The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
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Hong Kong

[●] 2009

The Board of Directors
China Lilang Limited

[●]

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to China Lilang Limited (the "Company") and its subsidiaries (herewith collectively referred to as the "Group"), including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated cash flow statements of the Group, for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Period"), the consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, and the balance sheet of the Company as at 31 December 2008 and 30 June 2009 together with the notes thereto (the "Financial Information"), for inclusion in the document of the Company dated [●] 2009 (the "document").

The Company was incorporated in the Cayman Islands on 2 January 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 12 September 2008 (the "Reorganisation") as detailed in the section headed "Group Reorganisation" in Appendix VI to the document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

The following statutory financial statements of the companies now comprising the Group, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") or the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC"), were audited during the Relevant Period by the respective statutory auditors as indicated below:

Name of company	Financial period	Statutory auditors
Lilang (Hong Kong) International Co., Limited	Years ended 31 December 2006, 2007 and 2008	KPMG
利郎(福建)時裝有限公司 Lilang (Fujian) Garment Co., Ltd *(note)*	Years ended 31 December 2006 and 2007	廈門新昌會計師事務所有限公司 Xiamen Xinchang Certified Public Accountants Co., Ltd *(note)*
	Year ended 31 December 2008	泉州衆和有限責任會計師事務所 Quanzhou Zhonghe Certified Public Accountants Co., Ltd*(note)*
利郎(中國)有限公司 Lilang (China) Co., Ltd *(note)*	Year ended 31 December 2006	泉州名城有限責任會計師事務所 Quanzhou Mingcheng Certified Public Accountants Co., Ltd*(note)*
	Year ended 31 December 2007	廈門新昌會計師事務所有限公司 Xiamen Xinchang Certified Public Accountants Co., Ltd*(note)*
	Year ended 31 December 2008	泉州衆和有限責任會計師事務所 Quanzhou Zhonghe Certified Public Accountants Co., Ltd*(note)*
利郎(廈門)服飾有限公司 Lilang (Xiamen) Garment Co., Ltd *(note)*	Period ended 31 December 2006	泉州名城有限責任會計師事務所 Quanzhou Mingcheng Certified Public Accountants Co., Ltd *(note)*
	Year ended 31 December 2007	廈門新昌會計師事務所有限公司 Xiamen Xinchang Certified Public Accountants Co., Ltd *(note)*
	Year ended 31 December 2008	泉州衆和有限責任會計師事務所 Quanzhou Zhonghe Certified Public Accountants Co., Ltd*(note)*

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

As of the date of this report, save as described above, no audited financial statements have been prepared for the Company and other companies now comprising the Group, as they are investment holding companies and have not carried on any business since their respective dates of establishment/incorporation or are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of establishment/incorporation. We have, however, reviewed all significant transactions of these companies during the Relevant Period, or where the companies were incorporated/established at a date later than 1 January 2006, for the period from their respective dates of establishment/incorporation to 30 June 2009, for the purpose of this report.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). IFRSs include International Accounting Standards and their interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "[●] and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 30 June 2009.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the consolidated results and cash flows of the Group for the Relevant Period, the state of affairs of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, and the state of affairs of the Company as at 31 December 2008 and 30 June 2009.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six months ended 30 June 2008, together with the notes thereto (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PRESENTATION

The companies that took part in the Reorganisation were controlled by the same group of equity holders (the "Controlling Shareholders") before and after the Reorganisation. Since there was a continuation of the risks and benefits to the Controlling Shareholders, the Reorganisation is considered as a business combination of entities under common control. Accordingly, the Financial Information has been prepared under the merger basis of accounting as if the Group had always been in existence. The net assets of the combining companies are consolidated using the existing book values from the Controlling Shareholders' perspective.

The Financial Information relating to the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group as set out in Section B for the Relevant Period includes the results of operations of the companies comprising the Group for the Relevant Period. The consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 as set out in Section B have been prepared to present the consolidated assets and liabilities of the Group as at those dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Attributable equity interest direct	indirect	Principal activities
Lilang Holdings Limited ("Lilang Holdings")	British Virgin Islands ("BVI")/ 4 December 2007	US$20,000 at US$1 per share	100%	—	Investment holding
Lilang (Hong Kong) International Co., Limited ("Lilang International")	Hong Kong/ 23 March 2004	HK$20,000 at HK$1 per share	—	100%	Investment holding
利郎(福建)時裝有限公司 Lilang (Fujian) Garment Co., Ltd ("Lilang Fujian") *(note (c))*	The PRC/ 24 April 1995	Registered and fully paid-up capital of HK$20,000,000	—	100%	Manufacturing and wholesaling of menswear and accessories
利郎(中國)有限公司 Lilang (China) Co., Ltd ("Lilang China") *(note (c))*	The PRC/ 25 March 2005	Registered and fully paid-up capital of HK$100,000,000	—	100%	Manufacturing and wholesaling of menswear and accessories
利郎(廈門)服飾有限公司 Lilang (Xiamen) Garment Co., Ltd ("Lilang Xiamen") *(note (c))*	The PRC/ 12 June 2006	US$4,549,926 *(note (b))*	—	100%	Manufacturing and wholesaling of menswear and accessories

Notes:

(a) All entities established in the PRC are wholly foreign owned enterprises.

(b) Registered capital of Lilang Xiamen is US$30,000,000 of which US$4,549,926 has been paid up during the year ended 31 December 2006. The outstanding amount of US$25,450,074 is due for contribution on or before 31 December 2009.

(c) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

B FINANCIAL INFORMATION

1 Consolidated income statements

	Section C Note	Years ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (unaudited)	2009 RMB'000
Turnover	2	418,195	885,921	1,135,684	483,945	600,176
Cost of sales	13(b)	(323,015)	(652,020)	(791,627)	(339,779)	(423,341)
Gross profit		95,180	233,901	344,057	144,166	176,835
Other revenue	3	1,545	5,243	5,868	5,325	1,227
Selling and distribution expenses		(37,338)	(104,892)	(146,469)	(60,382)	(54,662)
Administrative expenses		(9,233)	(22,681)	(34,300)	(15,406)	(15,183)
Other operating (expenses)/income		(646)	(1,844)	1,888	2,221	(183)
Profit from operations		49,508	109,727	171,044	75,924	108,034
Finance costs	4(a)	(3,904)	(11,996)	(11,551)	(4,572)	(4,295)
Profit before taxation	4	45,604	97,731	159,493	71,352	103,739
Income tax	5(a)	(13,023)	(1,225)	(5,361)	(2,038)	(13,775)
Profit attributable to equity shareholders		32,581	96,506	154,132	69,314	89,964
Basic earnings per share *(RMB (cents))*	8	3.62	10.72	17.13	7.70	10.00

The accompanying notes form part of the Financial Information.

2 Consolidated statements of comprehensive income

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit for the year/period	32,581	96,506	154,132	69,314	89,964
Other comprehensive income for the year/period					
Exchange differences on translation of financial statement of subsidiaries outside PRC net of nil tax	—	11	125	137	19
Total comprehensive income for the year/period	32,581	96,517	154,257	69,451	89,983

The accompanying notes form part of the Financial Information.

3 Consolidated balance sheets

	Section C Note	As at 31 December 2006 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*	As at 30 June 2009 *RMB'000*
Non-current assets					
Property, plant and equipment	9	35,289	106,088	135,823	146,582
Investment property	10	—	—	30,072	30,719
Lease prepayments	11	14,669	14,357	39,875	39,455
Deposits for purchase of fixed assets	12	16,228	21,542	3,615	728
Deferred tax assets	26(b)	777	1,185	997	819
Total non-current assets		66,963	143,172	210,382	218,303
Current assets					
Inventories	13	40,326	96,033	171,487	186,018
Trade and other receivables	14	209,245	305,334	383,748	341,828
Amounts due from related parties	15	47,583	1,294	220	—
Loan to a third party	16	1,000	—	—	—
Pledged bank deposits	17	14,970	54,009	42,201	27,763
Cash	18	27,276	58,519	53,567	94,280
Total current assets		340,400	515,189	651,223	649,889
Current liabilities					
Bank loans	19	125,500	94,500	140,000	98,000
Trade and other payables	20	83,795	277,076	259,419	217,765
Loan from a third party	21	1,400	—	—	—
Amounts due to related parties	22	268	—	18,471	10,944
Current taxation	26(a)	8,260	—	890	6,081
Total current liabilities		219,223	371,576	418,780	332,790
Net current assets		121,177	143,613	232,443	317,099
Total assets less current liabilities		188,140	286,785	442,825	535,402
Non-current liabilities					
Deferred tax liabilities	26(b)	—	—	1,543	3,357
Loans from Controlling Shareholders	23	139,422	139,422	—	—
Payables for construction in progress		—	1,790	1,987	2,767
		139,422	141,212	3,530	6,124
Net assets		48,718	145,573	439,295	529,278
Equity					
Share capital	27	21,016	98	176	176
Reserves	28	27,702	145,475	439,119	529,102
Total equity		48,718	145,573	439,295	529,278

The accompanying notes form part of the Financial Information.

