RISK FACTORS

Investing in the Shares involves certain risks. You should carefully consider each of the risks described below and all of the other information contained in this document, should not only consider Appendix I, should also read all other parts of document before deciding to purchase the Shares. You should be aware that our subsidiaries in the PRC are governed by a legal and regulatory environment that in some respects differs significantly from that in other countries. If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of the Shares could decline, and your investment could be adversely affected.

RISKS RELATING TO OUR BUSINESS

Failure to successfully promote our brand may materially and adversely affect our business and results of operations.

Brand image is a key factor in consumer purchasing decisions for menswear products. We are committed to building our brand through the introduction of stylish and quality designs as well as through national advertising campaigns. We believe that we have been successful in establishing our brand in the PRC. Our ability to maintain and further develop our brand in the PRC depends, in part, on our ability to meet changing consumer tastes and preferences and the effectiveness of our advertising campaigns. We may misjudge changes in fashion trends or fail to respond to such changes in a timely manner. In addition, we may embark on unsuccessful advertising campaigns that do not achieve their intended results or engage spokespersons who could generate negative publicity over which we have no control. If we are unable to successfully maintain and promote our brand, our business and results of operations may be materially and adversely affected.

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.

We primarily sell our products in the PRC to 53 distributors, who in turn sell our products to consumers through retail outlets directly operated by them or by sub-distributors under their oversight. We do not have control over sub-distributors or retail outlets and the ultimate sales by distributors, sub-distributors and the retail outlets that they operate. During the Track Record Period, sales to our distributors accounted for substantially all of our turnover. During the same period, sales to our top five customers accounted for approximately 55.3%, 42.6%, 34.6% and 34.0%, respectively, of our turnover, and sales to our largest customer accounted for approximately 21.1%, 13.2%, 12.7% and 12.7%, respectively, of our turnover. Among our distributors, seven of them had been owned by Mr. Hu Cheng Chu and Mr. Pan Rong Bin, two of our executive Directors, for a period during the two years ended 31 December 2007, and the sales by these distributors contributed to approximately 21.1% and 12.9% of our turnover during the years ended 31 December 2006 and 2007 before Mr. Hu and Mr. Pan disposed of their interests in these distributors in 2007. If our distributors do not continue to open new retail outlets, either by themselves or through their sub-distributors, or are otherwise unsuccessful in selling our products or we fail to effectively supervise and manage our distributors, their sub-distributors or the retail outlets they operate, our result of operations may be materially and adversely affected.

We have entered into agreements with our distributors for a term of one year, renewable annually with minimum purchase requirements. There is no assurance that we will be able to renew our distributorship agreements or renew such agreements on terms that are favourable to us, or that the distributors will place orders with us at the same level as before. In addition, there is also no assurance that one or more of our major distributors will not breach their distributorship agreements or fail to comply with their obligations thereunder, including with respect to our retail policies and provision of sales reports. In such event or events, our results of operations may be materially and adversely affected.

Our business may be negatively affected if our distributors or their sub-distributors fail to comply with our retail policies.

Our products are sold to end customers through retail outlets operated by our distributors or their sub-distributors. We rely on contractual obligations set forth in the distributorship agreements to impose our retail policies on the outlets operated by such distributors and their sub-distributors. We do not have direct contractual relationships with the sub-distributors and we rely on our distributors to oversee these sub-distributors. If our distributors or their sub-distributors fail to comply with the retail policies, we may not be able to effectively manage the LILANZ sales network or maintain a uniform brand image, which may result in erosion of goodwill and an unfavourable public perception of our brand. Although we have the right to replace any distributor who fails to comply with our retail policies, we may be unable to find replacements for them in a timely manner. As a result, our business and results of operations may be materially and adversely affected.

We may not be able to monitor the inventory levels at our distributors.

Our control over the ultimate retail sales by our distributors, their sub-distributors and the retail outlets they operate is limited. We have a dedicated team to monitor our distributors' and their sub-distributors' performance. Our distributor agreements require our distributors to provide us with sales and market information on a regular basis or upon request by us. We require distributors to submit sales reports on a weekly basis. However, such measures require the cooperation of distributors to accurately and timely report and submit the relevant data to us, and we may not be able to ensure the accuracy of the data provided by our distributors or collected by us. We also do not currently have in place an enterprise resource planning system. Due to the above reasons, we may not be able to accurately monitor the inventory levels at our distributors and their sub-distributors' retail outlets that sell our products, or to identify or prevent any excessive inventory build-up at these retail outlets.

