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. 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 are operated 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 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 that 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), who 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 have begun 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 in 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 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

We attribute our success to the following key competitive strengths:

A leading PRC casual menswear brand

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 brands PRC market, which comprised 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 the section headed "Industry Overview — The PRC Menswear Market" in this document for a further discussion. 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. In 2007, our trademark 利郎 LILANG was recognised by the Trademark Review and Adjudication Board in the PRC as a "China Well-Known Trademark" for clothing. In 2007 and 2008, Forbes China magazine recognised Lilang China as one of "China's Best Small & Medium-sized Enterprises". 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 believe that we offer our customers a range of clothing collections that portray a "simple yet sophisticated" lifestyle. We have cultivated a brand image through a combination of what we believe are innovative designs and national advertising campaigns, as well as through the rapid expansion of a national sales network that carries our uniform brand image. By maintaining and improving our brand image, we believe that we are well positioned to tap the growing PRC business casual menswear market.

Extensive and well-managed nationwide distribution network

We have an extensive distribution network throughout the PRC. As at 30 June 2009, we sold substantially all of our products on a wholesale basis to distributors who subsequently sell our products to end customers through more than 2,400 retail outlets operated by themselves or their sub-distributors throughout the PRC. We believe that the following factors have contributed to our rapid growth:

- Expanding our distribution network by increasing the number of distributors and sub-distributors in the PRC and penetrating second and lower tier cities;
- Managing our retail network in a uniform manner through collaboration with our distributors; and

- Improving our product design and merchandising strategy by refining our existing product lines and introducing new products to enhance the overall product mix and sales.

We have developed and closely manage stable relationships with our 53 distributors. Of these distributors, 26 of them (which includes their predecessors) have had business relationships with us for more than four years, with the longest period of relationship being 12 years. We require our distributors and sub-distributors to operate their retail stores according to our retail standards so as to enable us to maintain a consistent brand image. We also work closely with our distributors and their sub-distributors on site selection, store renovation, cash and inventory management, retail operations and staff training to ensure that the retail points are well managed. We believe that our extensive and well-managed distribution network has assisted us in building a unified brand image that has allowed us to increase our market penetration.

Proactive and nationwide sales and marketing strategies

Active marketing and promotion of our brand has been pivotal in strengthening our LILANZ brand name and image in the PRC. Our marketing strategy focuses on an overall brand image that portrays a "simple yet sophisticated" lifestyle, rather than individual products.

We rely on our distributors, their sub-distributors and their store managers for the sales of our products. Each year, we organise three sales fairs at our headquarters in Jinjiang, Fujian, for our distributors, their sub-distributors and their stores managers so that they can place orders and learn the key themes and selling points of our new collections. We also use these opportunities to gather feedback on local fashion trends and market demand to enhance our product design and inventory management.

In addition to our seasonal sales fairs, we engage in national advertising and promotion campaigns through a variety of media channels. Since 2002, the well-known PRC actor, Mr. Chen Dao Ming (陳道明), has been our brand spokesperson. Our current contract with Mr. Chen Dao Ming will expire on 31 December 2010. 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.

In 2004, we received several advertising awards from the Fujian Advertising Association (福建省廣告協會) and Fujian Consumers' Association (福建省消費者委員會). We believe that our award-winning television advertisements, which are in short-film format, convey a sense of uniqueness for our brand and create a consistently high-profile brand image. We also employ print media channels, including magazines and billboards, to further promote the awareness of our LILANZ brand.

Furthermore, we participated in domestic fashion shows in 2005, 2006 and 2007. Recently, we began to participate in international fashion shows, including the "Milan Menswear Show" (Milano Moda Uomo) in 2007, where we were the first and only Chinese brand to participate, and "Japan Fashion Week in Tokyo" in 2008. Participating in fashion shows allows us to showcase our products on highly visible platforms both in the PRC and internationally. We anticipate that we will continue to implement various marketing and promotional strategies to maintain and enhance our brand.

Strong design and product development capability

Our "simple yet sophisticated" brand philosophy is reflected in our product lines and is manifested in what we believe to be innovative designs. We differentiate ourselves through our simple yet sophisticated menswear with quality tailoring. We design all of our products in-house under the leadership of our chief designer, Mr. Ji Wen Bo, one of the leading fashion designers in the PRC with 20 years of industry experience.

As at the Latest Practicable Date, our design and product development team comprised 114 members, five of whom have received design awards. Our design and product development team identifies new fashion trends by visiting major fashion centres, fashion shows and exhibitions as well as by drawing inspiration from magazines and other media. We introduce new design elements into our menswear product lines in each new season. With our highly-skilled team of designers operating under the leadership of Mr. Ji Wen Bo, we have extensive experience in creating what we believe are innovative designs to reach our targeted customer base.

In February 2009, we established a new product development center in Shanghai for product design and market research and analysis to bolster our product design and development capabilities.

Our design and product development team also works closely with our suppliers and our distributors on product development and design. We collaborate with our suppliers to develop varying uses of materials and fabrics in our products. In addition, we involve our distributors in our product selection process to take advantage of their market intelligence, which helps ensure that we adapt to the constantly changing consumer trends in our local markets. We believe our strong capabilities in developing new product lines enable us to capitalise on the growing menswear market, particularly casual menswear, in the PRC.

Experienced management team with a proven track record

Our management team is led by our founders, the Wang Brothers, each of whom has over 20 years of experience in the menswear industry. The other members of our management team also have extensive experience in the menswear industry, and many of them have been part of our management team for over eight years. This core management team has led us through our rapid growth and the establishment of LILANZ as a leading menswear brand. To further enhance our management skills, we provide in-house training to our management team and in 2006, we sent nine of our Directors and senior management, together with other employees and over 120 of our distributors and their sub-distributors, to participate in one-week management training courses at Tsinghua University in Beijing, PRC. We believe that the knowledge, skillset and strategic vision of our management team have enabled us to establish ourselves as an integrated fashion enterprise.

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

We believe our "simple yet sophisticated" design philosophy and our brand's market position have provided us with a broad range of product opportunities. We plan to continue to capitalise on our brand value to further enhance our overall sales and profit growth through the following initiatives:

- *Continue to refine and expand our existing product lines* — We intend to further refine our existing product lines by offering more styles within our existing product categories and to introduce additional apparel products as well as to expand accessories offerings that are complementary to our current product offerings. We intend to continue to outsource the production of all of our accessory products and a portion of our apparel to OEM contractors.

- *Develop new product collections* — As we continue to expand our product lines, we plan to develop a sub-brand of LILANZ targeting customers aged 20 to 30. We believe the development of this new sub-brand should allow us to further showcase our LILANZ brand to our customers and should help to further promote sales growth.

- *Increase product pricing and adjust discounts to distributors* — As we further strengthen our brand and market positions, we intend to increase the average price for our products in order to help enhance our profitability. In addition, we will at our discretion gradually adjust the discounts offered to certain of our distributors so as to help enhance our overall profit margins.

Further strengthen and expand our distribution network and increase our retail coverage

We intend to continue to strengthen and expand our distribution network in order to further increase our retail presence by opening additional retail outlets, build brand awareness and showcase our expanding product portfolio. We intend to increase our retail coverage by:

- Strengthening our relationship with our existing distributors through greater interaction, such as providing on-going training and conducting site visits, and identifying new distributors to broaden our presence in existing and new markets;

- Elevating certain existing sub-distributors to distributor status and encouraging them to enroll more sub-distributors, which should, in turn, assist us in further penetrating our target markets rapidly; and

- Leasing certain premises at prime locations in major cities in the PRC for operation by our distributors as flagship stores. We believe that flagship stores in major cities can help to further promote our brand awareness and stimulate sales in adjacent cities and regions.

Further promote our LILANZ brand and enhance our marketing and promotional strategies

We believe that the strong association of our LILANZ brand with our "simple yet sophisticated" design philosophy has helped drive our brand positioning and consumers' receptivity to our products. We intend to further build our brand and deliver a consistent brand image from product design to sales and marketing. We seek to promote and enhance our presence as a brand leader in the PRC menswear market by continuing to adopt proactive marketing strategies and to produce high quality, well-designed menswear for our target markets. In particular, we aim to increase our brand presence through:

- Multi-channel advertising strategies through national television, fashion magazines, billboards and other media channels;

- Distinctive store and product launch campaigns, including special events for new product launches and large-scale grand opening events for new stores, particularly new flagship stores;

- Participation in both domestic and international fashion shows; and

- Sponsorships of television personalities and prominent executives.

We believe that these marketing and promotion strategies should help to further strengthen our brand awareness in our targeted consumer markets and enhance consumer loyalty to our LILANZ brand.

Improve our operational and production management capabilities

We recognise that our continued business growth provides an opportunity for us to enhance the efficiency and effectiveness of our operations. In order to improve our cost structure, shorten production cycle and swiftly adapt our production to rapidly changing fashion trends, we intend to enhance our vertically integrated operations through closer collaboration and cooperation with our raw materials suppliers and OEM contractors. We also intend to continue to outsource production to supplement our in-house capabilities.

In addition, we intend to upgrade our information systems to enable direct connections between our production and supply chain management systems to enable us to plan merchandising and logistics more efficiently. We expect this should benefit supply chain management and the management of the sales network. We also intend to continue to increase our production and warehousing capacity at our production facilities to support our sales growth.

Further strengthen our design and product development capabilities

We intend to further strengthen our design and product development platform, accelerate commercialization of design concepts, continue to develop what we believe are innovative menswear and accessories and expand our product offerings. Over the next three years, we plan to further invest in design and product development and expand our design and product development team. We plan to establish a new design and product development studio in Xiamen, Fujian and further expand a newly established product development centre is Shanghai, to attract and cultivate young designers from major fashion design programmes and to further strengthen our product design capabilities. Furthermore, we intend to develop collaborative programmes with major design institutes to nurture new talent. We believe that our focus on designing innovative and quality menswear should allow us to maintain our competitiveness and help to enhance our sales and overall profitability.

BRANDING AND PRODUCT PORTFOLIO

Branding

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

We believe that our widespread brand recognition has been one of the key factors in our success. Our brand name embodies the meaning of "successful gentlemen" (利郎), which highlights the profile of our target customers: men who aspire to success. We believe that we offer our customers a range of clothing collections that portray a "simple yet sophisticated" lifestyle. In 2007, our 利郎 LILANG brand was recognised by the Trademark Review and Adjudication Board in the PRC as a "China Well-Known Trademark" for clothing. In 2008, our 利郎 brand has been awarded "The Most Influential Fashion Brand of Garment". In 2009, our 利郎 brand has been 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 has been 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 have carefully cultivated our brand image through a combination of what we believe are innovative designs, national advertising campaigns and rapid expansion of the national sales network that carries a uniform brand image. 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. Our clothing design seeks to portray a "simple yet sophisticated" lifestyle that aims at reaching successful professionals and business executives in the PRC who demand high quality, fashionable menswear. We believe that our LILANZ brand is well-positioned to capture this expanding consumer segment with high disposable income.

Products

Our heritage is in the tailoring of business suits and men's formal wear. We bring from that heritage an attention to detail and focus on quality. We aim to offer trend-setting designs with matching styles and colours to enable consumers to mix-and-match creatively for all occasions. Design is discussed in greater detail below under the sub-section "Business — Design and Product Development".

We have control over the creation of our products from design and sourcing to manufacturing and, in certain respects, selling. Our menswear products are designed for business and casual purposes and primarily target customers between the ages of 28 and 45. We offer products for each season in four broad collections: business formal, business casual, fashion casual and sports. Through our collections, we seek to reflect the modern gentlemen's sense of style. We set out below the details of our four broad collections:

Business formal

Our business formal collection includes conventional business attire, such as business suits, which is traditionally designed for business-oriented occasions and formal events. Successful businessmen, especially senior executives, are our target customers. Our main offerings for this collection include suits, shirts, sweaters, pants, jackets and overcoats.