4 Consolidated statements of changes in equity

		Attributable to equity shareholders of the Company						
	Section C Note	**Share capital** *RMB'000* *(Note 27)*	**Share premium** *RMB'000* *(Note 27)*	**Statutory reserve** *RMB'000* *(Note 28(a))*	**Capital reserve** *RMB'000* *(Note 28(b))*	**Exchange reserve** *RMB'000* *(Note 28(c))*	**(Accumulated losses)/ retained profits** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2006		21,016	—	150	390	—	(5,895)	15,661
Equity-settled share-based payment expenses	25(a)(iii)	—	—	—	26	—	—	26
Shareholders' contributions		—	—	—	450	—	—	450
Total comprehensive income for the year		—	—	—	—	—	32,581	32,581
Appropriation to statutory reserve		—	—	3,176	—	—	(3,176)	—
At 31 December 2006/ 1 January 2007		21,016	—	3,326	866	—	23,510	48,718
Shareholders' contributions		—	—	—	260	—	—	260
Shares issued on Reorganisation	27(a)	78	—	—	—	—	—	78
Elimination of paid-up capital on Reorganisation	27(b)	(20,996)	—	—	20,996	—	—	—
Total comprehensive income for the year		—	—	—	—	11	96,506	96,517
Appropriation to statutory reserve		—	—	10,680	—	—	(10,680)	—
At 31 December 2007/ 1 January 2008		98	—	14,006	22,122	11	109,336	145,573
Shareholders' contributions		—	—	—	139,465	—	—	139,465
Shares issued on Reorganisation	27(c), (d)	244	139,329	—	—	—	—	139,573
Elimination of paid-up capital on Reorganisation	27 (d)	(166)	—	—	(139,407)	—	—	(139,573)
Total comprehensive income for the year		—	—	—	—	125	154,132	154,257
Appropriation to statutory reserve		—	—	17,758	—	—	(17,758)	—
At 31 December 2008/ 1 January 2009		176	139,329	31,764	22,180	136	245,710	439,295
Total comprehensive income for the period		—	—	—	—	19	89,964	89,983
Appropriation to statutory reserve		—	—	9,847	—	—	(9,847)	—
At 30 June 2009		176	139,329	41,611	22,180	155	325,827	529,278

The accompanying notes form part of the Financial Information.

5 Consolidated cash flow statements

	Section C Note	Years ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (unaudited)	2009 RMB'000
Operating activities						
Profit before taxation		45,604	97,731	159,493	71,352	103,739
Adjustments for:						
— Depreciation	4(c)	1,478	3,281	6,081	3,067	5,228
— Amortisation of lease prepayments	4(c)	22	312	694	252	420
— Fair rental value of free factory spaces provided by a shareholder	28(b)	250	260	43	43	—
— Expenses borne by shareholders	28(b)	200	—	—	—	—
— Exchange difference		—	11	125	137	20
— Equity-settled share-based payment expenses	25(a)(iii)	26	—	—	—	—
— Loss/(gain) on disposal of property, plant and equipment	4(c)	—	517	(3,081)	(3,081)	79
— Interest expense		3,864	11,616	11,000	4,319	4,169
— Interest income		(355)	(2,751)	(1,388)	(845)	(427)
Cash generated from operations before changes in working capital		51,089	110,977	172,967	75,244	113,228
Increase in inventories		(23,295)	(55,707)	(75,454)	(46,197)	(14,531)
Increase in trade and bills receivables		(142,567)	(17,821)	(79,369)	(74,571)	(53,840)
(Increase)/decrease in other receivables		(36,268)	(76,118)	19,108	41,122	95,760
(Increase)/decrease in amounts due from related parties		—	—	(220)	(220)	220
(Increase)/decrease in pledged bank deposits		(820)	(39,039)	11,808	12,690	14,438
Increase/(decrease) in trade and bills payables		41,316	167,501	(38,459)	(45,600)	(42,163)
Increase/(decrease) in other payables		7,435	12,010	35,497	23,702	(202)
Increase in amounts due to related parties		—	—	—	713	65
Cash (used in)/generated from operations		(103,110)	101,803	45,878	(13,117)	112,975
Income tax paid		(6,152)	(9,893)	(2,740)	(978)	(6,592)
Net cash (used in)/generated from operating activities		(109,262)	91,910	43,138	(14,095)	106,383

5 Consolidated cash flow statements (continued)

	Section C Note	Years ended 31 December 2006 RMB’000	2007 RMB’000	2008 RMB’000	Six months ended 30 June 2008 RMB’000 (unaudited)	2009 RMB’000
Investing activities						
Payment for purchase of property, plant and equipment		(18,289)	(60,832)	(60,339)	(40,693)	(11,833)
Payment for purchase of investment property		—	—	(30,072)	—	(505)
Payment for lease prepayments		(16,300)	(4,422)	(6,801)	(6,801)	—
Proceeds from disposal of property, plant and equipment		—	903	215	215	371
Net (increase)/decrease in amount due from shareholder		(2,100)	3,786	1,294	1,294	—
(Advances to)/repayment from related companies		(25,203)	42,503	—	—	—
Loans to third parties		—	(30,000)	—	—	—
Repayment of loans to third parties		—	31,000	—	—	—
Interest income received		355	601	3,538	2,995	427
Net cash used in investing activities		(61,537)	(16,461)	(92,165)	(42,990)	(11,540)
Financing activities						
Proceeds from bank loans		135,500	414,500	300,000	160,000	170,000
Repayment of bank loans		(54,050)	(445,500)	(254,500)	(124,500)	(212,000)
Loan from a third party		1,400	—	—	—	—
Loan repaid to a third party		—	(1,400)	—	—	—
Loan from a shareholder		108,198	—	—	—	—
Advances from/(repayment to) Controlling Shareholders		264	—	29,410	16,168	(7,592)
Advances repaid to a shareholder		—	(268)	—	—	—
Capital injections		—	78	—	—	—
Payments of expenses relating to the proposed [●]		—	—	(20,303)	(19,356)	—
Interest expenses paid		(3,864)	(11,616)	(10,532)	(4,183)	(4,538)
Net cash generated from/(used in) financing activities		187,448	(44,206)	44,075	28,129	(54,130)

5 Consolidated cash flow statements (continued)

		Years ended 31 December			Six months ended 30 June	
	Section C	**2006**	**2007**	**2008**	**2008**	**2009**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net increase/(decrease) in cash		16,649	31,243	(4,952)	(28,956)	40,713
Cash at beginning of year/ period		10,627	27,276	58,519	58,519	53,567
Cash at end of year/period	18	27,276	58,519	53,567	29,563	94,280

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards and related interpretations promulgated by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These are the Group's first IFRS consolidated financial statements and IFRS 1 has been applied. The Group did not prepare any consolidated financial statements previously.

For the purposes of preparing this Financial Information, the Group has adopted all the new and revised IFRSs applicable to the Relevant Period, except for any new standards and interpretations that are not yet effective for the accounting periods beginning 1 January 2009. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2009 are set out in note 34.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information for the Relevant Period comprises the Company and its subsidiaries (together referred to as the "Group") and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand, except for per share data. RMB is the Company's functional and presentation currency.

The measurement basis used in the preparation of the Financial Information is the historical basis.

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management on the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 33.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Financial statements of a subsidiary are included in the Financial Information from the date that control commences until the date that control ceases.

Business combinations arising from transfer of interests in entities that are under the common control of the equity holders that control the Group are accounted for using book value accounting as if the acquisition had occurred at the beginning of the earliest comparative period presented.

(d) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheets at cost less accumulated depreciation and impairment losses (see note 1(h)).

The cost of self-constructed items of property, plant and equipment includes cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified below.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

—	Plant and machinery	10 years
—	Leasehold improvements	Shorter of 5 years or remaining term of the lease
—	Motor vehicles	5 years
—	Office equipment	5 years
—	Furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(e) Investment property

Investment property is property owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Investment property is measured at cost less accumulated depreciation and impairment losses (see note 1(h)). Depreciation is recognised in the income statement on a straight-line basis over the estimated useful life of the shorter of the unexpired term of lease and its estimated useful life, being no more than 40 years after the date of completion.

(f) Lease prepayments

Lease prepayments represent cost of acquiring land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(h)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights which are 50 years.

(g) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets under operating leases, payments under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(h) Impairment of assets

(i) Impairment of current and non-current receivables

Current and non-current receivables that are carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the company about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— Current and non-current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investment property; and

— lease prepayments.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(h)).

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash

Cash comprise cash at bank and on hand, demand deposits with banks.

(n) Employee benefits

(i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees of the Group is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using applicable option-pricing models, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(o) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

    — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Unconditional discretionary government grants from the local Chinese government authorities are recognised in the profit or loss as other revenue on a cash receipt basis.

(r) Translation of foreign currencies

Foreign currency transactions are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the average exchange rates for the period which approximates the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised as an expense in the period in which it is incurred.

(u) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business segment, manufacturing and sales of menswear and accessories in the PRC. Accordingly, no segmental analysis is presented.

2 TURNOVER

The principal activities of the Group are manufacturing and wholesaling of branded menswear and related accessories in the PRC. Turnover represents the sales value of goods sold less returns, discounts, and value added taxes ("VAT") and other sales taxes.

The Group sells its products through third party distributors who then sell the products through authorised LILANZ (which was known as LILANG prior to September 2008) retail outlets operated by them or department concessions all over the PRC. The Group enters into distributorship agreements with each of its distributors to distribute exclusively LILANZ products for a term of one year which is renewable at the Group's discretion. Distributors are also permitted to sub-contract the operation of retail outlets to sub-distributors, provided that the sub-distributorship agreements are approved by the Group in advance.

During the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, 55.3%, 42.6%, 34.6% and 34.0% of the revenues were derived from the five largest customers, and 21.1%, 13.2%, 12.7% and 12.7% of revenues were from the largest customer.

