sized Enterprises". As an integrated fashion enterprise, we design, source, manufacture and sell high-quality business and casual apparel for men. Founded in 1995, we have grown rapidly in recent years.

We offer our customers designs for all seasons under our LILANZ brand. Our menswear products are designed for business and casual purposes and primarily target customers between the ages of 28 and 45. Our products include suits, jackets, shirts, trousers, sweaters and accessories and are broadly divided into business formal, business casual, fashion casual and sports. According to Frost & Sullivan, we were the first menswear company among our competitors to offer a men's business casual collection and make it our product focus.

From the establishment of our Group until September 2008, we sold our products exclusively under our Chinese brand name 利郎 and our English brand name "LILANG". To differentiate ourselves from other domestic brands and to reflect our international styling, our brand went through a series of transformations in September 2008, when we introduced the first product collection designed by Mr. Ji Wen Bo under the English brand name LILANZ, which is used either in conjunction with our Chinese brand name 利郎 or on its own; updated our store theme and design; and improved our marketing strategies. Our Directors believe that the LILANZ brand has become a recognized brand name in the PRC.

We design our products in-house under the direction of Mr. Ji Wen Bo, one of the PRC's top fashion designers with more than 20 years of experience in the fashion industry. Mr. Ji Wen Bo joined us as a fashion and design consultant in 2001 and became our chief fashion designer in 2007. Our design and product development team works closely with both our suppliers and distributors on product development and designs to fine-tune our designs to suit local tastes. We also seek to establish new trends and styles for menswear in the PRC. We believe that we offer our customers a range of clothing collections that portray a "simple yet sophisticated" lifestyle. Our brand philosophy is to provide our consumers with a sense that they are making a lifestyle choice.

Our products are sold across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC. We sell substantially all of our products on a wholesale basis to distributors who subsequently sell our products to end customers through retail outlets operated by themselves or their sub-distributors, all of whom are Independent Third Parties as of the Latest Practicable Date. Under our wholesale business model, our distributors are principally responsible for selecting and ordering products and overseeing the operation of retail outlets. When selecting distributors, we take into account a number of factors, including geographical location, retail and management experience, financial resources and capacity for developing the retail network. We enter into distributorship agreements directly with our distributors. The agreements are generally for one-year terms. If distributors fail to comply with the distributorship agreements, we have the right to terminate the agreements.

Under our distributorship agreements, distributors are permitted to sub-contract the operation of retail outlets to sub-distributors, subject to our approval of the sub-distributorship agreement and the respective business plan. We do not have direct contractual relationships with these sub-distributors. However, our distributors are required to ensure that their sub-distributors comply with the terms and conditions of the distributorship agreements.

As at 31 December 2006, 2007, 2008 and 30 June 2009, we had 27, 28, 51 and 53 distributors, who in turn had 1,338, 1,245, 1,257 and 1,185 sub-distributors, respectively. As at 30 June 2009, our 53 distributors operated or subcontracted the operation of 2,456 retail outlets covering 31 provinces, autonomous regions and municipalities in the PRC. Along with this wholesale business model, we opened and have been operating a flagship store in Jinjiang, our first retail outlet, since February 2008. During the Track Record Period, sales to our distributors accounted for substantially all of our turnover.

All of the retail outlets operate under the LILANZ brand and are required to sell our products exclusively. As at 30 June 2009, there were 1,696 stand-alone stores, of which 473 were directly operated by our distributors and 1,223 by their sub-distributors, and there were 760 concessions in department stores, of which 363 were directly operated by our distributors and 397 by their sub-distributors. In order to maintain a consistent brand image across the retail outlets, we impose uniform standards for, among other things, store displays, marketing activities and daily operations, with which our distributors and their sub-distributors must comply. We believe that our extensive and well-managed distribution network has helped us build a unified brand image and increase our market penetration.