Business casual

Our business casual collection includes apparel that is less formal yet still suitable for professional engagements. Successful businessmen, including mid and senior executives, are our target customers. Our main offerings for this collection include shirts, polo-shirts, sweaters, pants, jackets and windbreakers.

Fashion casual

Our fashion casual collection primarily caters to leisure and entertainment activities. Our target customers for this collection are generally younger businessmen who seek fashionable styles for their leisure wear. Our main offerings include polo-shirts, T-shirts, sweaters, pants, jackets and parkas.

Sports

Our sports collection includes clothing for indoor and outdoor sports such as golf, tennis, sailing and snooker. Our target customers for this collection are men who enjoy sports entertainment. Our main offerings include T-shirts, sweatshirts, pants, jackets and parkas.

SALES

General

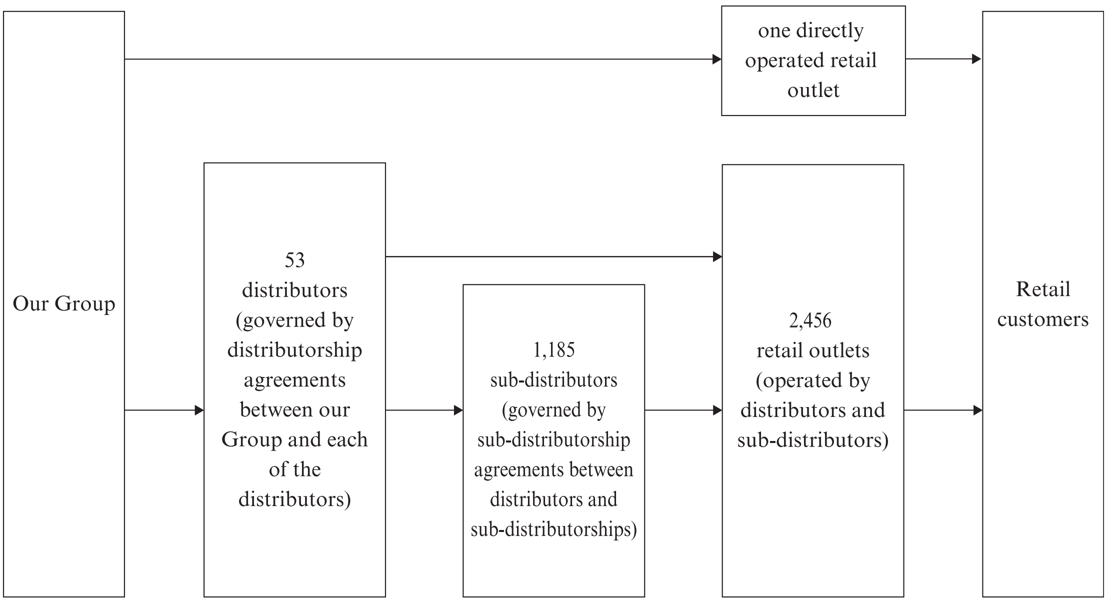
We sell substantially all of our LILANZ products to our distributors who subsequently sell our products to retail customers through retail outlets operated by themselves or their sub-distributors. Under our wholesale business model, we have direct contractual relationships with our distributors. Our distributorship agreements require that our distributors and their sub-distributors to sell LILANZ products exclusively at their outlets. During the Track Record Period, sales to our distributors accounted for substantially all of our turnover.

We enter into one-year distributorship agreements with each of our distributors which are reviewed and renewed annually. See "Business — Sales — Management of distributors". Under the distributorship agreements, our distributors are required to maintain uniform standards in respect of store displays, marketing activities and daily operations as set out in our operations manual. If a distributor fails 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. During the Track Record Period, our distributors and their sub-distributors have complied with our retail policies in all material respects, and we are not aware of any non-compliance of a material nature.

Along with this wholesale business model, we also operate a flagship store directly operated in Jinjiang since February 2008.

The following diagram illustrates the relationship among our Group, our distributors and their sub-distributors, retail outlets and ultimate customers as at 30 June 2009:



We manage our distributors only through distributorship agreements and we do not have any other type of control over the distributors. We do not have contractual relationships with sub-distributors and have no direct control over the retail outlets operated by our distributors or their sub-distributors, but we exert a certain degree of influence over them through the distributorship agreements or their respective sub-distributorship agreements.

Under our wholesale business model, we employ a distribution model commonly used by brand owners in the PRC. By selling directly to our distributors, we can recognise revenue up front and delegate the responsibilities of distributing our products to our distributors and their sub-distributors. This allows us to distribute our products to a wide geographical region and penetrate markets by leveraging the local market knowledge of our distributors and sub-distributors. This business model minimises inventory and sales risks to our Group and allows us to focus on our core competitive strengths of brand management and product development.

Distribution network

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 regional distributors operated or subcontracted the operation of 2,456 retail outlets covering 31 provinces, autonomous regions and municipalities in the PRC. 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 broaden our presence in our existing markets and to enhance management and sales of the retail outlets in our distribution network, we have increased the number of our distributors. The number of our distributors increased from 28 as at 31 December 2007 to 51 as at 31 December 2008 and to 53 as at 30 June 2009. The increase was primarily due to the appointment of more than one distributor in a province, which enables us to better manage our distribution network especially in the case where there is a large market within a province. The number of sub-distributors increased from 1,245 as at 31 December 2007 to 1,257 as at 31 December 2008, and decreased to 1,185 as at 30 June 2009. The increase in 2008 was due to the appointment of new sub-distributors and the decrease in 2009 was primarily due to the fact that certain sub-distributors were elevated to become distributors and the number of sub-distributors have been consolidated as part of the distribution network enhancement. Therefore, the decrease in the number of sub-distributors did not have any negative impact on our business.

We aim to increase the number of retail outlets to approximately 2,600 by the end of 2009. The anticipated increase in the number of retail outlets is based on the individual expansion plans we set out for each distributor after conducting our own market analysis of, for example, area, population and consumer spending. These expansion plans serve as guidelines for our distributors to assist them to meet the minimum purchase amount under the relevant distributorship agreements. Distributors are expected to meet the expansion target specified by such plans, and, as confirmed by our Directors, many of the distributors met their targets for the year 2008. We believe that our distribution network has enabled us to (i) expand our business and accelerate sales growth at much lower costs and operational risk and (ii) achieve brand recognition throughout the PRC.

The following table sets forth the number of distributors and retail outlets operated by our distributors and their sub-distributors by province.

	31 December 2006		31 December 2007		31 December 2008		30 June 2009	
	No. of Retail Outlets(1)	No. of Distributors(2)	No. of Retail Outlets(1)	No. of Distributors(2)	No. of Retail Outlets(1)	No. of Distributors(2)	No. of Retail Outlets(1)	No. of Distributors(2)
Beijing	43	1	54	1	69	1(3)	54	1(3)
Tianjin	7	—	12	—	12	—(3)	7	—(3)
Hebei	48	1	64	1	73	1	74	1
Shanxi	56	1	65	1	65	1	56	1
Inner Mongolia	34	1	25	1	27	1	29	1
Heilongjiang	115	1	112	1	112	2	121	2
Jilin	76	1	70	1	86	1	82	1
Liaoning	140	1	119	1	130	1	117	1
Jiangsu	92	1	112	1	128	1	106	2
Shanghai	2	—	3	—	24	1	32	1
Zhejiang	114	1	111	1	131	3	123	3
Anhui	107	2	132	2	153	7	161	7
Fujian	93	1	110	2	125	3	125	4
Shandong	130	1	134	1	143	2	132	2
Jiangxi	80	1	83	1	96	1	92	1
Henan	139	1	167	1	168	6	177	6
Hubei	98	1	112	1	118	1	116	1
Hunan	61	1	80	1	72	2	79	2
Guangdong	56	1	43	1	76	3	74	3
Guangxi	57	1	60	1	74	1	69	1
Hainan	17	—	17	—	23	1	26	1
Chongqing	76	1	83	1	103	1	115	2
Sichuan	114	1	131	1	146	1	140	1
Guizhou	45	1	39	1	57	2	58	2
Yunnan	67	1	79	1	91	1	95	1
Tibet	5	1	7	1	8	1	11	1
Shaanxi	59	1	77	1	89	2	94	2
Gansu	30	1	29	1	26	1(3)	25	1(3)
Qinghai	3	—	3	—	3	—(3)	3	—(3)
Ningxia	11	—	12	—	12	1(4)	13	—(3)
Xinjiang	27	1	41	1	51	1	50	1
Total	2,002	27	2,186	28	2,491	51	2,456	53

Notes:

(1) The number of retail outlets refer to retail outlets operated by our distributors and their sub-distributors.

(2) The number of distributors are set out in accordance with their locations.

(3) Our distributor for Beijing covers Tianjin and our distributor for Gansu covers Gansu, Qinghai and certain areas in Ningxia.

(4) A distributor for Ningxia covers a certain area in Ningxia other than the ones covered by our distributor for Gansu.

There is no overlapping of distributors within our distribution network since each distributor is only permitted to sell LILANZ products within a defined geographical area. Furthermore, given the growing market for menswear in the PRC, there is the potential for a significant expansion of business within our distribution areas. As such, we do not believe that there is an over-concentration of retail outlets within our distribution network.

The following table shows the number of retail outlets operated by our distributors or their sub-distributors by provinces as at 1 January 2006, 31 December 2006, 2007 and 2008 and 30 June 2009.

	The number of retail outlets* as at									
	1 January 2006		31 December 2006		31 December 2007		31 December 2008		30 June 2009	
	Operated by Distributors	Operated by Sub-distributors	Operated by Distributors	Operated by Sub-distributor	Operated by Distributors	Operated by Sub-distributor	Operated by Distributors	Operated by Sub-distributor	Operated by Distributors	Operated by Sub-distributor
Northern(1)	12	100	30	158	55	165	55	191	61	159
North Eastern(2)	14	227	28	303	48	253	81	247	75	245
Eastern(3)	31	440	62	556	113	572	253	547	284	487
Central and Southern(4)	28	297	45	383	116	363	210	321	219	322
South Western(5)	26	161	58	249	88	251	119	286	133	286
North Western(6)	11	70	26	104	42	120	57	124	64	121
Total	**122**	**1,295**	**249**	**1,753**	**462**	**1,724**	**775**	**1,716**	**836**	**1,620**

Notes:

* Includes the number of stand-alone stores and concessions in the department stores.

(1) Northern PRC includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
(2) North Eastern PRC includes Heilongjiang, Jilin, Liaoning.
(3) Eastern PRC includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.
(4) Central and Southern PRC includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.
(5) South Western PRC includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.
(6) North Western PRC includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

The following table shows our turnover and the corresponding percentage of our turnover by region during the Track Record Period.

	Years ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	(RMB million)	*% of turnover*	*(RMB million)*	*% of turnover*	*(RMB million)*	*% of turnover*	*(RMB million)*	*% of turnover*	*(RMB million)*	*% of turnover*
Region										
Northern PRC(1)	26.5	6.3	81.1	9.1	80.5	7.1	36.1	7.5	40.6	6.8
North Eastern PRC(2)	30.7	7.3	95.5	10.8	114.2	10.0	46.9	9.7	53.9	9.0
Eastern PRC(3)	204.2	48.9	357.0	40.3	417.6	36.8	184.0	38.0	217.0	36.2
Central and Southern PRC(4)	87.8	21.0	169.7	19.2	254.9	22.4	102.1	21.1	144.9	24.1
South Western PRC(5)	46.7	11.2	123.9	14.0	181.2	16.0	78.0	16.1	92.2	15.3
North Western PRC(6)	22.3	5.3	58.7	6.6	87.3	7.7	36.8	7.6	51.6	8.6
Total	418.2	100.0	885.9	100.0	1,135.7	100.0	483.9	100.0	600.2	100.0

Notes:

(1) Northern PRC includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
(2) North Eastern PRC includes Heilongjiang, Jilin, Liaoning.
(3) Eastern PRC includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.
(4) Central and Southern PRC includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.
(5) South Western PRC includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.
(6) North Western PRC includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

One of our expansion strategies is to cooperate with our distributors to open flagship stores in the next few years in major cities in the PRC. 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 larger than the existing retail outlets operated by our distributors. We believe that new flagship stores can help to further promote our brand image by showcasing our complete line of products and facilitate sales by our distributors and their sub-distributors in adjacent cities and 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.

