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RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [●] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [●] and the options which have been or may be granted under the [●] Share Option Scheme and the Share Option Scheme, we will be owned as to approximately [●]% by Xiao Sheng International, approximately [●]% by Ming Lang Investments, an aggregate of approximately [●]% by the Wang Brothers, an aggregate of approximately [●]% by the eight Management and Other Shareholders and [●]%. Both Xiao Sheng International and Ming Lang Investments are investment holding vehicles owned as to 76.50% by the Wang Brothers and the remaining minority interest of 23.50% are owned by the eight Management and Other Shareholders whose shareholdings therein ranged from only 0.5% to 8%. As Xiao Sheng International, Ming Lang Investments and the Wang Brothers are, directly or indirectly, individually or together with the others, entitled to exercise or control the exercise of 30% or more of the voting power at our general meetings, each of Xiao Sheng International, Ming Lang Investments and the Wang Brothers is regarded as our Controlling Shareholder under the Listing Rules. The Wang Brothers, who are the executive Directors and the ultimate largest shareholders of our Company immediately prior to completion of the [●], were brought up in the PRC. Up to the Latest Practicable Date, the Wang Brothers had not been full time government officials of a country nor had they been full time employees of a state or government-owned or operated entity for a substantial period of time.

The Directors consider that our Group is capable of carrying on our business independent of our Controlling Shareholders and their respective associates on the following reasons:

Operational independence

We design, source, manufacture and sell high quality business and casual apparel for men. We have our own design and product development team and, under the direction of Mr. Ji Wen Bo, one of the PRC’s top fashion designers, we are able to design and offer our customers stylish, high-end designs for all seasons under our LILANZ brand. We have independent access to source our production materials and other supplies for our own production, and independent access to outsource our production of external OEM contractors. None of our Controlling Shareholders is a supplier or intermediary for our Group’s supplies, nor is one of our external OEM contractors. Our products are sold across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC and, save for the Wang Brothers’ involvement in the management and operation of our Group in their capacity as our Directors and employees, we have independent access to our customers.

We own our own assets and properties, such as trademarks, designs, operational assets and equipment, that are significant to the business and operations of our Group. Particulars of our owned and leased properties are set out in “Business — Properties and Facilities”. We will relocate our design, sales and marketing offices from the current location at Lilang Industrial Park, Nanhuan Road, Qingyang District, Jinjiang to our new facilities at Xiamen and, as a transitional arrangement pending complete

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relocation, we entered into two lease agreements with Jinlang (Fujian) Investments Co., Ltd., a company wholly owned by the Wang Brothers, for the use of our current headquarters at Lilang Industrial Park as the offices, showroom and staff dormitory. Particulars of the leases are described in the sub-section “Continuing connected transactions” of this section. As the premises of our headquarters at Lilang Industrial Park, situated at Nanhuan Road, Qingyang District, Jinjiang City are used for offices, showroom and staff dormitory purposes only, our Directors do not consider any material reliance on the Controlling Shareholders in term of our Group’s principal operating assets and properties. Save for such lease, we do not use any facilities of our Controlling Shareholders or their respective associates.

Financial independence

During the Track Record Period, several bank loans of our Group amounting to RMB125.5 million and RMB94.5 million as at 31 December 2006 and 2007, respectively, and certain bills payable of our Group amounting to RMB40.3 million, RMB149.5 million, RMBNil and RMBNil as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively, were secured by personal guarantees granted by the Wang Brothers. As at the Latest Practicable Date, all these personal guarantees have already been released by the banks.

Amounts due from our Controlling Shareholders and/or their respective associates to our Group amounted to approximately RMB47.6 million, RMB1.3 million, RMB0.2 million and RMBNil million as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively, and amounts due to our Controlling Shareholders and/or their respective associates from our Group amounted to approximately RMB139.7 million, RMB139.4 million, RMB18.5 million and RMB10.9 million as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. Approximately RMB139.4 million due to our Controlling Shareholders and/or their respective associates have already been capitalised as fully paid Shares of our Company as part of the Reorganisation. The balance of any outstanding amounts due from/to any of the Controlling Shareholders and/or their respective associates has been repaid and settled in full.