Our brand image and business may be negatively affected by actions of our OEM contractors.

During the Track Record Period, the cost of outsourced production as a percentage of our cost of sales was approximately 33.2%, 45.1%, 41.9% and 61.2%, respectively. We exercise only limited control over the operations of our OEM contractors and are therefore not able to ensure their compliance with applicable laws and regulations. The failure on the part of our OEM contractors to comply with certain laws, such as labour and environmental laws, may result in negative publicity which may damage our brand and undermine our brand building efforts. As a result, our business and results of operations may be adversely affected.

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.

During the Track Record Period, the sale of outsourced products represented approximately 34.0%, 45.7%, 42.9% and 63.8% of our turnover, respectively. The cost of outsourced production as a percentage of our cost of sales was approximately 33.2%, 45.1%, 41.9% and 61.2%, respectively. These OEM products comprise certain of our apparel products as well as our accessories. We cannot assure you that we will not face material disruptions to the supply of products from our OEM contractors in the future. In the event of such disruptions, we may not be able to find suitable alternative OEM contractors on a timely basis or offset such disruptions by increasing production at our own production facilities. Any material disruption in the supply of products from our OEM contractors may 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 rely on our suppliers for raw materials and our OEM contractors for certain products. The principal raw materials used in our products are cotton, wool, polyester and blended fabrics. In addition, our operations are labour-intensive. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the cost of raw materials accounted for approximately 86.9%, 82.2%, 80.3% and 81.7%, respectively, of the cost of our own production, and the cost of direct labour accounted for approximately 9.8%, 11.7%, 11.3% and 8.0%, respectively, of the cost of our own production. The cost of outsourced production as a percentage of the cost of sales was approximately 33.2%, 45.1%, 41.9% and 61.2%, respectively. We do not maintain long-term contracts with our raw material or OEM product suppliers, and prices that we pay for such materials and OEM products may increase due to greater industry demand or a shortage of supplies. The extent of labour costs in the PRC has increased and may continue to increase in the future. If we are unable to identify and employ other appropriate means to reduce costs of our own or outsourced production, or pass on such increase in the cost of raw materials, labour or OEM contracted products to our customers, our results of operations may be materially and adversely affected.

We may be unable to implement and manage future rapid growth and expansion.

We have grown rapidly over the past few years and our turnover increased by 111.8% from RMB418.2 million in 2006 to RMB885.9 million in 2007 and by 28.2% from RMB885.9 million in 2007 to RMB1,135.7 million in 2008. The number of retail outlets operated by our distributors or their sub-distributors increased during the same period from 2,002 in 2006 to 2,186 in 2007 and to 2,491 in 2008. We intend to continue to expand our retail network by cooperating with our distributors to open flagships stores and increasing our distribution network. This expansion plan may place significant strain on our managerial, operational and financial resources. We cannot assure you that our personnel, systems, procedures and controls will be adequate to implement our business plans or support our future growth. Additionally, if we are unable to obtain additional funds when required, we may not be able to finance our expansion plans. In order to open these flagship stores in major cities in the PRC, we will need to identify and secure suitable properties on commercially viable terms. Given the scarcity of prime locations and their relatively high rental rates in such cities, there is no assurance that we will be able to secure desirable locations and establish our flagship stores on economically viable terms. There is also no assurance our distributors will satisfy the expansion plans for our distribution network.

Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.

We have, to date, financed our working capital and capital expenditure needs primarily through operating cash flows, bank loans from local banking institutions, shareholder advances and capital contributions. Our working capital needs and our capital expenditure needs may increase in the future as we continue to expand our business. Our ability to raise additional capital will depend on the financial success of our current business and the successful implementation of our key strategic initiatives, as well as financial, economic and market conditions and other factors, some of which are beyond our control. We may not be successful in raising any required capital on reasonable terms and at required times, or at all. If we are unsuccessful in raising additional capital or if new capital funding costs are higher than our prior capital funding costs, our business operations may be materially and adversely impacted, with similar effects on our results of operations and financial condition.