To further enhance our brand expansion, we intend to develop a sub-brand of LILANZ targeting customers aged 20 to 30 who are seeking stylish casual wear. We plan to set up a dedicated stand-alone design and product development team for this sub-brand, which will collaborate with designers from overseas. We expect to sell products under the new sub-brand through stand-alone stores that are separate from the main LILANZ brand. We believe that these specialised retail outlets will allow us to expand our target market to younger customers, enhance our brand presence and recognition in the market and expand our product line.

Management of distributors

Our distributors are principally responsible for selecting and ordering products and overseeing the operation of retail outlets. These distributors order our products at each of our three annual sales fairs and sell them through retail outlets operated by them or sub-distributors.

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. Of our 53 distributors as of 30 June 2009, 26 of them (which includes their predecessors) have had business relationships with us for more than four years.

Our distributorship agreements are generally for one-year terms. We review the performance of our distributors annually and decide whether to renew the distributorship agreements. Our distributorship agreements contain the following provisions, among others:

- *Product exclusivity* — Distributors are required, and are required to procure their sub-distributors, to sell only LILANZ products at their retail outlets.

- *Geographic exclusivity* — Distributors are only permitted to sell LILANZ products within a defined geographical area.

- *Minimum purchase amount* — The distributorship agreements specify the minimum purchase amount that the distributors are expected to purchase during the year. Our distributors are required to place 70% of the minimum purchase amount at the sales fairs, with the remaining 30% as subsequent top-up orders.

- *Minimum suggested retail price* — Distributors are required to follow the uniform suggested retail price that we adopt from time to time for each product. Distributors may, with our approval, adopt a higher suggested retail price depending on market conditions within the regions in which the distributors operate.

- *Undertakings* — Distributors undertake to comply with our pricing and discount policies, adhere to our uniform store display standards and refrain from selling competing brands and counterfeit products. We have the right to terminate the appointment of our distributors who fail to provide satisfactory customer service to retail customers.

- *Payment, credit terms and delivery* — The distribution agreements provide that our products will only be delivered to the distributor when payment is received by us. In practice, however, we may extend credit to our distributors. Please refer to "Credit policy" in this section for further details. Our distributors bear the costs of delivery.

- *Sales reports and market information* — Distributors must provide us with sales reports and market information, including trends and feedback from retail customers, on a regular basis or upon request by us. Distributors are also required to notify us immediately when they discover counterfeit products in the market.

- *Return of goods* — Distributors must conduct quality checks upon receipt of our products and may return defective goods to us if a notice of complaint regarding the defects is given within 15 days of receipt. Return of goods is allowed in such circumstances only under the distributorship agreement. Distributors are deemed to have considered the goods as satisfactory in the absence of such complaint.

- *Sub-distributorships* — Distributors are permitted to sub-contract the operation of retail outlets to sub-distributors, subject to our approval of the sub-distributorship agreement and business plan. Distributors are required to procure their sub-distributors to comply with the terms and conditions of the distributorship agreements.

- *Right of termination* — If the distributors fail to comply with the distributorship agreements, we have the right to terminate the agreements.

Effective monitoring of our distributors and their retail outlets is critical to our success. We have a dedicated team to monitor our distributors' and their sub-distributors' performance. We require the distributors to submit sales reports on a weekly basis. All of our distributors have conformed to our policies and submitted the sales reports to us on a regular basis. This reporting system enables us to access up-to-date information on the sales performance of our distributors and their sub-distributors, which reflects the overall level of retail sales of our products. We oversee the accuracy of such weekly sales reports by reference to subsequent orders placed by our distributors. We believe that the amount of orders placed by our distributors corresponds to the actual status of our distributors and/or their sub-distributors in terms of sales and inventory. After making reasonable enquiry and reviewing the sales level of our distributors and/or sub-distributors, the Directors confirm that they are not aware of any circumstances where distributors and/or sub-distributors purchased products from us and/or distributors without intending to sell the products to their customers during the Track Record Period. The Directors are also not aware of any unreasonable or unusual build up of inventory levels at our distributors and, save for the relocation of inventory among retail outlets operated by the same distributors or sub-distributors, the Directors are not aware of any relocation of inventory among retail outlets of different operators. Based on the above, the Directors consider that our sales and delivery of our products to our distributors are in line with the seasonality of the sales of our products in the market.

We invite our distributors, as well as their sub-distributors and retail store managers, to attend our sales fairs, which take place three times a year. During the sales fairs, we are given the opportunity to meet and communicate with our distributors and their sub-distributors. Apart from participating in the three sales fairs each year, our distributors visit our Group on a regular basis and keep in contact with us via telephone and video conference, which allows us to have access to updated market information.

Each of the distributors is subject to an annual review of its operating results, ability to maintain our brand image, retail expansion capacity, and compliance with our operation standards. In particular, we perform annual reviews of the operating results of our distributors by consolidating and analysing data from the weekly sales reports submitted by each of our distributors.

Each year, we negotiate with our distributors the minimum purchase requirement before renewing the distributorship agreements. We do not provide any rebate, commissions or incentives to our distributors or their sub-distributors in the event that they have achieved the minimum purchase amount as stipulated in their respective agreements. However, if a distributor fails to meet the minimum purchase requirement, we have the right to increase the wholesale price offered to such distributor. During each of the sales fairs, we discuss with our distributors their progress and work closely with them to ensure that the minimum purchase requirement will be satisfied.

We provide training for our distributors and their sub-distributors in the areas of customer service and product knowledge. During the Track Record Period, we organised more than 20 in-house training programmes on retail strategies and management for key distributors and sub-distributors. In 2006, we spent approximately RMB968,000 to sponsor over 120 of our distributors and their sub-distributors to join our Directors, senior management and some other employees in management training courses at Tsinghua University in Beijing. We established the LILANZ retail management training centre at our headquarters in Jinjiang, Fujian in 2008, where we provide in-house training to new store managers and retail staff on the sales and marketing strategies as well as the LILANZ business philosophy. We believe that these investments help to improve the operations of the sales network and provide the added benefit of motivating our distributors and their sub-distributors.

During the Track Record Period, one distributorship agreement was terminated in 2006 as a result of a litigation against us involving our alleged breach of a distributorship agreement. Under the distributorship agreement in question, Lilang Fujian had authorised a former distributor ("Former Distributor"), who had no previous business relationship with us, to distribute our products in Xiangtan City, Hunan Province. However, due to unsatisfactory sales performance of the Former Distributor, Lilang Fujian, believing that they had terminated the distributorship agreement, entered into another distributorship agreement with another distributor, under which such distributor was authorised to distribute our products in Xiangtan City, Hunan Province. According to the court findings, Lilang Fujian was held to have breached the terms of the Distributorship agreement and was ordered to, among other things, pay compensation to the Former Distributor. As a result of this claim, Lilang Fujian paid a one-time compensation payment of RMB594,000 to the Former Distributor. During the Track Record Period, no revenue was generated from the terminated distributorship agreement.

Management of retail outlets

All retail outlets exclusively sell LILANZ products. To provide uniform, quality services across the retail network, we set out in our operations manual uniform standards for, among other things, store displays, marketing activities and daily operations for our distributors and their sub-distributors, and we require our distributors and their sub-distributors to obtain our approval for the final location of each retail outlet.

To further implement our retail policies, we conduct unscheduled on-site inspections at randomly selected individual retail outlets. During the Track Record Period, our sales and marketing department conducted more than 100 on-site inspection tours, lasting from one to 72 days, during which we visited up to eight retail outlets each day. We also require our distributors to conduct regular site visits to their sub-distributors' retail outlets to check whether our operation standards are being followed. Through these inspections and visits, we seek to ensure that the terms and conditions of the distributorship agreements are being complied with. We identify and inform distributors of any non-conforming individual retail outlets and direct them to rectify the problems within a certain period of time. To the best knowledge of our Directors, all of the retail outlets have complied with our retail policies in all material respects. In addition, the sub-distributors and/or their store managers visit our Group on a regular basis during which they provide first-hand local sales information to us. We believe LILANZ retail outlets are efficiently operated and provide a pleasant experience to our retail customers.

Customer service

Building consumer loyalty is important to our success. With our encouragement, all our distributors and some of their sub-distributors offer VIP programmes under which a member enjoys a discount from the retail price and may also take advantage of promotional services such as rewards points and holiday discount offers. Each member of the VIP programmes is entitled to discounts in the region controlled by the relevant distributors only. These VIP programmes are managed independently by distributors and sub-distributors, who are responsible for monitoring the programmes. No incentive has been given to distributors or sub-distributors who offer VIP programmes to customers. To the best knowledge of our Directors, we are not aware of any non-compliance with the requirements and rules of these VIP programmes during the Track Record Period.

We provide alteration services to distributors and their sub-distributors free of charge. We will alter ancillary components and parts upon request by distributors and their sub-distributors. However, we did not provide such services during the Track Record Period as we did not receive any requests for alteration services during that period. We understand many of our distributors and their sub-distributors provide other after-sale services to retail customers, including ironing, home delivery of purchased or altered goods and shortening of trousers.

In respect of our return of goods policy, our distributors are asked to conduct quality checks upon receipt of our products and may return defective goods to us if notice of complaint about the defects is given within 15 days. Distributors are deemed to have considered the goods as satisfactory in the absence of such complaint. Where some defects are not obvious, we may, on a case-by-case basis, allow return of goods from distributors even though the notice of complaint is served outside the 15 days period. Our Directors confirmed that for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, the value of products returned to us accounted for approximately RMBnil, RMB72,000, RMB664,000 and RMBnil, respectively. The products returned during 2007 and 2008 were returned due to erroneous shipment to distributors.

We also stipulate that if a product is found to be unsatisfactory after purchase, retail customers may return the product to the store where the item was purchased or, provided that the product is still in good and saleable condition, exchange the item for alternative goods. We are not responsible for returned goods from individual retail customers via distributors or sub-distributors, but customers may provide feedback to us via our website and customer hotline.

Production orders and pricing strategy

We hold previews for our new products with our distributors in advance of the sales fairs, at which distributors can preview and evaluate our new products, and we exchange ideas with our distributors about current and future trends of the menswear market in the PRC. We hold sales fairs three times a year to showcase styles for autumn, winter and spring/summer to our existing and potential distributors. Our sales fairs generally take place in March to May for the autumn collection, May to July for the winter collection and August to November for the spring/summer collection. 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 demands which allow us to further enhance our product design and merchandising strategy. Our distributors are required under the distributorship agreements to place 70% of orders at our sales fairs, with the remaining 30% as subsequent top-up orders. We believe that the sales resulting from sales fairs allow us to efficiently utilise our production facilities and OEM contractors, respond quickly to market demand and manage our inventory more efficiently.

Although the distributorship agreements do not prohibit the distributors from cancelling orders, as advised by our PRC legal adviser, any purchase order placed by them is legally binding between the distributors and us and we are entitled to sue the distributors under PRC laws for order cancellations. Our distributors did not cancel any orders that they placed with us during the Track Record Period.

During the Track Record Period, the average unit selling price for our apparel was RMB120, RMB120, RMB142 and RMB128, respectively, and the average unit selling price for accessories (including footwear) was RMB15, RMB47, RMB84 and RMB86, respectively.

Starting from March 2008, we began to classify our distributors into four categories, namely tier I, II, III, and IV, according to the size of the cities they operate in, and the mix of directly managed stores and sub-distributors managed stores under their management. Different tiers of distributors will enjoy different wholesale pricing discounts, with tier I distributors enjoying the highest discounts and tier IV distributors the lowest. In the normal course of business, the prices that any tier of distributors shall pay for their purchases are determined by reference to the discount rate applicable to their tier and the uniform retail price fixed by us that the end consumer should pay for the product. We review the grading of distributors once a year. Prior to the adoption of this distributor grading system, we granted to all distributors a uniform discount rate for all purchases made.

Distributors are required, and are required to procure their sub-distributors, to adopt a uniform suggested retail price for each product across the PRC market with the exception of certain major cities where a higher retail price may be adopted. In 2008, the suggested retail prices of our products ranged from approximately RMB108 to RMB12,899 for our apparel products and approximately RMB2.5 to RMB2,099 for accessory products (including footwear). In determining the prices of our products, we usually take into account the prevailing market conditions, cost of design, cost of raw materials and production and prices set by competitors for similar items. Distributors and sub-distributors are required to follow our promotion policies adopted from time to time but have discretion, with our prior approval, to determine their own discounted prices to promote products or clear slow-moving or out-of-season items.

Credit policy

Our distributorship agreements provide for delivery of products only when payment is received by us. However, we may grant to our distributors credit periods of 60 days to 180 days depending on the circumstances, such as their credit history, payment pattern and on-going relationship with us. During the Track Record Period, we extended credit terms to all our distributors. Most purchases made by distributors are settled within 90 days from the invoice dates. We closely monitor our trade receivables by reporting results of our monthly analysis to the chief financial officer and the board of directors of our subsidiaries in the PRC. Based on these results, we adjust the relevant credit terms. We periodically review the payment status of our trade receivables and take appropriable measures to collect overdue accounts. We do not have direct contractual relationships with the sub-distributors. As such, we do not extend credit terms to the sub-distributors.

In determining bad and doubtful debt, our management takes into account the credit history and payment pattern of our distributors as well as their on-going relationship with us. For the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, we did not make any provisions for bad and doubtful debts. The policy of making provision for bad and doubtful debts has been consistently applied during the Track Record Period.

Major and related customers

As at 30 June 2009, our customers are our 53 distributors and some end-customers from our directly-operated retail outlet in Jinjiang. Of these distributors, 26 of them (which includes their predecessors) have had an established business relationship with us for more than four years, with the longest period of relationship being 12 years. We believe that our ability to maintain distributors' loyalty is important to our success. For the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, sales attributable to our top ten customers were RMB320.9 million, RMB569.1 million, RMB602.7 million and

RMB303.8 million, respectively. 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. Sales to our largest customer accounted for approximately 21.1%, 13.2%, 12.7% and 12.7%, respectively, of our turnover for the same period. The number of retail outlets operated by these top five customers and their respective sub-distributors represents approximately 44.0%, 44.7%, 31.5% and 30.8% of the total number of retail outlets operated by all our distributors and their respective sub-distributors as at 31 December 2006, 2007, 2008 and the six months ended 30 June 2009.

All of our existing customers are Independent Third Parties and we do not have ownership or management control over our distributors and their sub-distributors. Save for Mr. Hu Cheng Chu and Mr. Pan Rong Bin, two of our Directors, neither our Directors nor any Shareholder or their respective associates who or which to the knowledge of our Directors hold more than 5% of the issued Shares had any interests in any of our customers throughout the Track Record Period. During the period (the "Relevant Period") from the respective dates of establishment of the seven companies (the "Related Companies") in which Mr. Hu Cheng Chu and Mr. Pan Rong Bin had equity interests up to the respective dates on which Mr. Hu Cheng Chu and Mr. Pan Rong Bin disposed of their equity interests in the Related Companies to Mr. Zhang Xingfa (an Independent Third Party) and one of our former distributors, Mr. Lin Jintai (being the former deputy supervisor of the CEO office of our Group who had previously worked with our Group for more than 10 years) and Mr. Xu Peide (being a staff member of our finance department who had previously worked with our Group for about five years) (the "Relevant Period"), we sold our products to the Related Companies. For the years ended 31 December 2006 and 2007, approximately 21.1% and 30.1% of our turnover was derived from the Related Companies, respectively, and approximately 21.1% and 12.9% of our turnover was derived from these Related Companies, respectively, during the period when Mr. Hu Cheng Chu and Mr. Pan Rong Bin were still beneficial owners of these Related Companies. Our sales to the Related Companies during the year ended 31 December 2007 after Mr. Hu and Mr. Pan disposed their interests in the Related Companies to Mr. Zhang Xingfa, Mr. Lin Jintai and/or Mr. Xu Peide, as the case may be, and the year ended 31 December 2008 and the six months ended 30 June 2009 amounted to approximately RMB152.7 million, RMB234.7 million and RMB125.4 million, respectively, representing approximately 17.2%, 20.7% and 20.9% of our total turnover for the years ended 31 December 2007 and 31 December 2008 and the six months ended 30 June 2009, respectively. Certain background information of these Related Companies are set forth below:

Name of the Related Company	Province in which the Related Company operates/ estimated number of staff as at 31 December 2008	Shareholding structure of the Related Companies during the Relevant Period	Shareholding structure of the Related Companies following their disposal	Number of outlets operated by the Related Company and its sub-distributors (% to all our distributors'/sub-distributors' outlets) during the Relevant Period as at 31 December		Our amount of sales to the Related Company (% to our turnover) during the year ended 31 December during the Relevant Period	
				2006	2007	2006	2007
						RMB'000/ (%)	*RMB'000/ (%)*
合肥曉升商貿有限責任公司 (Hefei Xiaosheng Trading Co., Limited) ("**Hefei Xiaosheng**")	Anhui Province/ 34 staff	60% by Mr. Hu Cheng Chu and 40% by Mr. Pan Rong Bin from August 2006 until they transferred their equity interests in Hefei Xiaosheng to Mr. Zhang Xingfa and Mr. Xu Peide in September 2007 at an aggregate cash consideration of RMB1,000,000, which had been agreed among the parties and determined by reference to the aggregate registered capital contributed by Mr. Hu and Mr. Pan to Hefei Xiaosheng and its estimated value after distribution of all of its then retained profit to the former shareholders.	60% by Mr. Zhang Xingfa and 40% by Mr. Xu Peide	87/ (4.3%)	108/ (4.9%)	14,628/ (3.5%)	37,163/ (4.2%)
杭州曉星貿易有限公司 (Hangzhou Xiaoxing Trading Co., Limited) ("**Hangzhou Xiaoxing**")	Zhejiang Province/ 20 staff	60% by Mr. Hu Cheng Chu and 40% by Mr. Pan Rong Bin from September 2006 until they transferred their equity interests in Hangzhou Xiaosheng to Mr. Lin Jintai and Mr. Xu Peide in February 2007 at an aggregate cash consideration of RMB500,000, which had been agreed among the parties and determined by reference to the aggregate registered capital contributed by Mr. Hu and Mr. Pan to Hangzhou Xiaosheng and its estimated value after distribution of all of its then retained profit to the former shareholders.	60% by Mr. Lin Jintai and 40% by Mr. Xu Peide	114/ (5.7%)	111/ (5.1%)	17,905/ (4.3%)	4,626/ (0.5%)
長沙曉星服飾貿易有限公司 (Changsha Xiaoxing Apparel Trading Co., Limited) ("**Changsha Xiaoxing**")	Hunan Province/ 27 staff	45% by Mr. Hu Cheng Chu and 55% by Mr. Pan Rong Bin from July 2006 until they transferred their equity interests in Changsha Xiaosheng to Mr. Xu Peide and Mr. Lin Jintai in August 2007 at an aggregate cash consideration of RMB1,100,000, which had been agreed among the parties and determined by reference to the aggregate registered capital contributed by Mr. Hu and Mr. Pan to Changsha Xiaosheng and its estimated value after distribution of all of its then retained profit to the former shareholders.	55% by Mr. Xu Peide and 45% by Mr. Lin Jintai	61/ (3.0%)	80/ (3.7%)	19,043/ (4.6%)	15,755/ (1.8%)

Name of the Related Company	Province in which the Related Company operates/ estimated number of staff as at 31 December 2008	Shareholding structure of the Related Companies during the Relevant Period	Shareholding structure of the Related Companies following their disposal	Number of outlets operated by the Related Company and its sub-distributors (% to all our distributors'/sub-distributors' outlets) during the Relevant Period as at 31 December 2006	2007	Our amount of sales to the Related Company (% to our turnover) during the year ended 31 December during the Relevant Period 2006 *RMB'000/ (%)*	2007 *RMB'000/ (%)*
鄭州市凱利商貿有限責任公司 (Zhengzhou Kaili Trading Co., Limited) ("**Zhengzhou Kaili**")	Henan Province/ 24 staff	60% by Mr. Hu Cheng Chu and 40% by Mr. Pan Rong Bin from August 2006 until they transferred their equity interests in Zhengzhou Kaili to Mr. Lin Jintai and Mr. Xu Peide in August 2007 at an aggregate cash consideration of RMB500,000, which had been agreed among the parties and determined by reference to the aggregate registered capital contributed by Mr. Hu and Mr. Pan to Zhengzhou Kaili and its estimated value after distribution of all of its then retained profit to the former shareholders.	65.72% by Mr. Lin Jintai and 34.28% by Mr. Xu Peide	139/ (6.9%)	167/ (7.6%)	16,345/ (3.9%)	27,165/ (3.1%)
貴陽曉星商貿有限公司 (Guiyang Xiaoxing Trading Co., Limited) ("**Guiyang Xiaoxing**")	Guizhou Province/ 35 staff	40% by Mr. Hu Cheng Chu and 60% by Mr. Pan Rong Bin from August 2006 until they transferred their equity interests in Guiyang Xiaoxing to Mr. Lin Jintai and Mr. Xu Peide in December 2006 at an aggregate cash consideration of RMB500,000, which had been agreed among the parties and determined by reference to the aggregate registered capital contributed by Mr. Hu and Mr. Pan to Guiyang Xiaoxing and its estimated value after distribution of all of its then retained profit to the former shareholders.	60% by Mr. Lin Jintai and 40% by Mr. Xu Peide	45/ (2.2%)	39/ (1.8%)	7,017/ (1.7%)	—/ (0.0%)
長春市恩比商貿有限責任公司 (Changchun Enbi Trading Co., Limited) ("**Changchun Enbi**")	Jilin Province/ 30 staff	52% by Mr. Hu Cheng Chu and 48% by Mr. Pan Rong Bin from June 2006 until they transferred their equity interests in Changchun Enbi to Mr. Lin Jintai and Mr. Xu Peide in June 2007 at an aggregate cash consideration of RMB500,000, which had been agreed among the parties and determined by reference to the aggregate registered capital contributed by Mr. Hu and Mr. Pan to Changchun Enbi and its estimated value after distribution of all of its then retained profit to the former shareholders.	52% by Mr. Lin Jintai and 48% by Mr. Xu Peide	76/ (3.8%)	70/ (3.2%)	7,182/ (1.7%)	10,017/ (1.1%)

Name of the Related Company	Province in which the Related Company operates/ estimated number of staff as at 31 December 2008	Shareholding structure of the Related Companies during the Relevant Period	Shareholding structure of the Related Companies following their disposal	Number of outlets operated by the Related Company and its sub-distributors (% to all our distributors'/sub-distributors' outlets) during the Relevant Period as at 31 December 2006	2007	Our amount of sales to the Related Company (% to our turnover) during the year ended 31 December during the Relevant Period 2006 *RMB'000/ (%)*	2007 *RMB'000/ (%)*
西安市閩星商貿有限責任公司 (Xian Minxing Trading Co., Limited) ("**Xian Minxing**")	Shaanxi Province/ 30 staff	60% by Mr. Hu Cheng Chu and 40% by Mr. Pan Rong Bin from September 2006 until they transferred their equity interests in Xian Minxing to Mr. Zhang Xingfa and Mr. Xu Peide in September 2007 at an aggregate cash consideration of RMB500,000, which had been agreed among the parties and determined by reference to the aggregate registered capital contributed by Mr. Hu and Mr. Pan to Xian Minxing and its estimated value after distribution of all of its then retained profit to the former shareholders.	60% by Mr. Zhang Xingfa and 40% by Mr. Xu Peide	59/ (2.9%)	77/ (3.5%)	6,039/ (1.4%)	19,432/ (2.2%)
					Total:	88,159/ (21.1%)	114,158/ (12.9%)

Mr. Hu and Mr. Pan believed that the sales made by the distributors operating in the above provinces had the potential to grow rapidly. As such, in order to enhance our sales performance in the provinces in which the Related Companies operated, Mr. Pan and Mr. Hu established the Related Companies in 2006 and took over the distributorships of our Group's products from seven former distributors in these provinces, who were Independent Third Parties. These Related Companies had been established by Mr. Pan and Mr. Hu with their own resources and neither our Group nor any of the Directors (other than Mr. Pan and Mr. Hu) and their respective associates had provided any funding or other support for the establishment of these Related Companies. Leveraging Mr. Pan's extensive experience in retail and sales in the menswear industry in the PRC, the number of retail outlets in, and the sales attributable to, these provinces have increased since the takeover of the distributorships in these provinces by these Related Companies.