In August 2009, China Merchants Bank granted a short-term loan facility to Lilang International for six months in an amount of HK\$15 million. Such loan facility was secured by a corporate guarantee provided by our Company and charge over bank deposits of Zhong Lee Development Co., a private unlimited company established in Hong Kong and solely owned by Mr. Wang Cong Xing, our executive Director, which will be released or lapse upon the [●]. Funds borrowed pursuant to the short-term loan facility will be used as working capital for our Group. The facility bears a fixed interest rate of 3.60% per annum.

Save as aforesaid, our Group does not rely on the Controlling Shareholders and/or their respective associates by virtue of their provision of financial assistance.

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Management independence

Our Board comprises seven executive Directors and three independent non-executive Directors. Three directorships of our executive Directors are held by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, who are our Controlling Shareholders.

Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently.

CONTINUING CONNECTED TRANSACTIONS

Upon the [●], the transactions set forth below will constitute continuing connected transactions (as defined in the Listing Rules) of our Company.

Relationship between our Group and Jinlang (Fujian) Investments Co., Ltd.

Jinlang (Fujian) Investments Co., Ltd. (“**Jinlang Fujian**”), a company established in the PRC with limited liability, is principally engaged in, among others, investment in real estate. It is wholly owned by the Wang Brothers, who are three of our executive Directors, and is therefore a connected person of our Company.

Under the Listing Rules, for so long as Jinlang Fujian remains as a connected person of our Company, the leases described below would constitute continuing connected transactions upon the [●].

Continuing connected transactions subject to reporting and announcement requirements in respect of which a waiver has been granted by the Stock exchange

Lease of land and buildings by Jinlang Fujian to our Group

(A) 2008 Tenancy Agreement

Pursuant to an agreement (“**2008 Tenancy Agreement**”) dated 26 May 2008 and entered into between Jinlang Fujian as landlord and our Group as lessee, our Group agreed to lease (“**2008 Lease**”) a piece of land with a site area of approximately 7,418 sq.m. located at Lilang Industrial Park, Nanhuan Road, Qingyang District, Jinjiang City, Fujian Province, together with two industrial buildings erected thereon, with an aggregate gross floor area of approximately 17,095 sq.m. for a term commencing from 1 March 2008 and ending on 31

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December 2010. Under the 2008 Tenancy Agreement, our Group may terminate the 2008 Lease at any time during the term of the 2008 Tenancy Agreement by serving not less than one month prior written notice to Jinlang Fujian. The leased area will be used for office, showroom and staff dormitory purposes. The quarterly rent payable by our Group to Jinlang Fujian under the 2008 Tenancy Agreement is RMB329,750 payable in arrears within five business days after the end of the relevant quarter. Such rent will be exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the premises. The rent was arrived at after arm’s length negotiation between the parties and determined by reference to the market rent of the premises.

No rent had been paid by us in respect of our use of the land and buildings in 2006 and 2007 as they were previously jointly owned by Lilang Fujian and Xiao Sheng, a company which is controlled by the Wang Brothers, prior to the sales thereof to Jinlang Fujian in February 2008. For the year ended 31 December 2008 and six months ended 30 June 2009, approximately RMB1.1 million and RMB659,500 had been paid or became payable by our Group under the 2008 Tenancy Agreement respectively.

Jones Lang LaSalle Sallmanns Limited, the property valuer of our Company, considers that such annual rent is fair and reasonable and consistent with the prevailing market rents for similar premises in similar locations.

The Directors anticipate that the rent payable by our Group to Jinlang Fujian under the 2008 Tenancy Agreement will not exceed RMB1,319,000 and RMB1,319,000 for the years ending 31 December 2009 and 2010. The annual caps represent the actual rent payable by our Group to Jinlang Fujian pursuant to the 2008 Tenancy Agreement.