3 OTHER REVENUE

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Interest income from					
— bank deposits	355	601	1,388	845	427
— advance to a third party *(note (a))*	—	2,150	—	—	—
Government grants					
— cash subsidies *(note (b))*	397	—	4,480	4,480	800
— waive of expenses *(note (c))*	793	2,492	—	—	—
	1,545	5,243	5,868	5,325	1,227

Notes:

(a) The interest was derived from a loan of RMB30,000,000 granted to Fujian Strait West Coast Investment Co., Ltd. (福建海峽西岸投資有限公司), an independent third party, in March 2007. The loan was unsecured, interest bearing at 12% per annum and had been fully recovered in 2007.

(b) Jinjiang Municipal Bureau of Finance granted cash subsidies to Lilang Fujian and Lilang China amounted to RMB227,000, RMB4,480,000 and RMB800,000 during the year ended 31 December 2006 and 2008 and six months ended 30 June 2009 respectively as an incentive for research and development, employee training and other corporate development purposes. The unconditional discretionary subsidies were generally available to enterprises in Jinjiang with annual taxes payable of more than RMB2,000,000.

During the year 2006, Lilang Fujian also received various other cash subsidies from Fujian Provincial Committee of Trade and Commerce (福建省經濟貿易委員會) and Qingyang Road District Office of Jinjiang Municipal of People's Government (晉江市人民政府青陽街道辦事處) amounted to RMB170,000 as rewards for its operations in Jinjiang.

As the entitlement of the above government grants was subject to approval by the local government on a case by case basis, there is no assurance that the Group will continue to enjoy such grants in the future.

(c) During the Relevant Period, certain Villagers Committees in Jinjiang City ("Villagers Committees") (晉江市小區居民委員會), Fujian Province, the PRC, provided free factory spaces to the Group on a condition that the Group operated its production activities in certain areas in Jinjiang.

The directors of the Company estimated the market rental and electricity expenses of the factory spaces were RMB793,000, RMB2,492,000 for the year ended 31 December 2006 and 2007 respectively; the fair value of which was determined with reference to the market rental of comparable properties in Jinjiang, average electricity consumption per unit of machine, average running time of machines and local unit price of electricity. The basis for determining the fair value of expenses waiver has been reviewed by an independent professional valuer, Jones Lang LaSalle Sallmanns Limited.

The fair value of the expenses waiver is accounted for as other revenue with the corresponding amount charged to cost of sales. From November 2007 onwards, the Group moved out from the factory spaces to its self-constructed production plant and accordingly, there was no such item recognised in profit or loss since then.

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
(a) Finance costs:					
Interest on bank borrowings wholly repayable within one year	3,864	11,616	11,000	4,319	4,169
Bank charges	40	380	551	253	126
	3,904	11,996	11,551	4,572	4,295
(b) Staff costs:					
Contributions to defined contribution retirement plans	2,377	8,707	11,593	5,374	4,378
Salaries, wages and other benefits	26,270	56,331	74,256	32,806	22,498
Share-based compensation *(note 25(a)(iii))*	26	—	—	—	—
	28,673	65,038	85,849	38,180	26,876
(c) Other items:					
Amortisation of lease prepayments	22	312	694	252	420
Auditors' remuneration	44	44	57	22	34
Compensation claims *(note 20(c))*	594	—	—	—	—
Depreciation	1,478	3,281	6,081	3,067	5,228
Fair rental value of free properties occupied by the Group granted by:					
— Villagers Committees	497	1,111	—	—	—
— Controlling Shareholders	250	260	43	43	—
Loss/(gain) on disposal of property, plant and equipment	—	517	(3,081)	(3,081)	79
Operating lease rental in respect of properties	—	—	2,843	929	2,670
Research and development costs#	1,401	6,144	6,728	2,741	2,997
Subcontracting charges	—	1,605	13,602	3,250	5,846

Research and development costs included staff costs of employees in the design, research and development department of RMB1,201,000, RMB4,895,000, RMB5,285,000 and RMB2,298,000 for the year ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009 respectively, which are also included in the total staff costs as disclosed in note 4(b).

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

(a) Income tax in the consolidated income statements represents:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax					
Provision for PRC income tax for the year/period	13,534	1,633	2,652	210	11,776
Under-provision for PRC income tax in respect of prior year	—	—	—	—	7
	13,534	1,633	2,652	210	11,783
PRC Land Appreciation Tax	—	—	978	978	—
	13,534	1,633	3,630	1,188	11,783
Deferred tax					
Origination and reversal of temporary differences *(note 26(b))*	(511)	(408)	1,731	850	1,992
	13,023	1,225	5,361	2,038	13,775

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) In February 2008, the Hong Kong Government announced a decrease in profits tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. No provision was made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the Relevant Period.

(iii) PRC income tax

Before 1 January 2008, enterprises established in the PRC are normally subject to income tax at a rate of 33%. With effect from 1 January 2008, the income tax rate was revised to 25% pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People's Congress on 16 March 2007 (the "New Tax Law").

During the Relevant Period, the Group's subsidiaries established in the PRC enjoyed preferential tax rates lower than the rates mentioned above as either approved by the relevant tax authorities or operated in designated area with preferential tax policies, and the particulars of which are as follows:

— Lilang Fujian is a foreign investment enterprise ("FIE") engaged in manufacturing activities in the PRC and was entitled to a preferential tax rate of 27% for 2006 and 2007. From 2008 onwards, the applicable tax rate is 25%.

— Lilang China is a FIE engaged in manufacturing activities in the PRC and was entitled to a preferential tax rate of 27% and was also entitled to tax concessions whereby the profits for the first two years beginning with the first profit-making year are exempted from income tax and the profits for the subsequent three years are taxed at 50% of the applicable tax rates (the "2+3 tax holiday"). The management has elected 2007 as the first profit-making year for tax purposes.

Accordingly, Lilang China is exempted from income tax for 2007 and 2008, subject to income tax at 12.5% from 2009 to 2011, and subject to income tax at 25% from 2012 onwards.

— Lilang Xiamen is a FIE engaged in manufacturing activities in the PRC and was entitled to the 2+3 tax holiday. Further, it was established in the Xiamen Special Economic Zone and was entitled to preferential tax rate of 15%.

As at 31 December 2007, Lilang Xiamen had not yet commenced its business operations and therefore no provision for income tax was made for 2006 and 2007. The Implementation Rules of the New Tax Law (the "Implementation Rules") and GuoFa [2007] No. 39 Notice on the Implementation of the Transitional Preferential Tax Policies ("Circular 39") were promulgated in December 2007. Pursuant to Circular 39, Lilang Xiamen is entitled to apply the transitional rates of 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. Further, Circular 39 grandfathers the 2+3 tax holiday and requires Lilang Xiamen to commence it on 1 January 2008 given it was not commenced earlier. Accordingly, Lilang Xiamen is exempted from income tax for 2008 and 2009, and is subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and 2013 onwards, respectively.

(iv) PRC Land Appreciation Tax ("LAT")

In February 2008, Lilang Fujian disposed of its land use rights in respect of a piece of land in the PRC (see notes 9 and 11). Pursuant to relevant rules and regulations in the PRC, such income from the sale transfer of state-owned land use rights is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value calculated on sales proceeds less allowable deductions.

(v) Withholding tax

The New Tax Law and the Implementation Rules also impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Under the Agreement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax under CaiShui [2008] No. 1 Notice on Certain Preferential Corporate Income Tax Policies.

Accordingly, Lilang International will be subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits earned since 1 January 2008.

(b) Reconciliation between income tax and profit before taxation at applicable tax rates:

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Profit before taxation	45,604	97,731	159,493	71,352	103,739
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	15,076	32,619	40,271	18,003	26,047
Tax effect of non-deductible expenses	477	2,742	2,000	423	218
Tax effect of non-taxable income	(262)	(822)	(105)	(63)	—
Effect of tax concessions	(2,268)	(33,409)	(41,978)	(18,913)	(14,958)
Effect on change in tax rates	—	95	—	—	—
Under-provision in prior year	—	—	—	—	7
Land Appreciation Tax	—	—	978	978	—
Tax effect of Land Appreciation Tax	—	—	(245)	(245)	—
Tax effect of undistributed profits of PRC subsidiaries *(note 26(b))*	—	—	4,440	1,855	2,461
Actual income tax	13,023	1,225	5,361	2,038	13,775

6 DIRECTORS' REMUNERATION

Details of directors' remuneration of the Company are set out below:

Year ended 31 December 2006

	Fees	**Basic salaries, allowances and other benefits**	**Contributions to retirement benefit scheme**	**Discretionary bonuses**	**Share-based compensation**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Wang Dong Xing	—	119	21	—	—	140
Wang Liang Xing	—	299	21	—	—	320
Wang Cong Xing	—	119	21	—	—	140
Cai Rong Hua	—	103	19	—	—	122
Hu Cheng Chu	—	61	11	—	—	72
Wang Ru Ping	—	110	20	—	—	130
Pan Rong Bin	—	90	17	—	26	133
Independent non-executive directors						
Lu Hong Tei	—	—	—	—	—	—
Chen Tien Tui	—	—	—	—	—	—
Nie Xing	—	—	—	—	—	—
Total	—	901	130	—	26	1,057