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.

Many of our senior management team have been with us for over eight years. Their talent, effort, experience and leadership are critical to the success of our business. In particular, the leadership of the Wang Brothers is crucial to our business. We have entered into three-year contracts, including non-compete undertakings, with all of our executive Directors and senior management. However, there can be no assurance such contracts will not be terminated or breached. With respect to our chief financial officer, Mr. Yu Cheeric, his contract is for an initial term of one year and shall thereafter be renewable automatically unless otherwise terminated by us or Mr. Yu upon not less than three months' written notice. The loss of the services of any members of our executive Directors and senior management team, particularly any of the Wang Brothers, could have a material adverse effect on our ability to manage and develop our business and on our results of operations.

Our success also depends upon the continued service of our sales and design personnel and our ability to continue to attract, retain and motivate such personnel. There is intense competition to recruit technically competent personnel with expertise in the menswear industry, and we have periodically experienced difficulties in recruiting suitable personnel. We may also need to offer better compensation and other benefits in order to attract and retain these personnel in the future, and we cannot assure you that we will have the resources to meet our staffing needs. These difficulties could limit our output capacity or reduce our operating efficiency and product quality, which could reduce our profitability and limit our ability to grow.

Our business is susceptible to seasonal fluctuations and extreme or unseasonable weather conditions.

Our business is affected by seasonal trends, with significantly higher levels of sales for our winter and autumn collections and lower levels of sales for our spring and summer collections. As a result, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. Any seasonal fluctuations reported in the future may not match expectations of our investors. This could cause the trading price of the Shares to fluctuate. In addition, since we operate largely on a seasonal cycle, if our raw material suppliers or OEM contractors fail to deliver on a timely basis as a result of extreme and unseasonable weather conditions, sales for the season and our results of operations could be materially and adversely affected.

Our business is also susceptible to extreme or unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with such unseasonable conditions. These extreme or unseasonable weather conditions could have a material adverse effect on our results of operations.

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.

Our trademarks and other intellectual property rights are important to our success and competitive position. We depend to a significant extent on PRC laws to protect our trademarks or other intellectual property rights. There is no assurance that third parties will not infringe our intellectual property rights or that the actions taken by us will be adequate to prevent such infringement or product imitation by others. We have encountered instances of counterfeit products sold in certain limited locations in the PRC. The instances that we have encountered to date have not been materially significant. Regardless of the magnitude of such infringements, we intend to vigorously protect our intellectual property rights. Efforts to enforce or defend our intellectual property rights may require significant attention from our management and may be costly, and the outcome of any legal actions to protect our intellectual property rights may be uncertain. In the event that we are unable to adequately protect or safeguard our intellectual property rights, our reputation, business and results of operations may be adversely affected.

We may also face claims from time to time that our products infringe upon the intellectual property rights of third parties, including our competitors. If any legal proceeding against us for infringement of intellectual property rights is successful, and if we are unable to obtain a licence for the usage of such intellectual property right on acceptable terms, or at all, or are unable to design around such intellectual property right, we may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property. In such case, we may experience a material adverse effect on our business and reputation, and this type of proceeding and its consequences could divert management's attention from our business, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any significant damage to our administrative or production facilities could have a material adverse effect on our results of operations.

Our ability to meet the demands of, and our contractual obligations to, our distributors and our ability to grow our business are heavily dependent on efficient, proper and uninterrupted operations at our facilities. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the destruction of buildings, and other facilities due to fire or natural disasters such as hurricanes, severe winter storms, flood, droughts or earthquakes would severely affect our ability to continue our operations and may cause significant property damage and personal injuries. As of the Latest Practicable Date, we did not carry any business interruption insurance and our insurance policies may not be sufficient to compensate us for damages of such buildings, equipment and infrastructure. In addition, there are certain types of losses, such as from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. Any such events and any losses or liabilities that are not covered by our current insurance policies could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be exposed to product liability, property damage or personal injury claims, which may materially and adversely affect our reputation and business.