(B) 2009 Tenancy Agreement

Pursuant to an agreement (“**2009 Tenancy Agreement**”, together with the 2008 Tenancy Agreement, referred to as the “**Tenancy Agreements**”) dated 1 March 2009 and entered into between Jinlang Fujian as landlord and our Group as lessee, our Group agreed to lease (“**2009 Lease**”, together with the 2008 Lease, referred to as the “**Leases**”) a piece of land with a site area of approximately 2,865 sq.m. located at Lilang Industrial Park, Nanhuan Road, Qingyang District, Jinlang City, Fujian Province, together with several floors of a building erected thereon, with an aggregate gross floor area of approximately 10,972 sq.m., for a term commencing from 1 March 2009 and ending on 31 December 2010. Under the 2009 Tenancy Agreement, our Group may terminate the 2009 Lease at any time during the term of the 2009 Tenancy Agreement by serving not less than one month prior written notice to Jinlang Fujian. The leased area will be used as the offices of our marketing department, production department and our CEO office. The quarterly rent payable by our Group to Jinlang Fujian under the 2009 Tenancy Agreement is RMB213,945 payable in arrears within five business days after the end of the relevant quarter. Such rent is exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the premises. The rent was arrived at after arm’s length negotiation between the parties and determined by reference to the market rent of the premises.

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Jones Lang LaSalle Sallmanns Limited, the property valuer of our Company, considers that such annual rent is fair and reasonable and consistent with the prevailing market rents for similar premises in similar locations.

No rent had been paid by us for the years ended 31 December 2006, 2007 and 2008 as the 2009 Tenancy Agreement did not exist at that time. For the six months ended 30 June 2009, approximately RMB285,260 had been paid or became payable by our Group under the 2009 Tenancy Agreement.

The Directors anticipate that the rent payable by our Group under the 2009 Tenancy Agreement will not exceed RMB713,150 for the year ending 31 December 2009 and RMB855,780 for the year ending 31 December 2010. The annual caps represent the actual rent payable by our Group to Jinlang Fujian pursuant to the 2009 Tenancy Agreement.

Waiver from compliance with the announcement requirement

The continuing connected transactions under the Tenancy Agreements are aggregated pursuant to Rules 14A.25 to 14A.27 of the Listing Rules. Based on the annual caps for the Leases under the Tenancy Agreements on an aggregated basis, it is expected that each of the percentage ratios (other than the profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, will exceed 0.1% but will not exceed 2.5%, and therefore such Leases are subject to the reporting and announcement requirements as set out under Rules 14A.45 to 14A.47 of the Listing Rules. Our Company has applied to the Stock Exchange, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the Leases under the Tenancy Agreements from compliance with the announcement requirement under Rule 14A.47 of the Listing Rules.

NON-COMPETE UNDERTAKING

Each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in our favour on 4 September 2009 pursuant to which each of the Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with us on a joint and several basis that at any time during the Relevant Period (as defined below), each of the Controlling Shareholders shall, and shall procure that their respective associates (other than our Group) shall:

- (i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group (“**Restricted Business**”) including but not limited to the marketing, sales, distribution, manufacturing and/or processing of the apparel, shoes, ties, belts, bags, hats and other products of our Group from time to time (“**Restricted Products**”);
- (ii) not solicit any existing or then existing employee of our Group for employment by them or their respective associates (excluding our Group);

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- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as our Controlling Shareholders and/or Directors for the purpose of competing with the Restricted Business; and
- (iv) in respect of any order undertaken or proposed to be undertaken by them or their respective associates involving the marketing, sales, distribution, manufacturing and/or processing of any Restricted Products, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the marketing, sales, distribution, manufacturing and/or processing of the Restricted Products under the relevant order.

For the above purpose:

- (A) the “Relevant Period” means the period commencing from the [●] and shall expire upon the earliest date of occurrence of the events below:
 - (a) the date on which the Controlling Shareholders (individually or taken as a whole) ceases to be the controlling shareholders for the purpose of the Listing Rules;
 - (b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;
- (B) the “Excluded Business” means any direct or indirect investments of the Controlling Shareholders and/or their respective associates (excluding our Group) in any member of our Group.

Each of our Controlling Shareholders has undertaken under the non-compete undertaking that he or it shall provide to us and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the non-compete undertaking by the Controlling Shareholders. Each of the Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the non-compete undertaking in our annual report.

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking, we have adopted the following corporate governance measures:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;
- (ii) we will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through our annual report or by way of announcement;

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- (iii) we will disclose in the corporate governance report of our annual report on how the terms of the non-compete undertaking have been complied with and enforced; and
- (iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the non-compete undertaking, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.