While continuing to expand our distribution network, we plan to cooperate with our distributors to open flagship stores. We plan to lease premises at prime locations in major cities in the PRC for operation thereof by our designated distributors after we renovate the premises and turn them into flagship stores. This model should allow us to have better and more direct control over the location and layout of these flagship stores. We anticipate opening one such flagship store by the end of 2009 and more flagship stores in the next few years. These flagship stores are expected to be significantly larger than the existing retail outlets operated by our distributors. We believe that these new flagship stores can help to further promote our brand image by showcasing our complete line of collections and to facilitate sales by our distributors and their sub-distributors in adjacent cities or regions. Up to the Latest Practicable Date, no agreement had been signed between our Group and our distributors for the opening of any flagship store. We expect to charge our designated distributors for rent in respect of these premises only, and there will not be any profit sharing arrangement with these designated distributors in respect of the income to be derived from the flagship stores.

We hold sales fairs three times a year to showcase our autumn, winter, and spring/summer collections to our existing and potential distributors. We also invite sub-distributors and retail store managers, who place orders through their respective distributors, to attend the sales fairs. Most of our orders are derived from the sales fairs. During such sales fairs, we seek and obtain feedback on local fashion trends and market demand which allows us to fine-tune our product design and merchandising strategy. We believe that the sales and orders resulting from sales fairs allow us to estimate in advance the quantity of products required for the coming season. This allows us to efficiently utilise our production facilities and OEM contractors, respond quickly to market demand and manage our inventory more efficiently.

We have built our brand through our national advertising campaigns. Our television advertisements feature the well-known actor Mr. Chen Dao Ming (陳道明), whom we believe epitomises our "simple yet sophisticated" lifestyle philosophy. In our efforts to promote our brand and appeal to a broader audience, we also appointed Mr. Daniel Wu (吳彥祖) as our brand spokesperson in August 2009 in addition to Mr. Chen Dao Ming. We also advertise in fashion magazines and catalogues. Throughout our advertising campaigns, we use our slogan "simple yet sophisticated" (簡約而不簡單) to reinforce our brand image and the lifestyle our brand seeks to convey.

Recently, we began to participate in international fashion shows. In particular, we participated in the "Milan Menswear Show" (Milano Moda Uomo) and "Japan Fashion Week in Tokyo", both of which are major international fashion shows, in 2007 and 2008, respectively. We have adopted carefully-tailored marketing and promotional strategies with a view to maximising our exposure to our key target audience. We believe that our participation at recognised fashion shows should help to enhance the prestige of our brand, thereby enhancing our brand image. In 2007, our trademark 利郎 LILANG was recognised as a "China Well-Known Trademark" for clothing. In 2008, our 利郎 brand was awarded "The Most Influential Fashion Brand of Garment". In 2009, our 利郎 brand was awarded the Planning Award of "2007–2008 China Apparel Brands Annual Awards" (「2007–2008中國服裝品牌年度大獎」策劃大獎) and our 利郎 LILANZ brand was awarded the "2009 Top 10 Most Influential and Famous Apparel Brands in Asia" (2009亞洲服裝最具影響力十大馳名品牌).

We manufacture a portion of our apparel at our own production facilities in Jinjiang, Fujian and outsource the rest to OEM contractors. We also outsource the production of our accessory products. We believe this combination of in-house and outsourced production enables us to meet demand on a timely and cost-effective basis. Quality is one of our top priorities, and our quality control team monitors each stage of our production process. We also work closely with our OEM contractors to ensure that all of our apparel and accessories meet our quality standards.

## COMPETITIVE STRENGTHS

The Directors attribute our success to the following key competitive strengths:

- A leading PRC casual menswear brand

- Extensive and well-managed nationwide distribution network
- Proactive and nationwide sales and marketing strategies
- Strong design and product development capability
- Experienced management team with a proven track record

**BUSINESS STRATEGIES**

To maintain our position as one of the leading menswear brands in the PRC, we intend to capitalise on our brand recognition, enhance our competitiveness and achieve sustainable sales growth. Specifically, we plan to pursue the following strategies to achieve our objectives:

- Expand and diversify our product offerings
- Further strengthen and expand our distribution network and increase our retail coverage
- Further promote our LILANZ brand and enhance our marketing and promotional strategies
- Improve our operational and production management capabilities
- Further strengthen our design and product development capabilities