Year ended 31 December 2007

	Fees	**Basic salaries, allowances and other benefits**	**Contributions to retirement benefit scheme**	**Discretionary bonuses**	**Share-based compensation**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Wang Dong Xing	—	126	24	7	—	157
Wang Liang Xing	—	132	24	7	—	163
Wang Cong Xing	—	132	24	7	—	163
Cai Rong Hua	—	122	22	7	—	151
Hu Cheng Chu	—	164	30	9	—	203
Wang Ru Ping	—	150	29	9	—	188
Pan Rong Bin	—	126	23	8	—	157
Independent non-executive directors						
Lu Hong Tei	—	—	—	—	—	—
Chen Tien Tui	—	—	—	—	—	—
Nie Xing	—	—	—	—	—	—
Total	—	952	176	54	—	1,182

Year ended 31 December 2008

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Share-based compensation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Wang Dong Xing	—	334	13	196	—	543
Wang Liang Xing	—	172	13	156	—	341
Wang Cong Xing	—	169	13	156	—	338
Cai Rong Hua	—	181	12	130	—	323
Hu Cheng Chu	—	211	13	129	—	353
Wang Ru Ping	—	198	13	129	—	340
Pan Rong Bin	—	135	12	125	—	272
Independent non-executive directors						
Lu Hong Tei	—	—	—	—	—	—
Chen Tien Tui	—	—	—	—	—	—
Nie Xing	—	—	—	—	—	—
Total	—	1,400	89	1,021	—	2,510

Six months ended 30 June 2008 (unaudited)

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Share-based compensation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Wang Dong Xing	—	92	7	—	—	99
Wang Liang Xing	—	72	6	—	—	78
Wang Cong Xing	—	72	6	—	—	78
Cai Rong Hua	—	61	5	—	—	66
Hu Cheng Chu	—	83	6	—	—	89
Wang Ru Ping	—	83	7	—	—	90
Pan Rong Bin	—	51	5	—	—	56
Independent non-executive directors						
Lu Hong Tei	—	—	—	—	—	—
Chen Tien Tui	—	—	—	—	—	—
Nie Xing	—	—	—	—	—	—
Total	—	514	42	—	—	556

Six months ended 30 June 2009

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Share-based compensation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Wang Dong Xing	—	226	7	—	—	233
Wang Liang Xing	—	274	7	—	—	281
Wang Cong Xing	—	177	7	—	—	184
Cai Rong Hua	—	132	7	—	—	139
Hu Cheng Chu	—	130	7	—	—	137
Wang Ru Ping	—	130	7	—	—	137
Pan Rong Bin	—	121	7	—	—	128
Independent non-executive directors						
Lu Hong Tei	—	—	—	—	—	—
Chen Tien Tui	—	—	—	—	—	—
Nie Xing	—	—	—	—	—	—
Total	—	1,190	49	—	—	1,239

A number of the Company's directors were granted equity interests of the Group prior to the Relevant Period, details of which are disclosed in note 25.

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

7 INDIVIDUAL WITH HIGHEST EMOLUMENTS

During the year ended 31 December 2006 and 2007, four of the five highest paid individuals are also directors of the Company.

During the year ended 31 December 2008, one of the five highest paid individuals is also a director of the Company.

During the six months ended 30 June 2008 and 2009, two of the five highest paid individuals are also directors of the Company.

The emolument of the remaining individual(s) is as follows:

	Years ended 31 December			**Six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and other emoluments	216	300	2,027	752	908
Discretionary bonuses	—	18	584	106	—
Contributions to retirement benefit scheme	6	52	38	15	23
	222	370	2,649	873	931

The emoluments of the remaining individual(s) with the highest emoluments are within the band RMB Nil to RMB1,000,000.

8 EARNINGS PER SHARE

The calculation of basic earnings per share during the Relevant Period is based on the profit attributable to equity shareholders of the Company for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, and on the assumption that 900,000,000 ordinary shares were in issue throughout the Relevant Period comprising 2,000,000 ordinary shares in issue as at the date of the document, 898,000,000 ordinary shares to be issued pursuant to the [●] as detailed in the paragraph headed "Further information about our company" in Appendix VI to the document.

There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Office equipment	Furniture and fixtures	Sub-total	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:									
At 1 January 2006	7,600	—	6,362	545	945	133	15,585	—	15,585
Additions	—	—	8,581	1,062	613	3	10,259	12,693	22,952
At 31 December 2006	7,600	—	14,943	1,607	1,558	136	25,844	12,693	38,537
At 1 January 2007	7,600	—	14,943	1,607	1,558	136	25,844	12,693	38,537
Additions	1,911	—	10,710	2,470	1,103	387	16,581	58,919	75,500
Transfer from construction in progress	71,123	—	95	—	—	—	71,218	(71,218)	—
Disposals	—	—	(1,366)	(476)	(19)	(1)	(1,862)	—	(1,862)
At 31 December 2007	80,634	—	24,382	3,601	2,642	522	111,781	394	112,175
At 1 January 2008	80,634	—	24,382	3,601	2,642	522	111,781	394	112,175
Additions	538	5,179	1,768	52	1,817	1,325	10,679	32,209	42,888
Transfer from construction in progress	6,805	2,296	754	—	2,181	553	12,589	(12,589)	—
Disposals	(7,600)	—	(109)	(488)	—	—	(8,197)	—	(8,197)
At 31 December 2008	80,377	7,475	26,795	3,165	6,640	2,400	126,852	20,014	146,866
At 1 January 2009	80,377	7,475	26,795	3,165	6,640	2,400	126,852	20,014	146,866
Additions	—	1,444	2,436	133	6,213	385	10,611	5,464	16,075
Transfer from construction in progress	20,404	983	—	—	1,200	—	22,587	(22,587)	—
Disposals	—	—	(620)	(110)	(3)	—	(733)	—	(733)
Exchange adjustment	—	(2)	—	—	—	—	(2)	—	(2)
At 30 June 2009	100,781	9,900	28,611	3,188	14,050	2,785	159,315	2,891	162,206
Accumulated depreciation:									
At 1 January 2006	346	—	768	447	165	44	1,770	—	1,770
Charge for the year	181	—	915	139	217	26	1,478	—	1,478
At 31 December 2006	527	—	1,683	586	382	70	3,248	—	3,248
At 1 January 2007	527	—	1,683	586	382	70	3,248	—	3,248
Charge for the year	683	—	1,845	324	382	47	3,281	—	3,281
Written back on disposals	—	—	(376)	(50)	(15)	(1)	(442)	—	(442)
At 31 December 2007	1,210	—	3,152	860	749	116	6,087	—	6,087
At 1 January 2008	1,210	—	3,152	860	749	116	6,087	—	6,087
Charge for the year	1,512	901	2,357	322	764	225	6,081	—	6,081
Written back on disposals	(782)	—	(39)	(304)	—	—	(1,125)	—	(1,125)
At 31 December 2008	1,940	901	5,470	878	1,513	341	11,043	—	11,043
At 1 January 2009	1,940	901	5,470	878	1,513	341	11,043	—	11,043
Charge for the period	1,006	1,051	1,365	151	1,044	248	4,865	—	4,865
Written back on disposals	—	—	(210)	(72)	(1)	—	(283)	—	(283)
Exchange adjustment	—	(1)	—	—	—	—	(1)	—	(1)
At 30 June 2009	2,946	1,951	6,625	957	2,556	589	15,624	—	15,624
Net book value:									
At 31 December 2006	7,073	—	13,260	1,021	1,176	66	22,596	12,693	35,289
At 31 December 2007	79,424	—	21,230	2,741	1,893	406	105,694	394	106,088
At 31 December 2008	78,437	6,574	21,325	2,287	5,127	2,059	115,809	20,014	135,823
At 30 June 2009	97,835	7,949	21,986	2,231	11,494	2,196	143,691	2,891	146,582

(a) The Group's buildings are located in the PRC under medium-term lease.

(b) At 31 December 2006 and 2007, the Group owned certain properties jointly with a related company, Jinjiang Xiaosheng Apparel Enterprise Limited (晉江曉升服裝實業有限公司) ("Jinjiang Xiaosheng") which was a company controlled by the Controlling Shareholders of the Group. The carrying value of the properties in the Group's consolidated financial statements was RMB7,073,000 and RMB6,893,000 as at 31 December 2006 and 2007, respectively. During the year ended 31 December 2006, 2007 and 2008, the Group used the properties exclusively as office, showroom and staff dormitory purposes and Jinjiang Xiaosheng agreed not to charge the Group for any compensation on the use of the properties.

In February 2008, the Group disposed of its ownership of the above mentioned properties together with the a piece of land (see note 11) on which the properties were erected to Jinlang (Fujian) Investments Co., Ltd (金郎(福建)投資有限公司) ("Jinlang Fujian"), a company established in the PRC with limited liability and wholly owned by the Controlling Shareholders at fair market value determined by an independent valuer, Jones Lang LaSalle Sallmanns Limited, of RMB11,582,000. In accordance with the agreement with Jinlang Fujian and the Controlling Shareholders, the consideration due to the Group has been deducted from the amount due to a shareholder in the balance sheet as at 31 December 2008. The gain on disposal of RMB3,120,000 has been recognised as other operating income for the year ended 31 December 2008.

Immediately after the disposal of the properties, the Group leased back the properties from Jinlang Fujian for a term commencing from 1 March 2008 and ending on 31 December 2010 at a monthly rental of RMB109,917. Such rental has been arrived at with reference to the current market rental value for comparable properties and reviewed by an independent valuer, Jones Lang LaSalle Sallmanns Limited. The leased area will continue to be used for office, showroom and staff dormitory purposes.

(c) Construction in progress comprises costs incurred on buildings and plant and equipment not yet completed at the respective balance sheet dates.