In or around the end of 2006, we started planning for the [●] and proposed to promote Mr. Hu and Mr. Pan to executive directorships for their contributions to the business operations and development of our Group. In order to avoid any potential conflict of interests and to ensure that future transactions with our customers (including the Related Companies) would continue to be entered into on arm's length basis without being influenced by Mr. Hu or Mr. Pan, Mr. Hu and Mr. Pan were requested to dispose of their interests in the Related Companies. As there was no liquid market for the sale of brand distributors and there were limited potential buyers specifically familiar with the brand control and distributorship of our products, they disposed of their respective interests in the Related Companies to Mr. Zhang Xingfa, Mr. Lin Jintai and Mr. Xu Peide, who had their own financial resources to acquire these equity interests and, Mr. Lin Jintai and Mr. Xu Peide, were familiar with our Group's products and our operations. From our perspective, the past relationship of Mr. Lin Jintai and Mr. Xu Peide with the Group helped us in verifying the suitability and credit-worthiness of Mr. Lin Jintai and Mr. Xu Peide to continue to act as our distributors and customers after they acquired the Related Companies. None of our Group, our Directors or any of their respective associates had provided any funding or support to these purchasers for their acquisitions of these equity interests.

The Related Companies have their own offices and warehouses for their operations and none of them uses any operational facilities of our Group. Having taken over the management team and staff of the Related Companies and with the support of the supply chain management and inventory control system previously established by Mr. Hu and Mr. Pan, and with the credit terms generally offered by us to our customers, so far as the Directors are aware of, the operational capital and the additional managerial and operational support required by these Related Companies after the disposal by Mr. Pan and Mr. Hu of their respective interests in the Related Companies is not significant and the Related Companies are able to operate independently and finance their operation and purchases out of purchase price received from their sub-distributors, retail shops and their internal generated cashflow. Save for the support we provide to our distributors pursuant to the distributorship agreements, neither our Group nor any of the Directors have provided any funding or other support for management or operation of these Related Companies after the disposals thereof by Mr. Pan and Mr. Hu. Save for Mr. Hu and Mr. Pan who had managed the Related Companies during the Relevant Period, none of our Directors and, so far as the Directors are aware of, none of the senior management, and/or their associates have participated in the management and operation of the Related Companies during the Track Record Period and up to the Latest Practicable Date. Our sales to the Related Companies have been and will be made on arm's length basis and on normal commercial terms.

MARKETING AND PROMOTION

Active marketing and promotion of our brand has been pivotal in strengthening the LILANZ brand name and image in the PRC. Our award-winning advertising focuses on an overall brand image that portrays a "simple yet sophisticated" lifestyle. We aim to generate interest and recognition not only among retail customers, but also among distributors, salespersons and the media. We select our promotional strategies with an eye towards efficiently reaching our target audience.

Advertising

Our national advertising focuses on building the LILANZ brand. We primarily promote our brand image and generate consumer attention through national television advertising, a promotional channel which we believe is critical to reaching our target audience. Our award-winning television advertisements, which are in short film format, showcase our latest menswear collection at unconventional locations. We believe these advertisements allow us to convey the uniqueness of our brand and create a consistently high-profile brand image. Since 2002, we have engaged the well-known PRC actor Mr. Chen Dao Ming (陳道明) to be our brand spokesperson. We believe that Mr. Chen Dao Ming epitomises the "simple yet sophisticated" lifestyle philosophy that LILANZ represents. 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.

To maintain a consistently high-profile market presence, we also promote our LILANZ brand through advertisements in fashion magazines, on billboards and in newspapers. We believe that these methods help to reinforce our television advertising, extend our coverage in the press media and further create the sense of a LILANZ lifestyle among our target consumers.

As part of our marketing strategy, we sponsored a number of marketing events, including one of the largest international men's top model competitions "Manhunt International 2006" held in the PRC, during which our menswear were showcased. In 2008, we sponsored an episode of the reality television series "Win in China", whereby contestants competed in a series of business tasks and we were one of the target clients in the show. We also sponsored the broadcast of a forum "Business can change China — today's retail industry and its trend of development in China" during which advertisements were placed. We believe that our sponsorship at these kinds of events enhances the visibility of the LILANZ brand and further connects the LILANZ brand with our intended market segment.

We also support our distributors' efforts to advertise our products on a regional and local basis on regional television, billboards and other media by providing ready-to-use and free of charge promotional pamphlets and marketing materials to our distributors and assisting them in developing regional marketing strategies. Most regional and local marketing activities require our approval. Individual distributors, and not us, are responsible for the costs associated with regional and local advertising. We believe that regional and local advertising by distributors complements our national marketing activities and contributes to strong sales growth.

Fashion shows

To promote our brand among fashion industry leaders, we have for a number of years participated in domestic fashion shows. Recently, we began to participate in international fashion shows. In 2007, following an application in which we were requested to show that we have a well-established distribution network in the PRC and that our chief designer has a positive reputation within the fashion industry, we became the first and the only Chinese menswear brand to participate in the "Milan Menswear Show" (Milano Moda Uomo), one of the major international fashion shows for menswear organised by The National Chamber for Italian Fashion (Camera Nazionale della Moda Italiana) held semiannually in Italy. During the show, we presented our autumn and winter menswear collections, highlighting those designs that infuse distinctly Chinese elements into modern Western fashion. Our designs received positive reviews from the media. In 2008, we participated in the "Japan Fashion Week in Tokyo" during which we presented our spring/summer menswear collection. We also participated in a fashion show in Taiwan and various press events in France and Korea to promote our brand and products at international levels.

We believe that the media and industry exposure we receive from fashion shows, in particular, the international exposure from the Milan show, brings prestige to our brand and creates cache for our brand among fashion critics in the PRC. This, we believe, translates into broader and more positive media coverage in the PRC and thereby enhances the LILANZ brand image.

Management of promotional activities

Our marketing team handles our national promotional activities — nationwide advertising on television, placements in magazines and newspapers, the internet, and product placement in catalogues. The team also oversees the regional promotional activities of our distributors to ensure that they are in line with our uniform standards. During the Track Record Period, our advertising and promotional expenses accounted for approximately RMB30.5 million, RMB88.0 million, RMB127.4 million and RMB43.8 million, respectively, representing approximately 7.3%, 9.9%, 11.2% and 7.3%, respectively, of our turnover.

DESIGN AND PRODUCT DEVELOPMENT

We believe that design is essential to our success. We define ourselves by creating simple, sophisticated menswear with quality tailoring. Through emphasis on what we believe are innovative designs, we aim to become a fashion trend-setter in the business casual menswear market within the PRC. We believe that our products portray a "simple yet sophisticated" lifestyle and are well-positioned to cater to consumers' demands as demonstrated by our rapid sales growth.

All of our products are designed by our in-house design and product development team led by Mr. Ji Wen Bo. In 1997, Mr. Ji Wen Bo was named one of the PRC's ten great fashion designers by the China Fashion Association. He has also been recognised by the organising committee of the China Fashion Week as the nation's top menswear designer in 2001, 2002 and 2003, by Fashion China Magazine as "2004 Fashion Person of the Year", and by the China Fashion Association with its 'Golden Award' in 2004.

Our design and product development team conceptualises each season's collection through an interactive process, taking into account our brand strategy, drawing inspirations from domestic and international fashion trends and collaborating with both our suppliers and distributors to fine-tune our designs. In particular, we collaborate with our suppliers to develop a variety of materials and fabrics in our products. In addition, we involve our distributors in our product selection process to take advantage of their market intelligence, which helps us to adapt to the constantly changing consumer trends of our local markets. Our designers also attend various domestic and international trade exhibitions to keep themselves abreast of the latest fashion trends.

As at the Latest Practicable Date, our design and product development team comprised 114 members, five of whom have received design awards in the PRC. We believe that our design and product development team is innovative and passionate and that the individual experience of each of our designers helps us to bring new and exciting products to our customers. On average, we bring approximately 380 products to market each season.

In February 2009, we established a new product development centre in Shanghai for product design and market research and analysis. As at 30 June 2009, a design and product development team of four members with various exposure to the fashion industry was stationed in this new centre in Shanghai. This Shanghai-based design and product development team works closely with our Jinjiang-based design and product development team under the supervision of Mr. Ji Wen Bo. The Directors believe that this centre should help us to strengthen our product design capabilities, gauge market trends and compete more effectively against our competitors.

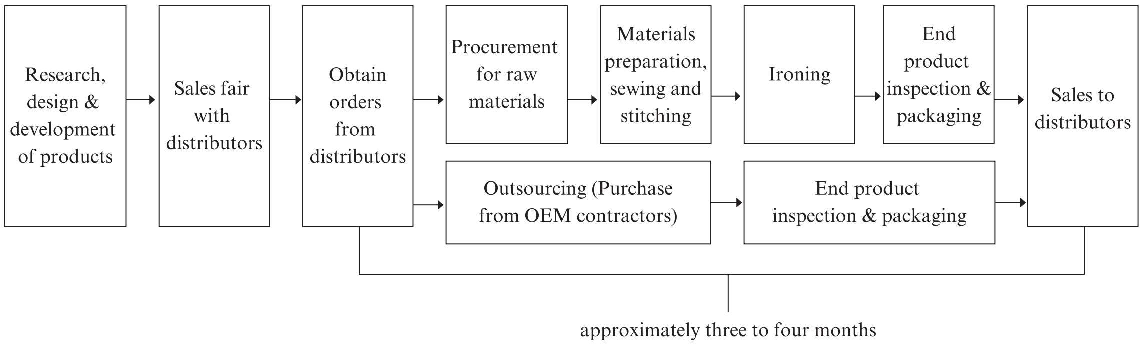
To further strengthen our design and product development capabilities, we are planning to establish a new design and product development studio in Xiamen, Fujian to attract and cultivate young designers from major design institutes by providing on-the-job experience.

PRODUCTION

We manufacture a portion of our apparel, including our suits, jackets, shirts and trousers, in our production facilities located in Jinjiang, Longyan and Xiamen, Fujian, which has a gross floor area of approximately 34,962 sq.m. As at the Latest Practicable Date, more than 2,534 production staff worked on over 3,064 tailoring machines in 70 production lines in our production facilities. For the years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, our aggregate production volume amounted to approximately 1,887,300, 2,999,900, 4,077,628 and 1,056,870 pieces of apparel, respectively. The average utilisation rate of our production facilities had reached approximately 90.6%, 86.2%, 88.8% and 75.3%, respectively, for the same periods. Such utilisation rate is calculated by taking our actual production volume for a particular period divided by the maximum annual production capacity during that particular period. In the event that there is increasing demand for our LILANZ products, we can expand production capacity by increasing the number of production lines at our current production facilities and constructing new production lines in another parcel of land in Xiamen, Fujian upon the obtaining of the certificates for the construction-in-progress as discussed in the section headed "Business — Properties and facilities" in this document. We believe that in-house production allows us to have better control over our proprietary designs while also balancing efficiency and flexibility in meeting orders and time schedules.

Upon completion of product planning, design and development processes, we produce product samples to showcase at our seasonal sales fairs for our distributors. We obtain and confirm orders from our distributors at the sales fairs and place orders thereafter with raw material suppliers or OEM contractors. For products manufactured at our own production facilities and OEM products, end-products will be delivered to our distributors after final quality control inspection. The distributors cannot cancel or reduce the orders placed during the sales fairs.

The following diagram illustrates our production flow:



Raw materials

The principal raw materials used in our products are cotton, wool, polyester and blended fabrics. We currently obtain our raw materials from approximately 330 domestic suppliers. Based on orders received at our seasonal sales fairs, we place orders with suppliers for raw materials. For commonly used raw materials, we typically purchase adequate quantities in anticipation of future needs. We normally make arrangements with our suppliers to deliver the materials only when we so request.

Most of our top ten raw material suppliers have had an established business relationship with us for more than two years. We enter into contracts with suppliers on an annual basis, and each of the suppliers is subject to an annual evaluation of product quality and timely delivery. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our top five raw material suppliers collectively accounted for approximately 23.7%, 14.8%, 16.8% and 23.4%, respectively, of our total purchase of raw materials. Our largest raw material supplier accounted for approximately 5.8%, 3.5%, 4.6% and 7.8%, respectively, of our total purchase of raw materials for the same periods. All of the five largest raw material suppliers are Independent Third Parties and none of the Directors, or their respective associates, or any Shareholder (who or which to the knowledge of the Directors) holding more than 5% of the issued Shares had any interests in any of these five largest raw material suppliers throughout the Track Record Period.

We have not encountered any material disruption to our business as a result of a shortage of raw materials, and we have not experienced and do not envisage that we will experience any material difficulties in sourcing raw materials for our requirements. We believe that our ability to maintain a stable relationship with suppliers is important to our success.

Outsourcing

We outsource to external OEM contractors the production of our accessories, products that require special production capabilities, such as leather goods, and certain of our apparel products, especially those that we believe require less special skills and involve less proprietary designs, such as certain sweaters, trousers, T-shirts and some of the suits. All of our OEM products are manufactured under the brand name of LILANZ. We believe that our outsourcing arrangements optimise our production flow and allow us to leverage the expertise and resources of OEM contractors. We also believe that outsourcing arrangements are helpful in responding to tight schedules, especially during peak production seasons.

We engage over 200 OEM contractors and most of our top ten OEM contractors have had established business relationships with us for more than one year. We assess each OEM contractor annually on its product quality, production cost and timely product delivery. We are not aware of any violation by our OEM contractors of material laws and regulations applicable to them.

We enter into short-term agreements with OEM contractors periodically which set out terms such as product details, agreed price, purchase quantity and delivery terms. The OEM contractors can request advanced deposits of up to 30% of the purchase price on a case by case basis. We then pay the remaining balance of the agreed price (less deposits paid where applicable) to OEM contractors in accordance with the terms under the respective agreements we enter into with OEM contractors. We may use multiple OEM contractors for any given product and are not bound to place any minimum order with any contractor. We have not encountered any material disruption to our business as a result of failure to obtain OEM-supplied products. We have not experienced and do not envisage that we will experience any material difficulties in obtaining the required OEM-supplied products.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, purchases from our top five OEM contractors accounted for approximately 46.2%, 22.7%, 20.7% and 25.4%, respectively, of our total purchase of OEM products. Purchase from our largest OEM contractor accounted for approximately 13.6%, 7.1%, 5.3% and 8.1%, respectively, of our total purchase of OEM products for the same periods. The Directors confirmed that all of the OEM contractors are Independent Third Parties and none of the Directors, or their respective associates, or any Shareholder (who or which to the knowledge of the Directors) holding more than 5% of the issued shares had any interests in any of these five largest OEM contractors throughout the Track Record Period.

In addition, starting in 2007, we subcontracted certain production processes of a small portion of our products to other manufacturers, and we incurred a subcontracting expense of RMB1.6 million, RMB13.6 million, RMB3.3 million and RMB5.8 million in 2007, 2008 and the six months ended 30 June 2008 and 2009. Unlike OEM purchases, we provide raw materials to the sub-contactors for the production of these products. We believe that these sub-contracting arrangements allow us to leverage the expertise and resources of these sub-contactors and provide us with more flexibility in responding to tight schedules, while at the same time enabling us to control the quality of the raw materials used as well as certain key production processes of these products.

Quality control

We place considerable emphasis on product quality and have an established quality control system. We obtained the ISO 9001:2000 certification for our design and production processes for clothing with a term of three years commencing from March 2007. This certification is evidence that our quality control management system meets international standards. We also received "Certificate for Product Exemption from Quality Surveillance Inspection" (產品質量免檢証書) certifications with a term of three years commencing from December 2006.

As at the Latest Practicable Date, we have a team of 74 staff members in our quality control department. Our quality control team monitors each stage of the production process. Raw materials and ancillary component suppliers must pass our quality control as well as certain national health, safety and environmental standards. We conduct testing on raw materials and other components to detect defects at our own quality control centre. Those that fail to meet our standards may be returned to the suppliers for replacement. Our quality control team carries out tests on sample products for design defects and suitability of materials. During production, we carry out inspections at important stages of our production process to ensure that our standards are met, including a final inspection on finished products to ensure that the goods comply with our specifications and are free from major defects.

The team also carries out quality control on OEM products. We conduct on-site inspections on our OEM contractors before we enter into a business relationship with them. We provide technical training to OEM contractors to assist them with quality control of the production process. We also inspect finished products produced by OEM contractors.

INVENTORY CONTROL

We recognise that controlling the level of inventory is important to overall profitability. We generally plan purchases of raw materials and OEM products after each of our three seasonal sales fairs, where we confirm sales orders with our distributors. Sales orders from such sales fairs and top-up orders enable us to manage our inventory of raw materials and finished products more efficiently. We also have a stocktake sale annually to clear unsold products where employees and their families and friends are invited to attend and purchase our products at reduced prices. Our Directors confirmed that turnover derived from the annual stocktake sale accounted for less than 1.4% of the total turnover for the years ended 2006, 2007 and 2008 and the six months ended 30 June 2009. For the above reasons, we have a low inventory level of unused raw materials and unsold or obsolete finished products at the end of the year.

We have implemented a computerised inventory control system to keep track of inventory levels. It is our policy to review the obsolescence of inventories once every year based on the expected future saleability and the age of the inventories. We also carry out physical stock counts from time to time to identify obsolete or damaged goods. For obsolete, unused or damaged goods or raw materials, specific provision will be made on an item of inventory if the carrying amount is lower than the net realisable value, and such policy has been consistently applied by us throughout the Track Record Period. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, provisions for obsolete or slow-moving raw materials were approximately RMB0.6 million, RMB0.2 million, RMB0.2 million and RMB0.2 million, respectively, and provisions for finished goods were approximately RMB0.8 million, RMB0.2 million, RMB0.5 million and RMB0.3 million, respectively.

As at the Latest Practicable Date, we had two warehouses in the Wuli Industrial Park. We have obtained the land use rights certificate and the relevant building ownership certificates in respect of these warehouses situated on the land.

AWARDS AND RECOGNITION

We have received over 100 awards and recognitions. A selection of these awards and recognitions received during the Track Record Period and up to the Latest Practicable Date are set out below:

Year	**Award/Recognition**
2009	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) by the China National Garment Association (中國服裝協會) (for the 利郎 brand)
	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) by Asia Fashion Association (亞洲服裝協會), International Famous Brand Research Laboratory (國際知名品牌研究實驗室), China Textile and Apparel Brand Industry Enterprises Federation (中國紡織服裝品牌企業聯合會), China Enterprises Development Researching Association (中國企業發展研究會) and China Apparel Top 10 Index Research Centre (中國服裝TOP 10指數研究中心) (for the 利郎 LILANZ brand)
	"National Brand" for the 60th national anniversary (建國60周年"國家名片") by the China Brand Research Institute (中國品牌研究院)
2008	The Most Influential Fashion Brand of Garment (最具時尚影響力服裝名品) by China Textile News (中國紡織報社)
	China's Best Small & Medium-sized Enterprises (2008中國潛力企業) by Forbes China (福布斯中文版)
2007	Star Enterprise with Industrial Output Value over $500 Million in 2006 (2006年度工業產值新超5億元明星企業) by the CPC Jinjiang Municipal Committee and the People's Government of Jinjiang Municipality (中共晉江市委晉江市人民政府)
	China's Best Small & Medium-sized Enterprises (2007中國潛力企業) by Forbes China (福布斯中文版)
	China Well-known Trademark for clothing by the Trademark Review and Adjudication Board (for the 利郎 LILANG trademark)

Year	Award/Recognition
	Enterprise with High Industrial and Commercial Credibility for Year 2004–2006 (2004–2006年度工商信用良好企業) by the CPC Jinjiang Municipal Committee and the People's Government of Jinjiang Municipality (中共晉江市委晉江市人民政府)
	Fujian Enterprise with Good Compliance with Contracts and High Credibility for Year 2005–2006 (2005–2006年度「福建省守合同重信用企業」) by Fujian Administration for Industry and Commerce (福建省工商行政管理局)
	Designated Supplier for the PRC Famous Supreme Product (中華名特優產品指定供貨單位) by the Retails and Supplies Committee in China General Chamber of Commerce (中國商業聯合會零售供貨商專業委員會) and China Business Development Centre (中國商業發展中心)
2006	Fujian Business with Advanced Quality Management (2005 年福建省質量管理先進單位) by Fujian Quality Supervision Bureau (福建省質量監督局)
	Top 300 Fujian Enterprise, Top 10 Leading Sectors in Fujian Industry, Top 300 Most Competitive Fujian Enterprises and Top 300 Fujian Privately-owned Enterprises (福建工業300强、福建工業主要行業前十强、福建工業競爭力300强、福建民營企業300强) by the Fujian Enterprise Assessment Centre and Fujian Enterprise Assessment Association (福建省企業評價中心、福建省企業評價協會)
	Fujian Famous Brand Product (福建名牌產品稱號) by the Fujian Provincial People's Government (福建省人民政府)
	Top 300 Domestic Market Share of Fujian Enterprises (福建企業國內市場佔有率300强) by Fujian Enterprise Market Share Assessment Association and Fujian Enterprise Information Centre (福建省企業市場佔有評委會、福建省企業信息中心)
	Top 50 Domestic Market share of Fujian Textile Apparels, Shoes, Hats Manufacturing Enterprises (福建紡織服裝、鞋、帽製造業企業國內市場佔有率50强)by Fujian Enterprise Market Share Assessment Association and Fujian Enterprise Information Centre (福建省企業市場佔有評委會、福建省企業信息中心)

COMPETITION

We compete in the PRC with an increasing number of local and international players. International brands traditionally dominate the high-end market, but local brands have advantages in price and sales network and are increasingly competitive in mid- to high-end markets. We believe that we compete on the basis of brand image, design, product mix, quality, price, customer service and the breadth of our retail network. Our competitors include those menswear brands which target second and lower tier cities, and our major competitors include, among others, Septwolves, Firs, Baoxiniao. We believe that the intense competition in the PRC menswear industry will continue in the future. See "Risk factors — Risks Relating to Our Industry — We face intense competition" and "Industry Overview".

EMPLOYMENT

We place great emphasis on recruiting quality personnel. We recruit talent from universities and technical schools and provide on-going training and development opportunities to our staff members. Our training programmes cover topics such as sales and production, customer service, quality control, sales fairs planning and pre-employment training. We have also provided training on fire protection, workplace ethics and other areas relevant to the industry. In 2006, we sent our Directors, senior management and some other employees to participate in management training courses at Tsinghua University in Beijing. We believe that staff training plays an important role in recruiting and retaining talent and enhancing employee loyalty. Our employment benefits also include housing at our production sites to employees who meet certain criteria.