## SHARE OPTION SCHEMES

Our Company adopted the [●] Share Option Scheme on 12 September 2008, under which options to subscribe in aggregate for [●] Shares at [●]% of the [●] were outstanding as at the date of this document, representing approximately [●]% of the issued share capital of our Company immediately after completion of the [●] and the [●] as enlarged by issue of Shares pursuant to the exercise of all options granted under the [●] Share Option Scheme assuming that all such options are exercised in full, but without taking into account any Shares which may fall to be allotted and issued upon the exercise of the [●] and any options which may be granted under the Share Option Scheme. Details of the [●] Share Option Scheme and the options granted thereunder are set out in "Appendix VI — Statutory and General Information — Other Information — [●] Share Option Scheme".

The exercise of the options granted under the [●] Share Option Scheme will result in the dilution of the percentage interest in Shares of the then Shareholders and the earnings per Share at the time of such exercise. The following table illustrates the potential dilution effect on the shareholding of our Company upon completion of the [●] and the [●] (assuming that the [●] is not exercised).

| **Shareholders** *(Note)* | **Number of Shares in issue after the [●] and the [●]** | **Approximate percentage** | **Number of Shares in issue after the exercise of the options granted under the [●] Share Option Scheme** | **Approximate percentage** |
|---|---|---|---|---|
| Xiao Sheng International | [●] | [●]% | [●] | [●]% |
| Ming Lang Investments | [●] | [●]% | [●] | [●]% |
| Wang Brothers | [●] | [●]% | [●] | [●]% |
| Management and Other Shareholders | [●] | [●]% | [●] | [●]% |
| Grantees of share options | [●] | [●]% | [●] | [●]% |
| [●] | [●] | [●]% | [●] | [●]% |
| | [●] | [●]% | [●] | [●]% |

*Note:* Details of the Shareholders are described in the paragraph headed "Corporate Structure" under the section headed "History and Development" in this document.

Save for Mr. Yiu Hau Ming, a director of one of our subsidiaries and the nephew of the Wang Brothers, who is a connected person (as defined in the Listing Rules) of our Company, none of the other grantees under the [●] Share Option Scheme are connected persons of our Company.

It is expected that the exercise in full of the options granted under the [●] Share Option Scheme will have a dilutive effect on the earnings per Share of our Company.

Our Company also conditionally adopted the Share Option Scheme on 4 September 2009. Under the Share Option Scheme, the eligible participants of the scheme, including directors, fulltime employees of and advisers and consultants to our Company or our subsidiaries, may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the [●]. Further details of the rules of the Share Option Scheme are set out in "Appendix VI — Statutory and General Information — Other Information — Share Option Scheme" of this document.

## SUMMARY FINANCIAL INFORMATION

The following tables present summary financial information for each of the three years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2008 and 2009, and as at 31 December 2006, 2007 and 2008 and 30 June 2009. Financial results for the six months ended 30 June 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009. The summary financial information below has been prepared in accordance with IFRS and derived from the accountants' report prepared by KPMG and included in Appendix I of this document. Our financial information for the six months ended 30 June 2008 has not been audited. Investors should read the summary historical financial information below in conjunction with Appendix I of this document for more details.

**Consolidated income statement data**

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2006** | **2007** | **2008** | **2008** | **2009** |
| | *(RMB thousand, except per share data)* | | | | |
| | | | | *(unaudited)* | |
| **Turnover** | 418,195 | 885,921 | 1,135,684 | 483,945 | 600,176 |
| Cost of sales | (323,015) | (652,020) | (791,627) | (339,779) | (423,341) |
| **Gross profit** | 95,180 | 233,901 | 344,057 | 144,166 | 176,835 |
| Other revenue | 1,545 | 5,243 | 5,868 | 5,325 | 1,227 |
| Selling and distribution expenses | (37,338) | (104,892) | (146,469) | (60,382) | (54,662) |
| Administrative expenses | (9,233) | (22,681) | (34,300) | (15,406) | (15,183) |
| Other operating (expenses)/ income | (646) | (1,844) | 1,888 | 2,221 | (183) |
| **Profit from operations** | 49,508 | 109,727 | 171,044 | 75,924 | 108,034 |
| Finance costs | (3,904) | (11,996) | (11,551) | (4,572) | (4,295) |
| **Profit before taxation** | 45,604 | 97,731 | 159,493 | 71,352 | 103,739 |
| Income tax | (13,023) | (1,225) | (5,361) | (2,038) | (13,775) |
| **Profit attributable to equity shareholders** | 32,581 | 96,506 | 154,132 | 69,314 | 89,964 |
| **Basic earnings per share** *(RMB (cents))* | 3.62 | 10.72 | 17.13 | 7.70 | 10.00 |