10 INVESTMENT PROPERTY

				As at
		As at 31 December		**30 June**
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January	—	—	—	30,072
Additions	—	—	30,072	1,010
At 31 December/30 June	—	—	30,072	31,082
Accumulated depreciation:				
At 1 January	—	—	—	—
Charge for the year/period	—	—	—	363
At 31 December/30 June	—	—	—	363
Net book value:				
At 31 December/30 June	—	—	30,072	30,719

The fair value of the investment property as at 30 June 2009, as determined by the directors based on the valuation analysis on an open market value basis with reference to recent market transactions of similar properties, is estimated to be approximately RMB33,260,000. The valuations were carried out by an independent valuer, Jones Lang LaSalle Sallmanns Limited.

Investment property is located in the PRC under a medium term lease.

The building ownership certificates of the investment property have not been obtained as of 30 June 2009. The directors of the Company are of the opinion that Lilang China will be able to obtain the above mentioned ownership certificates by December 2009.

11 LEASE PREPAYMENTS

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January	1,123	14,758	14,758	40,848
Additions *(note (b))*	13,635	—	27,213	—
Disposals *(note 9(b))*	—	—	(1,123)	—
At 31 December/30 June	14,758	14,758	40,848	40,848
Accumulated amortisation:				
At 1 January	67	89	401	973
Charge for the year/period	22	312	694	420
Written back on disposals	—	—	(122)	—
At 31 December/30 June	89	401	973	1,393
Net book value:				
At 31 December/30 June	14,669	14,357	39,875	39,455

Notes:

(a) Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 30 June 2009, the remaining period of the land use rights ranges from 47 to 49 years.

(b) Cost of lease prepayments acquired in 2006 included a contingent consideration of RMB3,325,000 payable to Xiamen Municipal, Resources and Housing Administrative Bureau Jimei Branch ("RHA Bureau Jimei Branch") (厦門市國土資源與房產管理局集美分局). The contingent consideration is payable if tax payables by Lilang Xiamen during the period from 1 July 2008 to 31 December 2008 are less than RMB15 million. During 2009, the RHA Bureau Jimei Branch approved to change the applicable period referred before to 1 July 2009 to 31 December 2009. The directors of the Company are of the opinion that it is not probable for Lilang Xiamen to pay taxes in excess of RMB15 million during the specified period, and therefore, the additional contingent consideration has been provided for in the Financial Information.

12 DEPOSITS FOR PURCHASE OF FIXED ASSETS

As at 31 December 2006 and 2007, included in the balances was a deposit of RMB15,990,000 and RMB20,412,000 paid to Jinjiang City Industrial Park Development and Construction Co.Ltd. (晉江市工業園區開發建設有限公司) for purchase of land use rights for 50 years in respect of a piece of land in Jinjiang City Technology and Industry Park in the PRC at a consideration of RMB26,400,000.

The land use rights certificate has been subsequently issued to Lilang China in April 2008 and the deposits were transferred as lease prepayments accordingly.

13 INVENTORIES

(a) Inventories in the consolidated balance sheets comprise:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	13,495	20,333	18,368	40,297
Work in progress	2,694	1,239	—	—
Finished goods	24,137	74,461	153,119	145,721
	40,326	96,033	171,487	186,018

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of inventories sold	320,701	651,630	789,473	422,260
Write-down of inventories	2,314	390	2,154	1,081
	323,015	652,020	791,627	423,341

14 TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
— third parties	102,485	171,923	249,732	250,032
— related companies	51,617	—	—	—
Bills receivables	—	—	1,560	55,100
	154,102	171,923	251,292	305,132
Prepayments to suppliers	51,539	88,226	98,811	12,745
Prepaid advertising expenses and renovation subsidies	3,008	33,159	4,083	738
Interest receivables on loan to a third party	—	2,150	—	—
VAT recoverable	151	5,886	3,408	134
Other deposit, prepayments and receivables	445	3,990	26,154	23,079
	209,245	305,334	383,748	341,828

(a) Ageing analysis

An ageing analysis of the trade receivables is as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	154,102	152,497	210,956	265,038
3 months to 6 months	—	17,537	28,916	20,452
6 months to 1 year	—	1,889	11,420	19,642
	154,102	171,923	251,292	305,132

All of the trade and other receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 29(a).

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	154,102	152,497	207,761	268,255
Less than 1 month past due	—	13,611	22,674	10,791
1 to 3 months past due	—	3,926	18,826	18,244
More than 3 months past due	—	1,889	2,031	7,842
	—	19,426	43,531	36,877
	154,102	171,923	251,292	305,132

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality. Receivables of RMB30,000,000 as at 30 June 2009 were secured for bank loan of RMB30,000,000 (note 19).

15 AMOUNTS DUE FROM RELATED PARTIES

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from a shareholder	5,080	1,294	—	—
Amounts due from related companies	42,503	—	220	—
	47,583	1,294	220	—

The balances are of non-trade nature, unsecured, interest-free and have no fixed repayment terms.

There was no provision made against the amounts due from related parties during the Relevant Period.

The amounts due from related companies as at 31 December 2006 had been fully recovered in 2007.

16 LOAN TO A THIRD PARTY

The loan was granted to an independent third party, Jinjiang Electricity Control Appliance Co., Limited (晉江電控設備有限公司), which was of non-trade nature, unsecured, interest-free and had been fully recovered in April 2007.

During the year ended 31 December 2007, a loan of RMB30,000,000 was granted to Fujian Strait West Coast Investment Co. Ltd. (福建海峽西岸投資有限公司), which was of non-trade nature, unsecured and interest-fee. This loan had been fully recovered in 2007.

17 PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 20). The pledged bank deposits will be released upon the settlement of relevant bills payable.

Effective annual interest rate for pledged bank deposits was 2.34%, 0.72%, 0.36% and 1.27% as of 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

18 CASH

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	25,696	55,747	53,506	94,218
Cash on hand	1,580	2,772	61	62
Cash in consolidated cash flow statements	27,276	58,519	53,567	94,280

Majority of the cash at bank and on hand are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Effective annual interest rate for cash at bank was 0.72% as of 31 December 2006 and 2007, and 0.36% as of 31 December 2008 and 30 June 2009.

19 BANK LOANS

All bank loans were denominated in RMB and were repayable within one year.

At 31 December 2006 and 2007, bank loans of RMB125,500,000 and RMB94,500,000 were secured by personal guarantees granted by certain directors and senior management of the Group. In addition, certain bank loans of RMB5,500,000 as at 31 December 2006, were also secured by corporate guarantees granted by certain unrelated third parties. The guarantees from independent third parties had been released upon repayment of the bank loans in December 2007 while the personal guarantees granted by directors and senior management have been released in April 2008. As at 31 December 2008 and 30 June 2009, bank loans of RMB140,000,000 and RMB98,000,000 respectively, were secured by corporate guarantees granted by subsidiaries of the Group. As at 30 June 2009, bank loans of RMB30,000,000 were secured by trade receivables of the Group (note 14).

Details of bank loans and respective effective interest rates are as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fixed rate at 5.38%, 5.51%, 7.28% and 4.10% per annum at 31 December 2006, 2007, 2008 and 30 June 2009, respectively	80,500	54,500	100,000	77,000
Floating rate at 5.81%, 6.72%, 5.31% and 5.31% per annum at 31 December 2006, 2007, 2008 and 30 June 2009, respectively	45,000	40,000	40,000	21,000
	125,500	94,500	140,000	98,000

The amounts of banking facilities and the utilisation at each balance sheet date are set out as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Facility amount	168,699	414,458	383,000	603,500
Utilised facility amount at the balance sheet date in respect of:				
— Bank loans	125,500	94,500	140,000	98,000
— Bills payable *(note 20)*	43,199	195,287	140,670	79,710
	168,699	289,787	280,670	177,710

20 TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	19,575	37,981	51,146	69,943
Bills payable *(note a)*	43,199	195,287	140,670	79,710
Trade and bills payables *(note b)*	62,774	233,268	191,816	149,653
Receipts in advance	334	1,554	23,350	18,283
Accrued salaries and wages	5,507	6,101	7,374	3,808
Payables for purchase of fixed assets	8,254	19,031	6,861	7,941
Compensation payable *(note c)*	594	—	—	—
Deferred income	—	300	300	920
Retirement benefit contributions payables	3,012	11,203	21,651	25,368
VAT payables	2,430	—	—	3,716
Other payables and accruals	890	5,619	8,067	8,076
	83,795	277,076	259,419	217,765

All of the trade and other payables are expected to be settled within one year.

(a) Bills payable as at 31 December 2006, 2007 and 2008 and 30 June 2009 were secured by pledged bank deposits as disclosed in note 17 and personal guarantees granted by certain directors of the Company amounting to RMB40,269,000, RMB149,519,000, RMBNil and RMBNil respectively.

(b) An ageing analysis of trade and bills payables is as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	49,876	225,758	137,818	133,242
3 months to 6 months	10,186	3,498	50,330	5,358
6 months to 1 year	880	1,184	2,685	8,503
Over 1 year	1,832	2,828	983	2,550
	62,774	233,268	191,816	149,653

(c) The balance represents a provision for compensation payable to a distributor who made a claim against Lilang Fujian for a breach of sales contracts in 2006. The claim was settled in accordance with a compromise agreement reached between Lilang Fujian and the distributor in November 2007. The compensation was fully paid and Lilang Fujian was discharged on 19 November 2007.

21 LOAN FROM A THIRD PARTY

The loan from an independent third party, Jinjiang Fengchuan Packing Co., Ltd. (晉江市豐川包裝有限公司), was of non-trade nature, unsecured, interest-free and repayable on demand. The loan had been fully settled in December 2007.