As of the Latest Practicable Date, all of our products were sold in the PRC. We may be exposed to product liability claims and we may, as a result, have to expend significant financial and managerial resources to defend against such claims. We believe that such product liability claim risks will increase as legal concepts in product liability claims begin to develop and mature in the PRC where our products may be sold. We may not have effective or sufficient control over the quality of our products, and we cannot give any assurance that our business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful product liability claim against us. We do not maintain any product liability insurance. In addition, we do not maintain third-party liability insurance against claims for property damage, personal injury or environmental liabilities. We may incur significant costs and expenses to defend against such claims or enter into settlement agreements. We may be fined or sanctioned, which could materially and adversely affect our reputation, business, prospects, financial condition and results of operations.

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

Under the PRC laws and regulations, our subsidiaries in the PRC are required to make mandatory contributions to a number of social insurance schemes for their employees who are eligible for such benefits. As advised by our PRC legal adviser, under the applicable national laws and regulations, our subsidiaries, Lilang Fujian and Lilang China, are required to contribute to these social insurance schemes representing, in the aggregate, 29.2% of the wages payable to these employees, comprising contributions to (i) pension insurance at the rate of 18%; (ii) medical insurance at the rate of 7.5%; (iii) unemployment insurance at the rate of 2%; (iv) work-related injuries insurance at the rate of 1%; and (v) maternity insurance at the rate of 0.7%.

Due to the relatively high mobility of our workers, especially the migrant workers of Lilang Fujian and Lilang China, and given the different levels of development in social benefits in different parts of the PRC, it is difficult in practice to develop a comprehensive system to properly administer social security contributions for all of the employees of Lilang Fujian and Lilang China. As a result, the percentage of the social security contribution (which is calculated by comparing the amount of contributions made and our actual total staff cost) of Lilang China and Lilang Fujian ranged from 0.67% to 10.82% of the total wages, which falls short of the amounts required to be contributed under the applicable national laws and regulations.

During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we paid social security contributions of approximately RMB0.3 million, RMB0.6 million, RMB1.8 million and RMB0.9 million, respectively. The authority confirmed on 15 July 2008 that Lilang Fujian and Lilang China had made all requisite contributions to the social security insurance funds in a timely manner, and that the existing number of employees involved, the contribution basis and the percentage of contribution are in compliance with the local regulations. The authority confirmed on 17 July 2009 that Lilang Fujian and Lilang China had made all requisite contributions to the social security funds in a timely manner and confirmed again on 10 August 2009 that Lilang China and Liang Fujian had made all requisite contributions to the social security funds in a timely manner up to 30 June 2009 and that Lilang China and Lilang Fujian will not be required to pay any outstanding contributions regarding the social security. To the extent that we are required to make further contributions based on relevant national laws and regulations, we estimate that we would need to make additional contributions of approximately RMB3.4 million, RMB12.9 million, RMB17.0 million and RMB6.1 million for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. As advised by our PRC legal adviser, we may be ordered by the relevant social insurance bureaus to pay the outstanding contributions within a prescribed time limit, and a late charge at the daily rate of 0.2% on the outstanding contributions may be imposed if such payment is not made within the prescribed time limit. Each handling officer may also be imposed with a fine up to RMB20,000. We have not paid, and have not been ordered by the relevant social insurance bureaus to pay, any such outstanding contributions during the Track Record Period and up to the Latest Practicable Date. Provisions of retirement benefits contributions of approximately RMB2.2 million, RMB8.2 million, RMB10.5

million and RMB3.8 million have been accrued in the consolidated financial statements for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, which were based on 18% of the salaries of our employees who had joined our Group during the Track Record Period and remained in service with our Group as at 31 December 2008. Nevertheless, such provision may fall short of the contributions required under the applicable national laws and regulations. In the event that our PRC subsidiaries are required to make additional contributions, or in the event that our provisions of retirement benefits contributions fall short of the amount actually ordered by the relevant social insurance bureaus, our financial position could be materially and adversely affected.