**Consolidated balance sheet data**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 |
| | *(RMB thousand)* | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 35,289 | 106,088 | 135,823 | 146,582 |
| Investment property | — | — | 30,072 | 30,719 |
| Lease prepayments | 14,669 | 14,357 | 39,875 | 39,455 |
| Deposits for purchase of fixed assets | 16,228 | 21,542 | 3,615 | 728 |
| Deferred tax assets | 777 | 1,185 | 997 | 819 |
| **Total non-current assets** | 66,963 | 143,172 | 210,382 | 218,303 |
| **Current assets** | | | | |
| Inventories | 40,326 | 96,033 | 171,487 | 186,018 |
| Trade and other receivables | 209,245 | 305,334 | 383,748 | 341,828 |
| Amounts due from related parties | 47,583 | 1,294 | 220 | — |
| Loan to a third party | 1,000 | — | — | — |
| Pledged bank deposits | 14,970 | 54,009 | 42,201 | 27,763 |
| Cash | 27,276 | 58,519 | 53,567 | 94,280 |
| **Total current assets** | 340,400 | 515,189 | 651,223 | 649,889 |
| **Current liabilities** | | | | |
| Bank loans | 125,500 | 94,500 | 140,000 | 98,000 |
| Trade and other payables | 83,795 | 277,076 | 259,419 | 217,765 |
| Loan from a third party | 1,400 | — | — | — |
| Amounts due to related parties | 268 | — | 18,471 | 10,944 |
| Current taxation | 8,260 | — | 890 | 6,081 |
| **Total current liabilities** | 219,223 | 371,576 | 418,780 | 332,790 |
| **Net current assets** | 121,177 | 143,613 | 232,443 | 317,099 |
| **Total assets less current liabilities** | 188,140 | 286,785 | 442,825 | 535,402 |

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 |
| | (RMB thousand) | | | |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | — | — | 1,543 | 3,357 |
| Loans from controlling shareholders | 139,422 | 139,422 | — | — |
| Payables for construction in progress | — | 1,790 | 1,987 | 2,767 |
| | 139,422 | 141,212 | 3,530 | 6,124 |
| **Net assets** | 48,718 | 145,573 | 439,295 | 529,278 |
| **Equity** | | | | |
| Share capital | 21,016 | 98 | 176 | 176 |
| Reserves | 27,702 | 145,475 | 439,119 | 529,102 |
| **Total equity** | 48,718 | 145,573 | 439,295 | 529,278 |

**Summary consolidated cash flow data**

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | (RMB thousand) | | | | |
| | | | | (unaudited) | |
| Net cash (used in)/generated from operating activities | (109,262) | 91,910 | 43,138 | (14,095) | 106,383 |
| Net cash used in investing activities | (61,537) | (16,461) | (92,165) | (42,990) | (11,540) |
| Net cash generated from/(used in) financing activities | 187,448 | (44,206) | 44,075 | 28,129 | (54,130) |
| Net increase/(decrease) in cash | 16,649 | 31,243 | (4,952) | (28,956) | 40,713 |
| Cash at beginning of year/period | 10,627 | 27,276 | 58,519 | 58,519 | 53,567 |
| Cash at end of year/period | 27,276 | 58,519 | 53,567 | 29,563 | 94,280 |

## PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

| | |
|---|---|
| Forecast profit attributable to equity holders[(1)(3)] | Not less than RMB[●] million (HK$[●] million) |

(1) The bases and assumptions on which the profit forecast has been prepared are summarised in Appendix III to this document. The Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2009 based on the audited consolidated results for the six months ended 30 June 2009 and a forecast of the consolidated results for the remaining six months ending 31 December 2009.

## DIVIDEND POLICY

Our Company declared a special cash dividend of approximately RMB53 million in August 2009. Such special dividend was paid to our then Shareholders on 20 and 21 August 2009. Save as disclosed above, no other dividends were paid by us or any of our subsidiaries to our or their then shareholders during the Track Record Period. We intend to declare and pay dividends in the future. The payment and the amount of any dividends will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plan or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, we currently intend to recommend at the annual general meetings of our Company a dividend of 30% to 50% of our net profit available for distribution to Shareholders after the [●].

## RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks are set out in "Risk factors" and are summarised below.

### Risks Relating to Our Business

- Failure to successfully promote our brand may materially and adversely affect our business and results of operations.
- We rely on a small number of distributors for the sale of our products and our failure to renew distributorship agreements with our major distributors or a breach of such distributorship agreements by them may materially and adversely affect our results of operations.
- Our business may be negatively affected if our distributors or their sub-distributors fail to comply with our retail policies.
- We may not be able to monitor the inventory levels at our distributors.
- Our brand image and business may be negatively affected by actions of our OEM contractors.
- We rely on our OEM contractors for the production of a significant portion of our products and any material disruption to the supply of products from our OEM contractors would materially and adversely affect our results of operations.
- Our results of operations may be adversely affected by an increase in the cost of raw materials, labour or products manufactured by OEM contractors.
- We may be unable to implement and manage future rapid growth and expansion.
- Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.
- Our success depends on our ability to retain our senior management team and our ability to attract and retain additional management and other qualified personnel.
- Our business is susceptible to seasonal fluctuations and extreme or unseasonable weather conditions.
- We may be affected by infringement of our intellectual property rights or by claims of third parties alleging possible infringement of their intellectual property rights.
- Any significant damage to our administrative or production facilities could have a material adverse effect on our results of operations.
- We may be exposed to product liability, property damage or personal injury claims, which may materially and adversely affect our reputation and business.

- We may be requested to make up any unpaid contribution to the social security insurance during the Track Record Period.

- We are a holding company that relies heavily on dividend payments from our subsidiaries for funding.

**Risks Relating to Our Industry**

- Fluctuations in consumer spending caused by changes in macroeconomic conditions in the PRC may significantly affect our business, financial condition, results of operations and prospects.

- We face intense competition.

**Risks Relating to the PRC**

- PRC economic, political and social conditions, as well as government policies, could adversely affect our business.

- PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect us.

- We will not be able to continue to enjoy our current preferential tax treatment.

- We may become subject to PRC income tax on any future global income.

- The value of any future dividends and gains on the sale of our Shares may be reduced by PRC withholding taxes.

- Our labour cost may be increased due to the implementation of the new PRC Labour Contract Law.

- Our business may be materially and adversely impacted by recent financial difficulties and economic conditions in the United States, Europe and elsewhere.

- It may be difficult to effect service of process upon us or our Directors who reside in China or to enforce against them or us in China any judgments obtained from non–Chinese courts.

- Changes to foreign exchange regulations, fluctuations in the value of the RMB or certain PRC accounting requirements and the provisions in the articles of association of our PRC subsidiaries may adversely affect our ability to pay dividends.

- Interpretation of PRC laws and regulations involves uncertainty that could adversely affect our business and results of operations and the value of the Shares and limit the legal protections available to investors.

- A material disruption of our operations or the operations of our distributors and/or sub-distributors from force majeure events could materially and adversely affect our results of operations.

- Any recurrence of severe acute respiratory syndrome, or SARS, pandemic avian influenza or an increase in the severity of H1N1 flu (swine flu) or another widespread public health problem could materially and adversely affect our business and results of operations.

**Risks Relating to the Shares**

- Prior dividend distributions are not an indication of our future dividend policy.

- Certain facts, forecasts and other statistics with respect to China, China's economy and the menswear industry in this document are derived from official government publications and may not be reliable.

- You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and Cayman Islands law may provide less protection to minority shareholders than the laws of Hong Kong and other jurisdictions.

- Forward-looking information contained in this document may prove inaccurate.