22 AMOUNTS DUE TO RELATED PARTIES

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to a shareholder	268	—	18,471	10,879
Amount due to a related company	—	—	—	65
	268	—	18,471	10,944

The balances are of non-trade nature, unsecured, interest-free and have no fixed repayment terms. The directors of the Company confirm that amount due to a shareholder will be settled before the [●] of the Company's shares on the Stock Exchange.

23 LOANS FROM CONTROLLING SHAREHOLDERS

The balance is of non-trade nature, unsecured, interest-free and has no fixed term of repayment. The Controlling Shareholders confirmed that they would not demand for repayment prior to 31 December 2009.

The loan from Controlling Shareholders of RMB139,422,000 has been capitalised as fully paid-up capital of the Company as part of the Reorganisation on 12 September 2008 (note 27(d)).

24 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian province whereby the Group is required to make a contribution at the rate of 18% of the eligible employees' salaries to the Scheme. The Group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Scheme.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Equity compensation benefits

On 18 February 2003 ("grant date"), Wang Dong Xing, Wang Liang Xing and Wang Cong Xing, being the founding shareholders of the Group (collectively, the "Wang Brothers"), agreed to grant a 23.50% equity interests in the whole business operations out of their own equity interests at the grant date to the following key management personnel as an award to their achievement and incentive to retain talents.

(i) The terms and conditions of the equity interests granted on 18 February 2003

Key management personnel entitled	**% of equity interest granted by the Wang Brothers**	**Vesting conditions**
Directors		
Cai Rong Hua	8.0%	Fully vested on grant date
Hu Cheng Chu	5.0%	Fully vested on grant date
Wang Ru Ping	3.0%	Remain in service during the period from grant date to 19 March 2005
Pan Rong Bin	3.0%	Remain in service during the period from grant date to 19 March 2006
Employees		
Chen Wei Jun	2.0%	Fully vested on grant date
Chen Yu Hua	1.0%	Remain in service during the period from grant date to 19 March 2004
Wang Qiao Xing	1.0%	Remain in service during the period from grant date to 19 March 2004
Xu Tian Min	0.5%	Fully vested on grant date
	23.5%	

There were no other performance conditions or market conditions associated with the equity interest grant.

(ii) Details of equity interests vested during the Relevant Period

Out of 23.50% equity interest granted to key management personnel, 23.28% equity interests granted had been fully vested on or before 31 December 2005, and the remaining 0.22% equity interests granted to Pan Rong Bin was fully vested during the year ended 31 December 2006.

(iii) Fair value of equity interests granted and assumption

The fair value of services received in return for the equity interests is measured by reference to the fair value of equity interests granted at date of grant which was prepared by an independent professional valuer, Jones Lang LaSalle Sallmanns Limited. The estimate of the fair value is measured by considering market values for similar assets under an arm's length transaction with a willing buyer and a willing seller, with adjustments made to reflect specific conditions and utility relative to market comparatives including lack of marketability.

The Group followed the transitional provision under IFRS 1, *First-time adoption of International Financial Reporting Standards*, and has not applied the recognition and measurement principles in IFRS 2, *Share-based Payment*, for equity interests granted and vested before 1 January 2006. The fair value for the relevant equity interests granted was approximately RMB2,768,000.

The fair value of the equity interest grants vested after 1 January 2006 amounted to RMB26,000, which has been charged as staff costs with a corresponding amount credited to capital reserve during the year ended 31 December 2006. In respect of fair value of the equity interest grants vested prior to 1 January 2006, it was not recognised in the Group's consolidated financial statements.

The fair value of the equity interest grants vested after 1 January 2006, which has been charged as staff costs with a corresponding amount credited to capital reserve during the Relevant Period is as follows:

				As at
	As at 31 December			**30 June**
	2006	**2007**	**2008**	**2009**
Grantees	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Pan Rong Bin	26	—	—	—

(b) Share option scheme

The Company has adopted the [●] Share Option Scheme on 12 September 2008 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 9,611,100 shares. The share option scheme shall be valid and effective for a period of 10 years ending on 11 September 2018 after which no further options will be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day;

(ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and

(iii) the nominal value of a share.

As at 31 December 2008 and 30 June 2009, no options were granted under the [●] Share Option Scheme.

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEETS

(a) Current taxation in the consolidated balance sheets represents:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	878	8,260	—	890
Provision for PRC income tax	13,534	1,633	2,652	11,783
Provision for PRC Land Appreciation Tax	—	—	978	—
	13,534	1,633	3,630	11,783
PRC income tax paid	(6,152)	(9,893)	(1,762)	(6,592)
PRC Land Appreciation Tax paid	—	—	(978)	—
	8,260	—	890	6,081

(b) Deferred tax assets/(liabilities) recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheets and the movements during the year/period are as follows:

	Depreciation charges in excess of depreciation allowances	**Accrued expenses**	**Others**	**Undistributed profits of PRC subsidiaries**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax asset/ (liability) arising from:					
At 1 January 2006	45	129	92	—	266
Credited/(charged) to profit or loss *(note 5(a))*	1	861	(351)	—	511
At 31 December 2006	46	990	(259)	—	777
At 1 January 2007	46	990	(259)	—	777
Credited/(charged) to profit or loss *(note 5(a))*	—	427	(19)	—	408
At 31 December 2007	46	1,417	(278)	—	1,185

	Depreciation charges in excess of depreciation allowances	Accrued expenses	Others	Undistributed profits of PRC subsidiaries	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	46	1,417	(278)	—	1,185
(Charged)/credited to profit or loss *(note 5(a))*	(19)	2,410	318	(4,440)	(1,731)
At 31 December 2008	27	3,827	40	(4,440)	(546)
At 1 January 2009	27	3,827	40	(4,440)	(546)
(Charged)/credited to profit or loss *(note 5(a))*	46	416	7	(2,461)	(1,992)
At 30 June 2009	73	4,243	47	(6,901)	(2,538)

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Classification in the consolidated balance sheets:				
Net deferred tax assets	777	1,185	997	819
Net deferred tax liabilities	—	—	(1,543)	(3,357)
	777	1,185	(546)	(2,538)

(c) Deferred tax liabilities not recognised

Effective 1 January 2008, the Group is subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits earned since 1 January 2008. As at 31 December 2008 and 30 June 2009, deferred tax liabilities of RMB3,552,000 and RMB5,521,000 in respect of temporary differences relating to such undistributed profits of RMB71,031,000 and RMB110,420,000 respectively (approximately 40% of the total undistributed profits earned since 1 January 2008) were not recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that those profits will not be distributed in the foreseeable future.

There were no other significant temporary differences relating to deferred tax assets or liabilities not provided for as at 31 December 2006, 2007 and 2008 and 30 June 2009.

27 SHARE CAPITAL AND SHARE PREMIUM

Share capital in the consolidated balance sheets as at 31 December 2006 and 2007 represented the aggregate amount of paid-in capital of the companies now comprising the Group in which the equity shareholders of the Company held direct interests, after elimination of investments in subsidiaries. Share capital in the consolidated balance sheet as at 31 December 2008 and 30 June 2009 represents the issued and paid-up share capital of the Company as of that date as follows:

	As at 31 December 2008		**As at 30 June 2009**	
	No. of shares		**No. of shares**	
	('000)	*HK$'000*	*('000)*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	100,000,000	10,000,000	100,000,000	10,000,000

	As at 31 December 2008		**As at 30 June 2009**	
	No. of shares		**No. of shares**	
	('000)	*RMB'000*	*('000)*	*RMB'000*
Issued and fully paid:				
Ordinary shares of HK$0.1 each	2,000	176	2,000	176

Shares issued on Reorganisation are summarised below.

(a) On 4 December 2007, Lilang Holdings was incorporated and issued 10,000 ordinary shares of US$1 each at par for cash, equivalent to RMB78,000.

(b) In December 2007, the Wang Brothers injected their entire equity interests in Lilang Fujian to Lilang International at nil consideration. As a result of the transfer of equity interests, Lilang International became the holding company of Lilang Fujian. Accordingly, an amount equal to Lilang Fujian's paid-up capital of RMB20,996,000 was reflected as an elimination of paid-up capital in the consolidated statements of changes in equity for the year ended 31 December 2007 and a corresponding increase of the same amount in capital reserve.

(c) On 10 June 2008, Lilang Holdings allotted and issued 10,000 shares of US$1 each at par for cash, equivalent to RMB68,000.

(d) On 2 January 2008, the Company issued and allotted 1,000,000 share at nil consideration to its then shareholders. On 12 September 2008, the Company allotted and issued 1,000,000 ordinary shares with par value of HK$0.1 each as a consideration to purchase the entire issued share capital of Lilang Holdings and as a consideration for full settlement of an amount due to Wang Brothers of RMB139,422,000 (note 23).

28 RESERVES

(a) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

(b) Capital reserve

Contributions from equity holder during the Relevant Period and credited to capital reserve comprise the following:

(i) Value of share-based payment compensation amounted to RMB26,000 for the year ended 31 December 2006.

(ii) Fair value of design consultancy service rendered to Lilang Fujian and Lilang China and fair rental value of properties owned by the Wang Brothers but occupied by the Group free of charge amounted to RMB450,000, RMB260,000 and RMB43,000 for the year ended 31 December 2006, 2007 and 2008, respectively.

(iii) Capitalisation of loan from Controlling Shareholders of RMB139,422,000 (see note 23).

(c) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 1(r).