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

Our Company is a holding company incorporated in the Cayman Islands. We operate our business primarily through our subsidiaries in the PRC. Therefore, the availability of funds to enable us to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from these subsidiaries. If our subsidiaries incur indebtedness or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require enterprises incorporated in China to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements or debt instruments that our subsidiaries may enter into or issue in the future may also restrict the ability of our subsidiaries to make contributions to us and hence, our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

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 derive all of our turnover from sales of our products in the PRC. The success of our business depends on the condition and growth of the PRC consumer market, which, in turn, depends on worldwide economic conditions and individual income levels in the PRC and their impact on levels of consumer spending, which have recently deteriorated significantly in many countries and regions and may remain depressed for the near future. There are many factors affecting the level of consumer spending, including but not limited to interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. There can be no assurance that historical growth rates of the PRC economy will continue or that projected growth rates of the PRC economy and the PRC consumer market, including those described in the section headed "Industry Overview" in this document, will be realised. Any future slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our business and results of operations.

We face intense competition.

The PRC market for menswear products is highly competitive. Our menswear products compete on the basis of brand image, design, product mix, quality, price, customer service and the breadth of our retail network. Foreign brands generally provide better quality and customer service and their designs tend to be more fashionable, while domestic brands generally are better priced and enjoy greater retail coverage in the PRC. With the liberalisation measures adopted pursuant to the PRC's accession to the World Trade Organization, or WTO, foreign brands are permitted to expand their sales network within the PRC with fewer restrictions. In addition, with the continuous economic growth in the PRC, consumers generally have higher purchasing power and more persons can now afford to buy foreign brands. As a result, a greater number of foreign brands has entered, and is continuing to enter, the PRC market, which further increases competition for our products. We also face intense competition against domestic brands as we share a similar business model and target market. There is no guarantee that we will be able to continue to successfully compete with other domestic or foreign brands. Failure to do so could have a material adverse effect on our business and results of operations. See "Industry Overview", "Business — Competition", "Financial Condition — Factors Affecting Our Results of Operations and Financial Condition — Competition."

RISKS RELATING TO THE PRC

All of our assets are located in the PRC, and all of our turnover is derived from our operations in the PRC. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in the PRC.

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

The PRC economy differs from the economies of most developed countries in many respects, including, among others:

- its structure,
- amount of government involvement,
- level of development,
- growth rate,
- level of capital reinvestment,
- control of foreign exchange, and
- allocation of resources.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government exercises significant control over economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary and industrial policies and providing preferential treatment to particular industries or companies.

Recently, the PRC government has implemented a number of measures to prevent the economy from overheating. While some of these measures may benefit the overall economy in the PRC, they may have a negative effect on us. Stricter lending policies may, among other things, affect our ability to obtain financing, which may, in turn, materially and adversely affect our growth.

Demand for our products and our business, financial condition, results of operations and prospects may also be materially and adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and

- reduction in tariff protection and other import and export restrictions.

These factors are affected by a number of variables which are beyond our control.

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.

The SAFE Notice requires PRC residents, including both legal persons and natural persons, to register with the competent local SAFE branch before establishing or controlling any company outside the PRC, referred to as an "offshore special purpose company," for the purposes of acquiring any assets of or equity interest in PRC companies and raising funds from overseas. In addition, any PRC resident who is the shareholder of an offshore special purpose company is required to amend his SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in the PRC. If any PRC shareholder of an offshore special purpose company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore special purpose company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. Our current beneficial owners who are PRC residents have registered with the local SAFE branch as required under the SAFE Notice. The failure of these beneficial owners to amend their SAFE registrations in a timely manner pursuant to the SAFE Notice or the failure of future beneficial owners of our Company who are PRC residents to comply with the registration procedures set forth in the SAFE Notice may subject such beneficial owners to fines and legal sanctions and may also result in restrictions on our PRC subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect our business.

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

In accordance with the PRC's tax regulations, certain of our subsidiaries in the PRC benefit from preferential tax treatment. Our Group's effective tax rate, calculated as our Group's income tax expense divided by profit before taxation, was approximately 28.6%, 1.3%, 3.4%, 2.9% and 13.3% in 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively. The New Income Tax Law which became effective on 1 January 2008 revokes most preferential tax treatment for foreign-invested enterprises and adopts a unified income tax rate of 25% on most domestic enterprises and foreign-invested enterprises. However, some of the existing preferential tax treatments for foreign-invested enterprises will have a grace period of up to five years following the effective date of the New Income Tax Law. Accordingly, when the preferential tax treatment currently enjoyed by our PRC subsidiaries expires, we will be required to pay a greater amount of taxes, which may materially and adversely affect our results of operations.