During the Track Record Period, our PRC subsidiaries made contributions to social security insurance funds (including pension insurance, unemployment insurance, medical insurance, work-related injuries insurance and maternity insurance) and housing provident funds.

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 in practice difficult 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. Although these percentages are lower than the rate of 29.2% (which comprises 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%) as required by national laws and regulations, 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 also 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. As advised by our PRC legal adviser, Jinjiang Labour and Social Security Bureau has the requisite power and authority to give the above confirmations.

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. If the contributions had been paid based on relevant national laws and regulations, we estimate that we would have had to pay social security contributions of approximately RMB3.7 million, RMB13.5 million, RMB18.8 million and RMB7.1 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, since Lilang Fujian and Lilang China have not fully complied with the national laws and regulations in respect of the payment of social security contributions for all their employees, Lilang Fujian and Lilang China 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 of a fine up to RMB20,000. Nevertheless, our PRC legal adviser are of the opinion that since the social security authority in Jinjiang has confirmed on 15 July 2008, 17 July 2009 and 10 August 2009, among others, that Lilang Fujian and Lilang China had made all requisite contributions to the social security funds in a timely manner, there is minimal risk that Lilang Fujian and Lilang China will be penalised or requested by the relevant administration authority to make further contributions to the social security insurance funds. We have contacted Jinjiang Labour and Social Security Bureau, being the supervising authority of Lilang Fujian and Lilang China in relation to the social security insurance contribution, in connection with the outstanding contribution, but we have not been ordered by the relevant social insurance bureaus to pay any of the outstanding contribution during the Track Record Period and up to the Latest Practicable Date.

Although Jinjiang Labour and Social Security Bureau has acknowledged the above social security contribution rate, 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 salaries to employees who joined our Group during the Track Record Period and remained in service with our Group at 30 June 2009. We have not taken into account the social security contributions in respect of employees who left our Group before 30 June 2009, as we concur with our PRC legal adviser's view that there is minimal risk that Lilang Fujian and Lilang China will be penalised or requested by the relevant administration authority to make further contributions to the social security insurance funds, in particular in respect of those employees who already left our Group before 30 June 2009. Our Controlling Shareholders have also agreed to indemnify our Group in respect of any claims, damages, losses, costs, expenses, actions and proceedings arising out of or in connection with any non-compliance or alleged non-compliance by our Group with any applicable PRC laws and regulations in relation to our Group's contributions to social security insurance funds in the PRC, details of which are set out in "Appendix VI — Statutory and General Information — Other Information — Estate duty, tax and other indemnities". See also "Risk Factors — Risks Relating to Our Business — We may be requested to make up any unpaid contribution to the social security insurance during the Track Record Period".

We have adopted additional administrative efforts and procedures to ensure that social security insurance contributions will be made in compliance with the relevant laws and regulations in the future. In particular, we appointed a designated officer in June 2008, who is responsible for the management of the social security insurance contributions by our Group. The designated officer has the requisite knowledge of the legal and regulatory requirements for complying with the social security insurance contributions, and has more than three years of experience in the administration of related work. She is responsible for consolidating the list of eligible employees for participation in the relevant social insurance schemes, verifying the list with each department head and the head of the human resources department of our Group and arranging for timely contributions to the relevant social insurance funds. She is also responsible for providing briefings to our employees as to the national and local legal requirements on social security insurance to assist them in understanding the requirements and procedures involved.

Our Company has adopted the [●] Share Option Scheme and has granted options to 76 of the senior management and employees of our Group under the [●] Share Option Scheme. An aggregate of [●] Shares at [●]% of the final [●] have been granted by us under the [●] Share Option Scheme. The purpose of the [●] Share Option Scheme and the grant of these options is to recognise and reward the contribution of these senior management and employees of our Group to the growth and development of our Group and the [●] of the Shares on the Main Board of the Stock Exchange. 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".

Our Company has also conditionally adopted the Share Option Scheme under which, among others, certain directors and employees of our Group may be granted options to subscribe for Shares (initially not exceeding [●]% of the number of Shares in issue as at the [●]). A summary of the principal terms of the Share Option Scheme which is set out in "Appendix VI — Statutory and General Information — Other Information — Share Option Scheme".

We maintain satisfactory working relationships with our employees and have not experienced any significant problems with our employees or disruption to our operation due to labour disputes, staff retention problems or recruitment difficulties, nor have we experienced any difficulties in the recruitment and retention of experienced staff. There is a labour union representing the employees. We believe that we maintain satisfactory working relationships with the labour union. There have never been any disputes.

As at the Latest Practicable Date, we employed 3,251 full-time employees. The following table shows a breakdown of our employees by department as at that date:

	Total number of employees
Management and administration	184
Finance and accounting	42
Sales and marketing	172
Design and product development	114
Quality control	74
Production	2,665
TOTAL	3,251

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. Under the PRC Labour Contract Law: (i) 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); (ii) 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; (iii) 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 shall enter into an open-ended employment with such employee, unless the employee requests a fixed-term employment contract; (iv) if an employer fails, in violation of the related provisions, to enter into an open-ended employment contract with an employee, it shall pay to the employee twice his wage each month, starting from the date on which an open-ended employment contract should have been entered into; (v) 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 (vi) 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.

INTELLECTUAL PROPERTY RIGHTS

We have over 80 trademark registrations in the PRC, Hong Kong, Macau, Taiwan and over 70 other countries. In addition, we use a number of trademarks, trade names, service marks, copyrights and domain names in connection with our business, see "Appendix VI — Statutory and General Information — Further information about the business of our Company — Our intellectual property rights".

We take the following steps to protect and prevent infringement of our intellectual property rights:

- produce in-house products with proprietary designs to minimise counterfeit products;
- obtain various intellectual property registrations; and
- prohibit our distributors and sub-distributors from selling counterfeit products and require them to report instances of counterfeit products in the market.

We have encountered instances of counterfeit products sold in certain locations in the PRC market. None of these instances, however, was materially significant to the business and operations of our Group. When such counterfeit products are encountered, our distributors have reported the instances to the appropriate authorities for them to take appropriate administrative actions against the infringing parties.

In February 2009, we commenced a trademark infringement claim against an Independent Third Party for infringing our intellectual property rights by using a number of trademarks similar to those owned by us. As a result of the court findings, the defendant was ordered to, among other things, cease using the infringing marks and pay compensation to us. Pursuant to a settlement agreement subsequently entered into between the parties, it was agreed, among other things, that compensation of RMB45,000 in respect of this trademark infringement claim and the claim under the Anti-Unfair Competition Law of the PRC as discussed in the sub-section "Business — Legal proceedings" be paid to us.

Save as disclosed above, our Group has not been involved in any material intellectual property rights infringement claims or litigation during the Track Record Period.

PROPERTY AND FACILITIES

Owned properties

We own a parcel of land located in the Wuli Industrial Park in Jinjiang City, Fujian Province, with an aggregate site area of approximately 85,267 sq.m. and ten buildings erected on such land with an aggregate gross floor area of approximately 81,597 sq.m. The land was acquired in April 2008 after a series of negotiations with the local government of Jinjiang to acquire the land.

The total amount of the land costs for the Wuli Industrial Park were approximately RMB26,400,000, including a farmland occupational tax of approximately RMB3,930,000. A deed tax of approximately RMB813,000 was imposed by the relevant authority. We paid all the relevant costs by 11 April 2008 and obtained the land use right certificate in respect of the land on 14 April 2008. We also obtained the building ownership certificate in respect of the buildings erected thereon on 8 May 2009.

We commenced the construction of the buildings at Wuli Industrial Park in October 2006. However, due to the time required by the local government in converting the use of the land and complying with the requisite procedures for removal, renovation and tender for auction of the land, we were only able to complete the acquisition of the land in April 2008.

We started to commence production at the Wuli Industrial Park in early 2008. As advised by our legal adviser as to PRC laws, we should have obtained the land use rights certificates as well as the required construction permits, namely 建設用地規劃許可證 (Planning Permit for Using Construction Usage Land), 建設工程規劃許可證 (Construction Planning Permit) and 建築工程施工許可證 (Permit to Commence Construction) before we commenced the construction of these buildings, and should have used these buildings only after completion of the inspection procedures in respect of the construction and acceptance of the quality thereof by the competent governmental authority in the PRC. As advised by our PRC legal adviser, under the prevailing PRC laws, the relevant land administrative authority may impose a fine of up to RMB30 per sq.m. of the land for any illegal occupation thereof, and may evict the illegal occupant and confiscate the buildings erected thereon. The relevant planning authority may order us to stop construction on the site within a prescribed time limit, and impose a fine of up to 10% of the construction cost in respect of the failure to obtain the Construction Planning Permit before commencing construction; the relevant construction administrative authority may order us to stop construction within a prescribed time limit, and impose a fine of up to 2% of the fees payable under the relevant construction contract in respect of the failure to obtain the Permit to Commence Construction before commencing construction; and the relevant construction administrative authority may order us to rectify the situation and impose a fine of up to 4% of the fees payable under the relevant construction contract for occupying the buildings before completion of inspection procedures.

As confirmed by the Planning, Construction and Building Bureau of Jinjiang in a written confirmation letter, our buildings at the Wuli Industrial Park comply with the construction and engineering planning, exploration, design, implementation, fire safety, environmental protection and other requirements and standards. It has also endorsed and permitted our construction and use of these buildings, and has waived any liability that we may have in respect of such construction and usage. Our legal adviser as to PRC laws consider that the Planning, Construction, and Building Bureau of Jinjiang is the competent authority to issue the above confirmation, and on the above basis, the risk of our Group being prohibited from using these buildings is minimal, and we will not be held liable for the construction and usage thereof.

Our Controlling Shareholders have agreed to indemnify our Group on a joint and several basis in respect of any losses, damages, costs and expenses arising out of or in connection with any such losses, damages, costs and expenses that we may incur or suffer as a result of any non-compliance of the applicable PRC laws arising out of or in connection with our occupation, construction and usage of our buildings at the Wuli Industrial Park. Please refer to "Appendix VI — Statutory and General Information — Other Information — Estate duty, tax and other indemnities" for further details.

We also own a parcel of land located at Qiaoying Avenue, Jimei District, Xiamen City, Fujian Province with an aggregate site area of approximately 66,503 sq.m. We plan to use this land for office, production and warehousing purposes in the future. We have obtained the land use rights certificate for this property but we have not obtained the relevant certificates for the construction-in-progress on this property.

In July 2008, we entered into commodity property sale and purchase contracts with Henan Shenglong Real Estate Co., Ltd., an Independent Third Party, for acquisition of 12 units of a commercial building in Zhengzhou, the PRC, with an aggregate gross floor area of approximately 1,067 sq.m., for an aggregate consideration of approximately RMB28.91 million. Such properties are expected to be used by our Group for lease to its distributors for use as a flagship store. As advised by our Company's PRC legal adviser, provided that the pre-sale conditions of the commodity properties required by the PRC laws and regulations have been met, the contracts are valid, binding and enforceable under the PRC laws in accordance with their respective terms. We will only use the premises after we have obtained the requisite title certificates under the applicable PRC laws, rules and regulations.

Leased properties

We entered into two lease agreements with Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian"), a company wholly owned by the Wang Brothers, under which we lease the premises of our headquarters at Lilang Industrial Park at Jinjing City, Fujian Province from Jinlang Fujian. The premises are situated on two parcels of land, with an aggregate site area of approximately 10,283 sq.m., located at Lilang Industrial Park, Nanhuan Road, Qingyang District, Jinjiang City, Fujian Province and comprise (1) two buildings with an aggregate gross floor area of approximately 17,095 sq.m. for use as our office, showroom and staff dormitory; and (2) six floors of a building with an aggregate gross floor area of approximately 10,972 sq.m. for use as the offices for our marketing department, production department and our CEO office. The lease agreement for the land and the buildings referred to in (1) above was for a term commencing from 1 March 2008 and ending on 31 December 2010, with quarterly rent payable by our Group to Jinlang Fujian of RMB329,750. The lease agreement for the land and the leased floors referred to in (2) above was for a term commencing from 1 March 2009 and ending 31 December 2010, with quarterly rent payable by our Group to Jinlang Fujian of RMB213,945. These two lease agreements have been duly registered with the Planning, Construction and Building Bureau of Jinjiang (晉江市規劃建設與房產管理局). Further details of the lease agreements are set out in "Relationship with our Controlling Shareholders — Continuing Connected Transactions". The land and buildings referred to in (1) above (collectively, the "Disposed Premises") were previously jointly owned by Lilang Fujian and Jinjiang Xiaosheng Apparel Enterprise Limited ("Xiao

Sheng"), a company which is controlled by the Wang Brothers. As it is our plan to relocate our training centre and sales and marketing department to our facilities in Xiamen in the future and, after our relocation, we will only use the Disposed Premises (or a part thereof) for office space, Xiao Sheng and Lilang Fujian jointly disposed of their respective interests in the Disposed Premises to Jinlang Fujian at an aggregate cash consideration of approximately RMB13.3 million which was payable as to RMB11.6 million to Lilang Fujian and RMB1.7 million to Xiao Sheng, and leased the Disposed Premises and the premises referred to in (2) above for the above purposes pending completion of construction of our facilities in Xiamen and the relocation of our training centre and sales and marketing department thereto. As our Group has the right to terminate the leases at any time by giving one month prior written notice, the sale-and-lease back arrangement allows us to either relocate our office to smaller premises elsewhere, or to lease less space from Jinlang Fujian if we consider appropriate.

In accordance with a lease agreement entered into between Lilang China and Jinjiang Deren Toy Co. Ltd., an Independent Third Party, on 1 March 2008, we also leased another parcel of land with a site area of approximately 7,331 sq.m. located at Meiling District, Jinjiang City, Fujian Province, together with five buildings erected thereon, with an aggregate gross floor area of approximately 12,236 sq.m., for a term commencing from 1 March 2008 and ending on 28 February 2010. The premises are used for our production purposes. As Jinjiang Deren Toy Co. Ltd. is the owner of the premises and had obtained the valid title before the lease agreement was entered into, the use by us of the premises pursuant to the lease agreement is legal under the PRC laws. However, as Jinjiang Deren Toy Co. Ltd. had failed an annual inspection required by PRC laws, its business licence was revoked by the competent authority before we entered into the lease agreement. Jingjiang Deren Toy Co. Ltd. should be in the process of being liquidated under PRC laws. Under such circumstances, our PRC legal adviser advised that the liquidation committee and the relevant court in the PRC shall have the right to invalidate the lease agreement. If the lease agreement is regarded as invalid or unenforceable by the liquidation committee or the relevant court in the PRC, we will make alternative lease arrangements. On the other hand, if the liquidation committee and the relevant court in the PRC do not invalidate the lease agreement, the lease agreement will be binding on the successor of the relevant properties for the term of the lease agreement. The lease agreement has not been registered with relevant PRC authorities as the business licence of the lessor has been revoked, but its implementation will not be influenced thereby. As our principal manufacturing function is conducted by our production facilities in Wuli Industrial Park or otherwise subcontracted to our OEM contractors, our Directors are of the view that the leased premises is not crucial to our operation and our potential inability to use such premises if the lease were determined to be invalid would not pose a material adverse impact on our business operation or financial position. Our Directors estimate that, in the event that the lease agreement is invalidated by the liquidation committee or the relevant court in the PRC, our cost for re-location of our facilities would be minimal and would not exceed RMB100,000. Our Controlling Shareholders have also agreed to indemnify our Group on a joint and several basis in respect of any loss, damages, costs and expenses arising out of or in connection with the invalidity of the lease agreement. Please refer to "Appendix VI — Statutory and General Information — Other Information — Estate duty, tax and other indemnities" for further details.

We also lease from another Independent Third Party a floor of a building with an aggregate gross floor area of approximately 1,170 sq.m. located at No. 387, Huanzhu Road, Jimei District, Xiamen City, Fujian Province for a term commencing from 11 May 2009 and ending on 31 May 2010. We plan to use the premises for our additional production purposes. The relevant lease agreement has been duly registered with Xiamen Municipal Real Estate Transaction and Title Registration Centre (廈門市房地產交易權藉登記中心).

We entered into another lease agreement with an Independent Third Party under which we lease a plot of land located at Phase IV, Changting County Economic Development Zone, Longyan City, Fujian Province, together with a building erected thereon, with an aggregate gross floor area of approximately 22,281 sq.m., for a term commencing from 1 April 2009 and ending on 31 March 2010. We plan to use the premises for our production purposes. The relevant lease agreement has been duly registered with Real Estate Administration Department of Changting County (長汀縣房地產管理處).

We leased an office unit in Shanghai from an Independent Third Party, with a gross floor area of approximately 229 sq.m. located at Room 2107, No. 218 Wusong Road, Hongkou District, Shanghai City for a term commencing from 20 October 2008 and ending on 19 October 2010. The premises is used as the office of our Shanghai-based design and product development team. This office was mortgaged to a third party before we entered into the lease agreement. If the right of sale under the mortgage is enforced during the lease period and this office is transferred to a third party, this lease agreement will not be enforceable against the transferee.

We have applied for registration of the lease agreement with the relevant local Shanghai registration authorities, but such application was refused by the registration authorities, on the ground that the leased premises comprised of leased areas of one and a half rooms and it is the authorities' practice not to register any such lease agreement involving lease of part of a room. As advised by our PRC legal adviser, the absence of the registration of the lease agreement will not affect the validity of the lease agreement. As such, we do not intend to make the registration.

We also leased an office unit in Hong Kong with a floor area of approximately 2,237 sq.ft. that monitors the administration and financial affairs of our Group for a term of two years beginning in April 2008.

Details of these properties are set out in "Appendix IV — Property Valuation".

ENVIRONMENTAL AND SAFETY MATTERS

Environmental

We are subject to PRC environmental laws and regulations, including the Environmental Protection Law, the Law on the Prevention and Control of Water Pollution, the Law on the Prevention and Control of Atmospheric Pollution, the Law on the Prevention and Control of Pollution From Environmental Noise and the Law on the

Prevention and Control of Environmental Pollution by Solid Waste. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge.

According to these environmental laws and regulations, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Companies are also required to carry out an environmental impact assessment before commencing construction of production facilities to install pollution treatment facilities which meet the relevant environmental standards and to treat pollutants before discharge. During the Track Record Period, we believe we have fully complied with the relevant environmental laws and regulations. We have carried out the relevant environmental impact assessments before commencing construction of our production facilities and have obtained all the required permits and environmental approvals for our production facilities.

Our expenditure during the Track Record Period in respect of applicable environmental protection requirements were RMB13,000, RMB99,900, RMB15,900 and RMB72,500, respectively. The Directors believe that the chances of encountering potential future environmental risks are minimal and therefore do not plan to undertake any additional measures to address the environmental risks.

All required permits and environmental approvals for our production facilities have been obtained. We have passed the ISO14001 certification in respect of our environmental management system in 2008, and with the assistance of the certifying organisation, we have also established internal guidelines in respect of environmental protection and provided our staff with education and training on environmental protection. Going forward, internal and external inspections in respect of environmental protection will be periodically conducted by the responsible departments and the certifying organisation, respectively.

It is further confirmed by our PRC legal adviser that, pursuant to the confirmation provided by relevant environmental protection authority, during the Track Record Period, we have fully complied with the national and local regulations in respect of environmental protection, there had not been any material pollution incidents that constituted a violation of any environmental regulations by us, and no administrative penalty had been imposed on our Group.

Our distributors have not imposed any condition on environmental protection as part of the pre-condition to place order for our products, but such conditions have been imposed by our Group on our OEM contractors.

Safety

During the Track Record Period, save for the non-compliance of our Group with the applicable PRC laws and regulations in relation to our contributions to the social security insurance funds as more particularly referred to in sub-section "Employment" above, we complied with all applicable labour and safety laws and regulations in all material respects, and strictly implemented internal safety guidelines and operating procedures. Since the commencement of our business, none of our employees has been involved in any major accident in the course of their employment and we have not been subject to disciplinary actions with respect to the labour protection issues.

We will periodically conduct inspections on the safety of our production facilities. In particular, the operation of our boilers, the quality of water supply and the hygiene conditions are inspected daily by our employees who are qualified to be special equipment operators. Further, the fire safety of our production facilities is checked at least once a month by our internal fire fighting team which comprises 50 volunteer employees from various departments as at 30 June 2009.

INSURANCE

Our insurance coverage includes statutory social insurance, property insurance and automobile insurance. None of the members of our Group maintains general product liability insurance for any of our products. Nevertheless, we believe that our practice is in line with the general practice in the PRC as product liability insurance is not required under PRC laws. Our Directors confirmed that we have not been subject to any material product liability or personal injury claims against us, or that we have not experienced damages of a material nature to administrative or production facilities, or to our properties during the Track Record Period.

LEGAL PROCEEDINGS

In February 2009, we commenced litigation proceedings against an Independent Third Party for violation of the Anti-Unfair Competition Law of the PRC and for engaging in improper competition with us by using a trading name similar to ours. As a result of the court findings, the defendant was ordered to, among other things, change its trading name and pay compensation to us. Pursuant to a settlement agreement subsequently entered into between the parties, it was agreed, among other things, that compensation of RMB45,000 in respect of this claim and the trademark infringement claim as discussed in the sub-section "Business — Intellectual property rights" of this document be paid to us.

To the best knowledge of our Directors, no member of our Group is engaged in any pending or threatened litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group that would have a material adverse effect on the results of operations or financial condition of our Group.

LEGAL COMPLIANCE

During the Track Record Period, we granted certain cash advances and loans to Jinjiang Xiaosheng, Jinjiang Menglang, 晉江電控設備有限公司 (Jinjiang Electricity Control Appliance Co., Ltd., or Jinjiang Electricity Control), 福建海峽西岸投資有限公司 (Fujian Strait West Coast Investment Co. Ltd., or Fujian Strait) to finance their own capital requirements. See "Financial Information — Liquidity and Capital Resources — Inter-enterprise financing activities" for further details.

As advised by our PRC legal adviser, these cash advances and loans contravened certain regulations relating to bank financing in the PRC, particularly Lending Regulations (貸款通則) as promulgated by the PBOC. Our PRC legal adviser further advised that we may be subject to a penalty ranging from the amount of interest we received from a loan or cash advance made by us to five times the interest we received from a loan or cash advance made by us. In addition, we may be required to pay a penalty equal to prevailing lending rate charged by banks in the PRC on the amount borrowed from Jinjiang Fengchuan Packing Co., Ltd. As advised by our PRC legal adviser, given that all the inter-enterprise loans and cash advances have been settled and that there has not been any legal disputes in respect of such loans or cash advances, the risk that we will be subject to penalties resulting from such loans or cash advances in contravention of PRC bank financing regulations is minimal.

In connection with such loans and cash advances, our Controlling Shareholders agreed to indemnify our Group in respect of any loss and liability that we may suffer as a result of any contravention of any PRC bank financing regulations. Further details of these cash advances and loans are set out in "Financial Information — Liquidity and Capital Resources — Inter-enterprise financing activities".

In addition, in order to prevent any future non-compliance, we have ensured that all Directors are aware of the illegality of such advances/loans and will not allow any future advances or loans by or to our PRC subsidiaries in the PRC unless the advances or loans will be obtained from properly authorised banks or financial institutions and, in respect of any advances or loans to be made by our PRC subsidiaries, unless they will be made in a manner in compliance with the applicable PRC laws and regulations.

We have obtained all licences, permits or certificates necessary to conduct our current business operations. Save as disclosed in the paragraphs on "Employment", "Property and Facilities" and "Inter-enterprises financing activities" above, our operations comply with all the relevant rules and regulations of the relevant authorities in the PRC.