(d) Distributable reserves

The Company was incorporated on 2 January 2008 and had not commenced operation as of 30 June 2009. Accordingly, there was no reserve available for distribution to shareholders as 30 June 2009.

On the basis set out in Section A above, the aggregate amount of distributable reserves at 31 December 2006, 2007 and 2008 and 30 June 2009 of the companies comprising the Group were RMB23,723,000, RMB112,226,000, RMB389,358,000 and RMB468,200,000 respectively.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and bank deposits, trade and other receivables and loan receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and bank deposits are placed with major financial institutions.

Trade receivables are presented net of the allowance for bad and doubtful debts. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers. At the balance sheet date, the Group has a certain concentration of credit risk as the trade receivables from the five largest customers at 31 December 2006, 2007 and 2008 and 30 June 2009 represented 60.0%, 31.7%, 24.7% and 33.7% of the total trade receivables respectively, while 33.5%, 11.5%, 12.2% and 12.2% of the total trade receivables were due from the largest single customer respectively.

The Group reviews the financial background and credit worthiness of the third party to whom advances are granted and the management does not expect any significant credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets. Except for the financial guarantees given by the Group as set out in note 32, the Group or the Company does not provide any other guarantees which would expose the Group or the Company to credit risk.

The maximum exposure to credit risk in respect of the guarantees at each balance sheet date is disclosed in note 32.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash requirements. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table presents the earliest contractual settlement dates of the Group's financial liabilities at the balance sheet dates, which are based on contractual undiscounted cashflows and the earliest date the Group can be required to pay.

	As at 31 December 2006 Contractual undiscounted cash outflow			
	Within 1 year or on demand	**More than 1 year but less than 5 years**	**Total**	**Balance sheet carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	129,375	—	129,375	125,500
Trade and other payables	83,795	—	83,795	83,795
Loan from a third party	1,400	—	1,400	1,400
Amounts due to related parties	268	—	268	268
Loan from Controlling Shareholders	—	139,422	139,422	139,422
	214,838	139,422	354,260	350,385

	As at 31 December 2007 Contractual undiscounted cash outflow			
	Within 1 year or on demand	**More than 1 year but less than 5 years**	**Total**	**Balance sheet carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	97,033	—	97,033	94,500
Trade and other payables	277,076	—	277,076	277,076
Loan from Controlling Shareholders	—	139,422	139,422	139,422
Payables for construction in progress	—	1,790	1,790	1,790
	374,109	141,212	515,321	512,788

	As at 31 December 2008 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	144,990	—	144,990	140,000
Trade and other payables	259,419	—	259,419	259,419
Amounts due to related parties	18,471	—	18,471	18,471
Payables for construction in progress	—	1,987	1,987	1,987
	422,880	1,987	424,867	419,877

	As at 30 June 2009 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	99,938	—	99,938	98,000
Trade and other payables	217,765	—	217,765	217,765
Amounts due to related parties	10,944	—	10,944	10,944
Payables for construction in progress	—	2,767	2,767	2,767
	328,647	2,767	331,414	329,476

(c) Interest rate risk

(i) Interest rate profile

Except for bank deposits with stable interest rates, the Group has no other significant interest-bearing assets. Accordingly, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Details of the effective interest rates for bank deposits are disclosed in notes 17 and 18.

The Group's interest rate risk arises mainly from bank borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings bearing fixed rates expose the Group to fair value interest rate risk. The Group does not use derivative financial instruments to hedge its interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in note 19.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

(ii) Sensitivity analysis

As at 31 December 2006, 2007 and 2008 and 30 June 2009, if interest rates on bank borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax and retained profits would have decreased/increased by approximately RMB329,000, RMB292,000, RMB300,000 and RMB158,000, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained profits that would arise assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis throughout the Relevant Period.

(d) Foreign currency risk

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors consider the Group's exposure to foreign currency risk is not significant. The Group does not employ any financial instruments for hedging purposes.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands and the Group may not be able to pay dividends in foreign currencies to its shareholders.

(e) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2006, 2007 and 2008 and 30 June 2009, except for the amounts due from/to shareholders, related companies and loan to a third party which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group uses different measures including adjusted net debt-to-capital ratio to monitor its capital. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings, bills payables and loan from a third party) as shown in the consolidated balance sheets less cash and bank deposits. Total capital is calculated as shareholders' funds (i.e. total equity attributable to equity shareholders of the Company), as shown in the consolidated balance sheets, plus long term loan from Controlling Shareholders and net debt.

The adjusted net debt-to-capital ratios at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

		As at 31 December			As at 30 June
		2006	**2007**	**2008**	**2009**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	19	125,500	94,500	140,000	98,000
Bills payable	20	43,199	195,287	140,670	79,710
Loan from a third party	21	1,400	—	—	—
Total borrowings		170,099	289,787	280,670	177,710
Less:					
Pledged bank deposits	17	14,970	54,009	42,201	27,763
Cash	18	27,276	58,519	53,567	94,280
Net debt		127,853	177,259	184,902	55,667
Shareholders' funds		48,718	145,573	439,295	529,278
Loan from Controlling Shareholders	23	139,422	139,422	—	—
Total capital		315,993	462,254	624,197	584,945
Adjusted net debt-to-capital ratio		40%	38%	30%	10%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of plant, property and equipment outstanding at each of the balance sheet dates not provided for in the Financial Information were as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	50,586	14,532	5,483	413
Authorised but not contracted for	97,526	121,220	179,516	178,912
	148,112	135,752	184,999	179,325

(b) Investment commitments

At 31 December 2007 and 2008 and 30 June 2009, the Group had commitments in respect of capital contribution to investments in Lilang Xiamen of US$25,450,074, approximately equivalent to RMB175,000,000 which is due for contribution on or before 31 December 2009.

(c) Operating lease commitments

At each of the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	1,679	1,626
Between one year to five years	—	—	267	—
	—	—	1,946	1,626

During the year ended 31 December 2008 and 30 June 2009, the Group entered into lease agreements for its offices in Hong Kong, Jinjiang, and Xiamen, and a production factory in Jinjiang. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

31 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

During the Relevant Period, the directors are of the view that the following companies are related parties of the Group:

Name of party	**Relationship**
Wang Dong Xing Wang Liang Xing Wang Cong Xing (collectively, the Wang Brothers)	Directors and Controlling Shareholders of the Group
晉江曉升服裝實業有限公司 Jinjiang Xiaosheng Apparel Enterprise Limited ("Jinjiang Xiaosheng") *(note (ii))*	Effectively 24.2%, 22.3%, 18.6% and 9.3% owned by Wang Liang Xing, Wang Dong Xing, Wang Cong Xing and Wang Ru Ping respectively, directors and controlling shareholders of the Company. The remaining 25.6% equity interest is owned by Lam Ga Lok, an uncle of the Wang Brothers. At 23 June 2009, Jinjiang Xiaosheng was deregistered from business registration.
晉江市猛郎服飾有限公司 Jinjiang Menglang Apparel Limited ("Jinjiang Menglang") *(note (ii))*	Effectively 32.5%, 30%, 25% and 12.5% owned by Wang Liang Xing, Wang Dong Xing, Wang Cong Xing and Wang Ru Ping respectively, directors and controlling shareholders of the Company. At 28 August 2008, Jinjiang Menglang was deregistered from business registration.
金郎（福建）投資有限公司 Jinlang (Fujian) Investments Co., Ltd. *(note (ii))*	Effectively 33.3%, 33.3% and 33.4% owned by Wang Liang Xing, Wang Dong Xing and Wang Cong Xing respectively, directors and controlling shareholders of the Company.

Name of party	Relationship
合肥曉升商貿有限責任公司 Hefei Xiaosheng Trading Co., Limited ("Hefei Xiaosheng") *(notes (i), (ii))*	Historically 60% and 40% owned by Hu Cheng Chu and Pan Rong Bin respectively, directors and beneficial owners of the Group. On 30 September 2007, Hu Cheng Chu and Pan Rong Bin disposed of their interests in Hefei Xiaosheng to Xu Pei De, an ex-employee of the Group and an independent third party, and Hefei Xiaosheng is not considered a related party of the Group since then.
杭州曉星貿易有限公司 Hangzhou Xiaoxing Trading Co., Limited ("Hangzhou Xiaoxing") *(notes (i), (ii))*	Historically 60% and 40% owned by Hu Cheng Chu and Pan Rong Bin respectively, directors and beneficial owners of the Group. On 28 February 2007, Hu Cheng Chu and Pan Rong Bin disposed of their interests in Hangzhou Xiaoxing to Lin Jin Tai and Xu Pei De, being ex-employees of the Group, and Hangzhou Xiaoxing is not considered a related party of the Group since then.
長沙曉星服飾貿易有限公司 Changsha Xiaoxing Apparel Trading Co., Limited ("Changsha Xiaoxing") *(notes (i), (ii))*	Historically 45% and 55% were owned by Hu Cheng Chu and Pan Rong Bin respectively, directors and beneficial owners of the Group. On 31 August 2007, Hu Cheng Chu and Pan Rong Bin disposed of their interests in Changsha Xiaoxing to Lin Jin Tai and Xu Pei De, being ex-employees of the Group, and Changsha Xiaoxing is not considered a related party of the Group since then.
鄭州市凱利商貿有限責任公司 Zhengzhou Kaili Trading Co., Limited ("Zhengzhou Kaili") *(notes (i), (ii))*	Historically 60% and 40% were owned by Hu Cheng Chu and Pan Rong Bin respectively, directors and beneficial owners of the Group. On 31 August 2007, Hu Cheng Chu and Pan Rong Bin disposed of their interests in Zhengzhou Kaili to Lin Jin Tai and Xu Pei De, being ex-employees of the Group, and Zhengzhou Kaili is not considered a related party of the Group since then.
貴陽曉星商貿有限公司 Guiyang Xiaoxing Trading Co., Limited ("Guiyang Xiaoxing") *(notes (i),(ii))*	Historically 40% and 60% owned by Hu Cheng Chu and Pan Rong Bin respectively, directors and beneficial owners of the Group. On 31 December 2006, Hu Cheng Chu and Pan Rong Bin disposed of their interests in Guiyang Xiaoxing to Lin Jin Tai and Xu Pei De, being ex-employees of the Group, and Guiyang Xiaoxing is not considered a related party of the Group since then.