See "Financial information — Factors affecting results of operations — Taxation" for further information on our tax status and the preferential tax treatment currently enjoyed by our PRC subsidiaries.

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

Under the New Income Tax Law and its implementing rules, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. Since most of our management is currently located in the PRC, we may be subject to PRC income tax at the rate of 25% on our global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise may be exempted from this tax, but there is no guarantee that we will qualify for this exemption.

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

We are a holding company and all of our income is derived from dividends that we receive from our subsidiaries. The previous PRC income tax law applicable to foreign-invested enterprises specifically exempted withholding taxes on dividend payments to foreign investors. However, under the New Income Tax Law and its implementing rules, dividends payable to foreign investors that are non-resident enterprise (enterprise that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place) are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a tax arrangement between the PRC and Hong Kong, companies incorporated in Hong Kong may be subject to withholding taxes at a rate of 5% on dividends they receive from their PRC subsidiaries of which they directly hold at least 25% equity interests. As dividends from our PRC subsidiaries will be paid to us through Lilang International, our Hong Kong subsidiary, those dividends may be subject to a withholding tax at the rate of 5%.

Moreover, under the New Income Tax Law and its implementing rules, we may be in the future be recognised as a PRC tax resident enterprise by the PRC taxation authorities. In that case, dividends on our Shares as well as capital gains from sales of our Shares realised by shareholders that are foreign corporations may be regarded as income from "sources within the PRC" and may be subject to a 10% withholding tax. If foreign shareholders are required to pay PRC withholding tax on dividends on our Shares or capital gains from any sales of our Shares, the value of the investment in our Shares may be materially and adversely affected.

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

The PRC Labour Contract Law was adopted by the Standing Committee of the National People’s Congress of PRC on 29 June 2007 and became effective on 1 January 2008. The implementation of the new law, especially the following provisions, may increase our labour costs: (a) an employer shall make monetary compensation, which shall be based on the number of an employee’s working years with the employer at the rate of one month’s wage for each year, to the employee upon termination of the employment contract with certain exceptions (for example, in the circumstances where the term of a fixed-term employment contract expires and the employee does not agree to renew the contract even though the conditions offered by the employer are the same as or better than those stipulated in the current contract); (b) the wages of an employee on probation may not be less than the lowest wage level for the same job with the employer or less than 80% of the wage agreed upon in the employment contract, and may not be less than the local minimum wage rate; (c) if an employee has been working for the employer for a consecutive period of not less than 10 years, or if a fixed-term employment contract with an employee was entered into on two consecutive occasions, generally the employer should enter into an open-ended employment with such employee, unless the employee requests for a fixed-term employment contract; (d) if an employer fails, in violation of the related provisions, to enter into an open-ended employment contract with an employee, it shall each month pay to the employee twice his wage, starting from the date on which an open-ended employment contract should have been entered into; (e) if an employer fails to enter into a written employment contract with an employee more than one month but less than one year after the date on which it started using him, it shall each month pay to the employee twice his wage; and (f) if an employer hires an employee whose employment contract with another employer has not yet been terminated or ended, causing the other employer to suffer a loss, it shall be jointly and severally liable with the employee for the compensation for such loss. Our labour costs may increase 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.

Recent financial difficulties and economic conditions in the United States, Europe and other regions may materially and adversely impact our business, results of operations and financial condition in a number of ways, including:

- economic difficulties in the United States, Europe and other regions may lead to an economic slowdown or recession in some or all of the markets in which we operate;

- an economic slowdown or recession, or even the risk of a potential economic slowdown or recession, may cause our customers to delay, defer or cancel their purchases, including decisions previously made;

- under difficult economic conditions, consumers may seek to reduce discretionary spending by foregoing purchases of our products;

- financing and other sources of liquidity may not be available on reasonable terms or at all; and
- the trading price of our Shares may experience increased volatility.

These risks may be exacerbated in the event of a prolonged economic downturn or financial crisis.

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.

All of our executive Directors reside within China, and substantially all of our assets and substantially all of the assets of those persons are located within China. It may therefore be difficult for investors to effect service of process upon us or those persons in China. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom or most other Western countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. Therefore, it may be difficult for investors to enforce any judgments obtained from non-Chinese courts against us or our Directors in China.

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.

Under our current structure, our income will primarily consist of dividend payments by our subsidiaries in the PRC, whose sales are made in RMB. At present, RMB is not freely convertible to other currencies except under limited circumstances. Foreign invested enterprises are permitted to remit their net profit or dividends in foreign currencies out of the PRC or to repatriate such profit or dividends after converting the same from RMB to foreign currencies through authorised banks. Foreign invested enterprises are also permitted to convert RMB to foreign currencies for items in the current account, including trade and service related foreign exchange transactions and payment of dividends to foreign investors. Foreign exchange transactions in the capital account, including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE. If future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to us or if insufficient foreign exchange is available, our liquidity and ability to pay our obligations, and our ability to pay dividends in respect of the Shares, could be adversely affected.

In addition, the value of the RMB against other foreign currencies is subject to changes in the PRC's policies and international economic and political developments. Effective from 21 July 2005, the RMB is no longer pegged solely to the US dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can each day rise or fall within a regulated band. However, the exchange rate may become volatile, the RMB may be revalued further against the US dollar or other currencies or the

RMB may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the RMB against the US dollar or other currencies. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollar), of our net assets, earnings or any declared dividends. We do not maintain any hedging policy with respect to exchange rate risks.

Furthermore, the ability of our operating subsidiaries in the PRC to make dividend and other payments to us is restricted by PRC laws and regulations, which permit payment of dividends only out of accumulated profits, after making up prior year losses and allocations to various non-distributable reserve funds, as determined in accordance with generally accepted accounting principles in the PRC ("PRC GAAP") and applicable regulations. The respective articles of association of two of our operating subsidiaries in the PRC, Lilang China and Lilang Fujian, provide that, in respect of each financial year commencing after 1 January 2008, not less than 50% of their profits after taxes (and after making up prior year's losses) as determined in accordance with PRC GAAP will be allocated for their future business development and working capital purposes, and for allocations to various reserve funds as required under the applicable PRC laws and regulations, and not more than 50% of their profits after taxes (as determined in accordance with PRC GAAP) may be distributed to their shareholder(s) by such operating subsidiaries. These regulations and provisions may restrict the amount of profit available for distribution from the operating subsidiaries, which could affect our liquidity and our ability to pay dividends. Moreover, the determination of profit available for distribution under PRC GAAP may differ from profit determined in accordance with IFRS. As a result, it is possible that we might not receive distributions from the operating subsidiaries, even if our IFRS financial statements indicate that our operations have been profitable.

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.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which prior court decisions have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations governing economic matters in general such as foreign investment, corporate organisation and governance, commerce, taxation and trade. This legislation has significantly enhanced the protections afforded to various forms of foreign investment in the PRC in general and laws and regulations applicable to wholly foreign-owned enterprises in particular. Many of these laws, regulations and legal requirements are relatively new and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve greater uncertainties than those in jurisdictions under common law systems. These uncertainties may limit the legal protections available to us and to investors. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase our cost and regulatory exposure in complying with them.

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.

Our operations are subject to uncertainties and contingencies beyond our control that could result in material disruptions and adversely affect our results of operations. These include war, riot, public disorder, civil commotion, fire, earthquake, flood and other natural calamity, epidemic, outbreak of infectious disease, terrorism, whether locally or nationwide, or incidents such as industrial accidents, equipment failures, malfunction of information systems or other operational problems, strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or utilities. Any such disruption of our operations could cause us to disrupt, limit or delay our production, prevent us from meeting customer orders, increase our costs of production or require us to spend additional capital expenditures, each of which could materially and adversely affect our results of operations. Force majeure events may also materially and adversely affect the operations performance of our distributors, sub-distributors and/or their respective retail outlets and/or the sales and demand of our products in the relevant markets. In such event, our results of operations may be materially and adversely affected.

In May 2008, Wenchuan County of Sichuan Province, was hit by an earthquake with a magnitude of 8.0 on the Richter Scale. There were 141 retail outlets in Sichuan Province operated by our Group's distributors and sub-distributors as at 30 June 2008 and, save for a short duration of business of these retail outlets, the Sichuan earthquake did not result in any personal injury nor destruction of assets to these retail outlets. Such retail outlets (other than a retail outlet at Du Jiang Yan (都江堰) in Sichuan) have already resumed business and operation shortly after the earthquake. We do not have our owned assets, operations or business in Sichuan Province and therefore the earthquake did not have any direct impact on our Group in terms of fatalities and injuries, destructions of assets and/or disruption of production process, and did not affect our sourcing of production materials. However, there is no assurance that the Sichuan earthquake will not affect the sales or market demands of our products in the affected areas or in Sichuan Province in general. In 2007 and 2008, our sales in Sichuan Province amounted to approximately RMB39.1 million and RMB59.4 million, respectively, representing approximately 4.4% and 5.2% of our Group's overall turnover for the year. Any adverse impact on the local demand of our products in Sichuan Province may adversely affect the sales performance of our distributors, sub-distributors and/or their respective outlets in Sichuan, and accordingly, may 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.

From November 2002 to June 2003, the PRC and certain other countries and regions experienced an outbreak of a new and highly contagious form of atypical pneumonia known as SARS. On 5 July 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated cases of SARS were reported in the PRC in April 2004. A renewed outbreak of SARS, pandemic avian influenza or an increase in the severity of H1N1 flu (swine flu) or another widespread public health problem in the PRC, particularly at the locations of our operations and headquarters, could have a negative effect on our operations. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and manufacturing facilities, which would severely disrupt our operations, travel restrictions, the sickness or death of its key officers and employees, import and export restrictions and a general slowdown in the PRC's economy. Additionally, the World Health Organization or the PRC government may recommend or impose other measures that could cause significant interruption to our business operations. Any of the foregoing events or other unforeseen consequences of public health problems could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE SHARES

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

Our Company declared a special dividend of RMB53 million in August 2009. Such special dividend had been paid to our then Shareholders on 20 and 21 August 2009. Save as above, no other dividends were paid by us or any of our subsidiaries to their then shareholders during the Track Record Period. Historical dividend distributions are not indicative of our future distribution policy and we give no assurance that dividends of similar amounts or at similar rates will be paid in the future. Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutive documents and the Companies Law, including (where required) the approval of shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries in the PRC, which are subject to aspects described in "Risk Factors — Risks Relating to the PRC — 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" and "Risk Factors — Risks Relating to Our Business — We are a holding company that relies heavily on dividend payments from our subsidiaries for funding" above. For further details of the dividend policy of our Company, please see "Financial Information — 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.

Certain facts, forecasts and other statistics in this document relating to China, China's economy and the menswear industry have been derived from official government publications generally believed to be reliable. However, we cannot assure you the quality or reliability of such source materials. They have not been prepared or independently verified by us or the [●], or any of our or their respective affiliates or advisers and, therefore, we and they make no representation as to the accuracy or completeness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, such statistics may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy or completeness as may be the case elsewhere. Nonetheless, our Directors have taken reasonable care in compiling and reproducing these facts, forecasts and statistics in this document from the official government publications.

In all cases, you should give consideration as to how much weight or importance you should attach to or place on such facts, forecasts or statistics derived from the official government publications and should not place undue reliance on any of such information and statistics.

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.

Our corporate affairs are governed by our Memorandum of Association and Articles of Association, and by the Companies Law, and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and under judicial precedents in Hong Kong or other jurisdictions. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong or other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 168A of the Hong Kong Companies Ordinance, which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of a company's affairs. For more details, please refer to the section headed "Summary of the constitution of our Company and Cayman Islands company law" in Appendix V to this document.

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

This document contains certain statements that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "expect", "estimate", "may", "ought to", "should" and "will". These statements include, among other things, the discussion of our business strategy and the expectations of our future operations, liquidity and capital resources. You are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. You should not place undue reliance on such forward-looking information.