Name of party	Relationship
長春市恩比商貿有限責任公司 Changchun Enbi Trading Co., Limited ("Changchun Enbi") *(notes (i),(ii))*	Historically 52% and 48% owned by Hu Cheng Chu and Pan Rong Bin respectively, directors and beneficial owners of the Group. On 30 June 2007, Hu Cheng Chu and Pan Rong Bin disposed of their interest in Changchun Enbi to Lin Jin Tai and Xu Pei De, being ex-employees of the Group, and Changchun Enbi is not considered a related party of the Group since then.
西安市閩星商貿有限責任公司 Xian Minxing Trading Co., Limited ("Xian Minxing") *(notes (i),(ii))*	Historically 60% and 40% owned by Hu Cheng Chu and Pan Rong Bin respectively, directors and beneficial owners of the Group. On 30 September 2007, Hu Cheng Chu and Pan Rong Bin disposed of their interests in Xian Minxing to Xu Pei De, an ex-employee of the Group and an independent third party, and Xian Minxing is not considered a related party of the Group since then.

Notes:

(i) The directors of the Company confirmed that the ex-employees acquired these companies historically owned by Hu Cheng Chu and Pan Rong Bin are independent third parties, and Hu Cheng Chu and Pan Rong Bin ceased having any beneficial interest or involvement in these companies after the disposal of their equity interests to the ex-employees, and since then, these companies are not considered related parties of the Company in accordance with the accounting policy set out in note 1(u).

(ii) The English translation of the company names is for reference only. The official names of the companies are in Chinese.

(a) Recurring transactions

(i) During the Relevant Period, the Wang Brothers granted Lilang Fujian the right to use a production plant owned by them at nil consideration. The directors of the Company estimated that the fair market rental for similar production plant during the years ended 31 December 2006, 2007 and 2008 was RMB250,000, RMB260,000 and RMB43,000 respectively.

The Group ceased the utilisation of the above mentioned production plant from February 2008 onwards.

(ii) The Group leased properties from Jinlang Fujian for a term commencing from 1 March 2008 and ending on 31 December 2010 at a monthly rental of RMB109,917 and for a term commencing from 1 March 2009 and ending on 31 December 2010 at a monthly rental of RMB71,315. Rental paid and payable to Jinlang Fujian for the period from 1 March to 31 December 2008 and 1 January 2009 to 30 June 2009 amounted to RMB1,099,000 and RMB945,000 respectively.

(b) Non-recurring transactions

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cash advances to related companies *(note (i))*					
— Jinjiang Xiaosheng	30,703	38,262	—	—	—
Cash advances to/(from) shareholders of the Company *(note (i))*					
— Wang Dong Xing	56,080	5,842	—	—	—
— Wang Cong Xing	(264)	27,000	9,409	7,807	19,909
— Wang Brothers	(108,198)	—	—	—	—
Sales of goods to companies beneficially owned by directors of the Company *(note (ii))*					
— Hefei Xiaosheng	14,628	37,163	—	—	—
— Hangzhou Xiaoxing	17,905	4,626	—	—	—
— Changsha Xiaoxing	19,043	15,755	—	—	—
— Zhengzhou Kaili	16,345	27,165	—	—	—
— Guiyang Xiaoxing	7,017	—	—	—	—
— Changchun Enbi	7,182	10,017	—	—	—
— Xian Minxing	6,039	19,432	—	—	—
	88,159	114,158	—	—	—
Sales of land use rights and properties					
— Jinlang Fujian	—	—	11,582	11,582	—

The directors of the Company have confirmed that the above transactions will not be continued in the future after the [●] of the Company's shares on the Stock Exchange.

Notes:

(i) The advances from/to related parties and controlling shareholders of the Group are unsecured and interest-free. The amounts disclosed above are also the maximum amounts due from the related parties during the Relevant Period.

(ii) As confirmed by the directors of the Company, sales to these companies during the period that the directors had personal interests were made in accordance with normal commercial terms and were priced with reference to prevailing market prices and in the ordinary course of business.

(c) Balances with related parties

As at the balance sheet dates, the Group had the following balances with related parties:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related companies				
— Jinjiang Xiaosheng	30,703	—	—	—
— Jinjiang Menglang	11,800	—	—	—
— Jinlang Fujian	—	—	220	—
	42,503	—	220	—
— Hefei Xiaosheng	8,677	—	—	—
— Hangzhou Xiaoxing	9,402	—	—	—
— Changsha Xiaoxing	5,583	—	—	—
— Zhengzhou Kaili	16,706	—	—	—
— Guiyang Xiaoxing	4,264	—	—	—
— Changchun Enbi	3,915	—	—	—
— Xian Minxing	3,070	—	—	—
	94,120	—	220	—
Amounts due from shareholders				
— Wang Dong Xing	5,080	—	—	—
— Wang Cong Xing	—	1,294	—	—
	5,080	1,294	—	—
Amount due to a related company				
— Jinlang Fujian	—	—	—	65
Amounts due to shareholders				
— Wang Cong Xing	268	—	18,471	10,879
— Wang Brothers	139,422	139,422	—	—
	139,690	139,422	18,471	10,879

The amounts due from related parties are unsecured, interest-free and have no fixed terms of repayment. There was no provision made against these amounts at 31 December 2006, 2007 and 2008 and 30 June 2009. The director of the Company confirm that the balance will be settled before the [●] of the Company's share on the Stock Exchange.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Short-term employee benefits	1,188	1,526	3,784	1,329	2,189
Discretionary bonus	—	105	1,697	106	—
Contributions to defined contribution retirement benefit scheme	214	293	185	80	99
Share-based compensation	26	—	—	—	—
	1,428	1,924	5,666	1,515	2,288

Total remuneration is included in "staff costs" (see note 4(b)).

32 CONTINGENT LIABILITIES

At 31 December 2006, Lilang Fujian provided corporate guarantee to an independent third party, Jinjiang Shoe Enterprises Company Limited (晉江華意鞋業有限公司), for its bank loan of RMB3,600,000.

The Group did not recognised any deferred income in respect of the guarantee issued as its fair value was not reliably estimable and the guaranteed amount was not material. The guarantee was released on 15 October 2007.

During the Relevant Period, no claims had been made against the Group under any guarantees.

33 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The methods, estimates and judgments the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgments, on matters that are inherently uncertain. The critical accounting judgments in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any, based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairments

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provide for impairment loss. Any change in the assumption adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group's net asset value.

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in the year and in future years.

(c) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits.

(d) Net realisable value of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and management experience and judgment. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of the Financial Information, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period beginning 1 January 2009 and which have not been adopted in the Financial Information.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial position:

		Effective for accounting periods beginning on or after
Revised IFRS 3	Business combinations	1 July 2009
Amendments to IAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to IAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
Improvements to IFRSs		1 July 2009 or 1 January 2010

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant event took place subsequent to 30 June 2009:

1. Dividend declaration

Pursuant to the Board resolution dated 12 August 2009, the Company declared dividend of approximately RMB53,040,000 to the shareholders from retained earnings. Such dividends were fully paid before [●].

2. New banking facility

In August 2009, Lilang International obtained a six-month short-term loan facility of HK$15,000,000. The loan facility bears a fixed interest rate at 3.60% per annum and is secured by a corporate guarantee provided by the Company and bank deposits of a related company placed with the bank.

E FINANCIAL INFORMATION OF THE COMPANY

	Note	31 December 2008 RMB'000	30 June 2009 RMB'000
Non-current assets			
Investment in subsidiaries	(a)	139,505	139,505
Current assets			
Trade and other receivables		20,303	20,253
Current liabilities			
Amounts due to subsidiaries		(20,303)	(20,253)
Net current assets		—	—
Net assets		139,505	139,505
Equity			
Share capital	(b)	176	176
Share premium	27	139,329	139,329
		139,505	139,505

Notes:

(a) Investment in subsidiaries is stated at cost and details of subsidiaries as at 31 December 2008 and 30 June 2009 are set out in section A.

(b) The Company was incorporated in the Cayman Islands on 2 January 2008 with an authorised capital of HK$200,000 divided into 2,000,000 shares with par value of HK$0.1 each. Upon incorporation, the Company issued a total of 1,000,000 shares at nil consideration to the Group's existing beneficial owners.

On 12 September 2008, authorised share capital of the Company increased to HK$10 billion by the creation of 99,998 million shares pursuant to a shareholders resolution passed on that date.

The Company then allotted and issued 1,000,000 shares to its then shareholders as consideration to acquire the entire issued share capital of Lilang Holdings and as full settlement of an amount of RMB139,422,000 owed by Lilang International to the Wang Brothers.

F SUBSEQUENT FINANCIAL STATEMENTS

No statutory financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong