CHINA LILANG LIMITED

中國利郎有限公司

Stock Code 股份代號：1234

(Incorporated in the Cayman Islands with limited liability)

（於開曼群島註冊成立之有限公司）

ANNUAL REPORT 年報 2009


Sincere, Harmonious, Passionate, Enterprising

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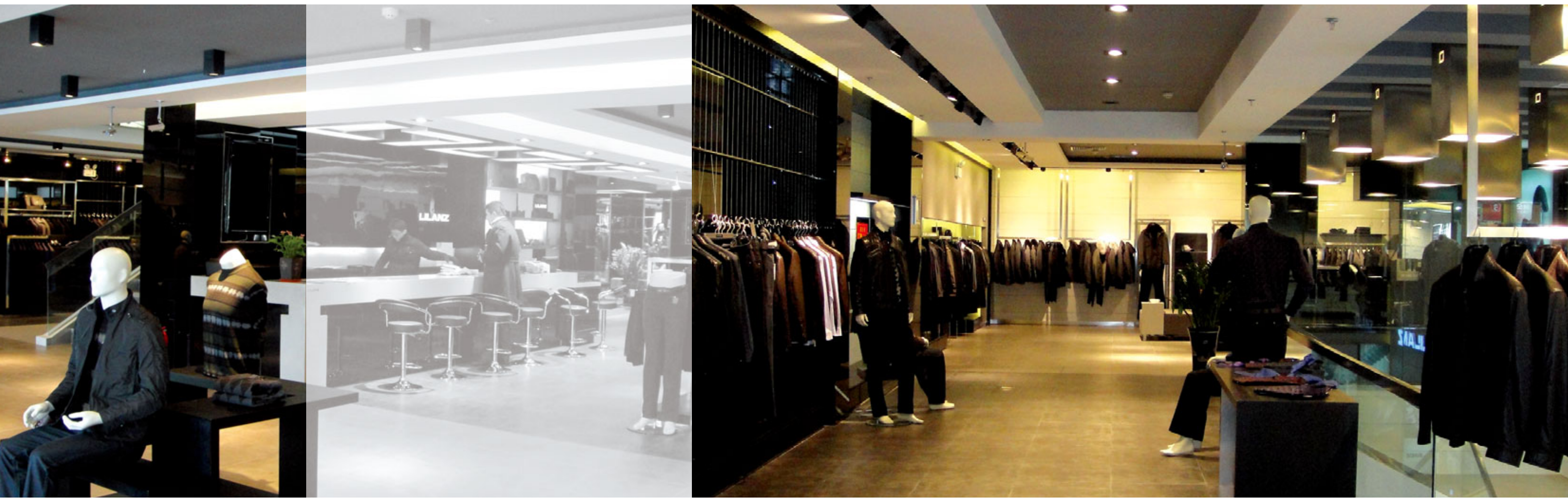



LANZ

ABOUT CHINA LILANG

China Lilang is one of the leading PRC menswear brands. As an integrated fashion enterprise, the Group designs, sources, manufactures and sells high-quality business and causal apparel for men. Its products are sold across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC.

The Group offers its customers designs for all seasons under its LILANZ brand. Its menswear products are designed for business and causal purposes. Its products include suits, jackets, shirts, trousers, sweaters and accessories and are broadly divided into business formal, business causal, fashion causal and sports. As at 31 December 2009, the Group's products were sold to end customers through 2,561 retail outlets operated or subcontracted by 54 distributors nationwide.


Succinct
LILANZ

FINANCIAL HIGHLIGHTS

Four years summary

(Expressed in Renminbi)

	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009** **RMB'000**
OPERATING RESULTS				
Turnover	418,195	885,921	1,135,684	**1,559,874**
Profit from operations	49,508	109,727	171,044	**338,796**
Finance costs	(3,904)	(11,996)	(11,551)	**(6,387)**
Profit before taxation	45,604	97,731	159,493	**332,409**
Income tax	(13,023)	(1,225)	(5,361)	**(29,415)**
Profit attributable to equity shareholders	32,581	96,506	154,132	**302,994**
Earnings per share				
Basic (cents)	3.62	10.72	17.13	**30.87**
Diluted (cents)	N/A	N/A	N/A	**30.85**
Assets and liabilities				
Non-current assets	66,963	143,172	210,382	**222,490**
Net current assets	121,177	143,613	232,443	**1,420,340**
Total assets less current liabilities	188,140	286,785	442,825	**1,642,830**
Non-current liabilities	139,422	141,212	3,530	**726**
NET ASSET	48,718	145,573	439,295	**1,642,104**
Capital and reserves				
Share capital	21,016	98	176	**105,731**
Reserves	27,702	145,475	439,119	**1,536,373**
TOTAL EQUITY	48,718	145,573	439,295	**1,642,104**

CORPORATE INFORMATION

Board

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Wang Ru Ping
Mr. Pan Rong Bin

Independent Non-Executive Directors

Dr. Lu Hong Te
Mr. Chen Tien Tui
Mr. Nie Xing

Company Secretary

Mr. James Yu *(AICPA)*

Board Committees

Audit Committee

Mr. Nie Xing *(Chairman)*
Dr. Lu Hong Te
Mr. Chen Tien Tui

Remuneration Committee

Mr. Wang Cong Xing *(Chairman)*
Mr. Nie Xing
Mr. Chen Tien Tui

Authorised Representatives

Mr. Wang Dong Xing
Mr. James Yu *(AICPA)*

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Suite 3402, 34th Floor
Lippo Centre, Tower One
No. 89 Queensway
Hong Kong

Head Office in the PRC

Lilang Industrial Park
Nanhuan Road
Qingyang District
Jinjiang City
Fujian Province
The PRC

Share Registrars and Transfer Offices

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Legal Adviser

Chiu & Partners

Auditors

KPMG, *Certified Public Accountants*

Compliance Adviser

Piper Jaffray Asia Limited

Principal Bankers

Industrial Bank Co. Ltd.
China Merchant Bank
Bank of China Limited

CHAIRMAN'S STATEMENT

To all shareholders,

I am pleased to present the annual results of China Lilang Limited (the "Company") and its subsidiaries (collectively the "Group") for 2009.

China's economy has demonstrated a strong momentum of recovery from the financial tsunami. The state's policy to encourage domestic demand and boost economy has revived the consumer market. At this critical moment, Lilang has taken full advantage of the many opportunities to lure more promising growth under a vivid consumer market in China. During the year under review, riding on accurate market positioning, effective promotion strategies, proper business expansion, and armed with quality products of Lilang, the Group's turnover grew by 37.4% to RMB1,559.9 million, whereas profit attributable to shareholders increased by 96.6% to RMB303.0 million, outperforming the profit forecast as stated in the listing prospectus. To reward the shareholders for their support towards Lilang, the Board of Directors recommended the payment of an annual dividend of RMB11 cents per share.

The Group is principally engaged in design, procurement, production and sales of high-quality business and casual menswear. Capitalizing on unique positioning and excellent design, significant growth has been achieved in recent years, and a dominant position in China's mainstream menswear market has been established by adhering to a "simple yet sophisticated" (簡約而不簡單) philosophy. On 25 September 2009, the Group marked an important milestone in gaining international presence by raising RMB953 million through a successful listing on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Through the successful listing, the Group has brought itself a sufficient pool of funds to sustain its future development and has remarkably promoted a widespread awareness of the Group and its brand, thereby laying a solid cornerstone for the long term business growth.

During the year under review, to capture the rapid growth in the mainstream menswear market, the Group successfully expanded its sales network in the second and third tier markets and enhanced the brand appeal of Lilanz. During the period, the number of outlets in the Group's distribution network amounted to about 2,600, thus meeting the goal set at the time of its listing. The Group has also stepped up its innovation in product development. In the fourth quarter, the Group introduced a series of high-quality business casual apparels branded under the name of Mr. Ji Wen Bo, our chief designer. We continued to receive overwhelming responses from customers by delivering higher quality products which are in line with Lilang's tastes and values. Meanwhile, the Group is actively preparing for the roll out of "L2" brand with target audience of young businessmen at the age between 20 and 30 so as to widen customer base and to achieve an increasingly diversified and mature product portfolio. To better define our market segments, a celebrity Mr. Daniel Wu (吳彥祖) was retained by the Group as "L2" brand spokesperson, while Mr. Chen Dao Ming (陳道明) , a spokesperson with close co-operation relationship with the Group, will continue to serve as a spokesperson of the main brand of "Lilanz". This represented an important step towards diversification of the Lilanz brand and broadening of customer profile, thereby further promoting brand awareness.

It is a great privilege for us that our endeavor in brand development has been widely recognized by various circles. In 2009, a number of honors were awarded to the Group, including the Planning Award of ''2007–2008 China Apparel Brands Annual Awards'' (「2007–2008中國服裝品牌年度大獎」策劃大獎), "the most popular and charming brand of menswear for 2009-2010", "the value award and year award of China's apparel brand", "color application award in China for 2009"and ''2009 Top 10 Most Influential and Famous Apparel Brands in Asia'' (2009亞洲服裝最具影響力十大馳名品牌). The Group places great values to each and every award, and expresses deep appreciation to the accrediting bodies for their support and recognition of the philosophy, concept and quality of Lilang.

Looking towards the future, in order to continue to present the Group as one of the leading brands of menswear in China, we will leverage our brand awareness, enhance our competitive edges and achieve sustainable sales growth. We will enrich and diversify our product offerings, and enhance the market acceptance of Lilanz and "L2" brand through appropriate marketing and promotional strategies. We will also further consolidate and expand distribution network to extend the retail business coverage, improve operation and production management capability and further strengthen product design and development strengths.

Given the rapid economic development in China, and evolving vision and taste of consumers, we believe that Lilanz is one of the few men's apparel brands which is leading the changing consumer market through its spirit of continuous evolution and breakthrough. Lilang's "simple yet sophisticated" (簡約而不簡單) concept echos the consumption trend of better quality. Lilang will uphold its firm belief of "keeping abreast of the unboundedly changing world" by providing a product range of better taste and higher quality to consumers.

Last but not the least, the Group attributes its impressive results during the year to the prominent performance of all of its employees as well as the support and patronage of consumers for Lilanz brand and products. I would like to take this opportunity to sincerely thank all the employees for their dedication and commitment, and all the shareholders, distributors, customers and suppliers for their effort and loyalty.

Chairman
Wang Dong Xing
22 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2009, the financial crisis continued to affect the global economy. Thanks to the timely deployment of macro economic measures by the PRC government, the domestic consumption market has been stabilized and is on the way to a controlled recovery. Even though the export market is still weighed down by the continued sluggishness in Europe and the United State's economy, the domestic PRC retail sector and self-owned brands have thrived in a more promising direction.

According to the preliminary estimates from the National Bureau of Statistics, China's GDP was about RMB33.5 trillion in 2009, representing a growth of about 8.7% over 2008. In addition, various economic indicators grew steadily. Improving consumer sentiment in the PRC along with the steadily recovering economic conditions in 2009 have boosted the retail sales of consumer goods to RMB12.5 trillion, an increase of 15.5% over the previous year. Of which, apparel, shoes and hats, as well as textile products accounted for RMB462.2 billion, an increase of 18.8% over last year. This reflects the resilience of the apparel market.

The sustainable growth momentum of China's economy and the increase in China's disposable income have paved the way for China's menswear industry, and offers a flurry of opportunities for well-recognized menswear brands with extensive sales network.

Business Review

During the year under review, by seizing market development potential, by capitalizing on strengths in the Group's brand, design and sales network, the Group has achieved remarkable results. The Group's turnover is mainly derived from the wholesale of products to distributors. For the year ended 31 December 2009, the Group recorded a turnover of approximately RMB1,559.9 million, representing an increase of 37.4% over the corresponding period of the previous year. Gross profit amounted to approximately RMB551.1 million, up by 5 percentage points over the corresponding period of the previous year. The significant surge in turnover was partly attributable to the increase in sales volume, and partly attributable to the rise in the average selling price. The wholesale volume of apparel and accessories soared to 9,417,000 units and 655,000 units in 2009 from 7,712,000 units and 475,000 units in 2008 respectively. The average wholesale price of apparel and accessories rose by 12% and 19% to RMB159 and RMB100 respectively over the same period. These factors contributed to an increase in gross margin to 35.3%. Net profit attributable to shareholders amounted to RMB303.0 million, representing an increase of 96.6% when compared with the corresponding period of the previous year.

Sales Fairs

The Group holds sales fairs three times a year to showcase its fall, winter, and spring/summer collections to its existing and prospective distributors. The sales fairs for our fall, winter, and spring/summer collections are usually held in March, May, and from August to September respectively.

The business casual wear, as an established collection of the Group, has established a clear and strong leadership in the market by keeping abreast of the latest trends and understated styling of cosmopolitan fashion.

The Group received overwhelming feedback from the spring/summer collections sales fair held in September due to increasing brand recognition following the Group's successful listing in Hong Kong and such orders will be delivered in 2010. As winter approached earlier in 2009, market demand for products such as winter coats and jackets increased. In this light, distributors have placed additional orders for 2009 winter collection products in the second half of the year, thus further boosting turnover growth in the fourth quarter.

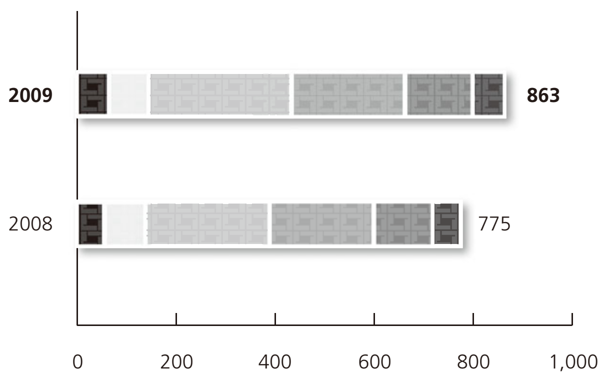
Distribution Network

The Group is one of leading men's brands in the PRC. In terms of retail sales for the year ended 31 December 2009, its LILANZ brand is ranked as one of the pioneering brand among the mainstream brand market covering the second and third tier cities in the PRC. The Group principally sells its products on a wholesale basis to distributors, which will then sell the products to end customers through their self-operated retail outlets, or the retail outlets operated by sub-distributors. As of 31 December 2009, the Group has 54 distributors and the distributors have 1,221 sub-distributors. During the same period, 2,561 retail outlets are operated or sub-operated by those 54 distributors in 31 provinces, autonomous regions and municipalities in China, outnumbering last year's figure by 70. Out of the 1,773 stand-alone stores, 484 stores are directly operated by the distributors and 1,289 stores are operated by their sub-distributors. Out of 788 concessions in department stores, 379 concessions are directly operated by the distributors and 409 concessions are operated by their sub-distributors.

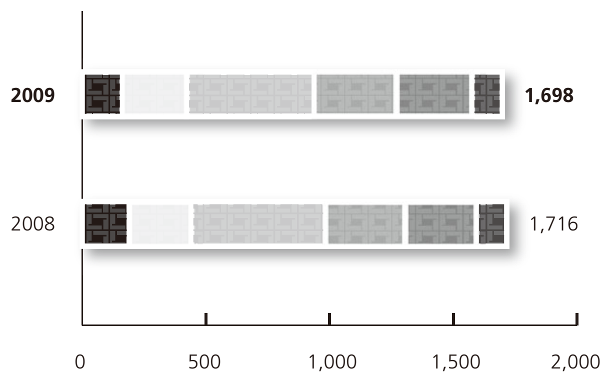
	Number of retail outlets*			
	As of 31 December 2009		As of 31 December 2008	
Geographical location	**operated by distributors**	**operated by sub-distributors**	**operated by distributors**	**operated by sub-distributors**
Northern China (1)	**64**	**163**	55	191
Northeast China (2)	**79**	**258**	81	247
Eastern China (3)	**290**	**517**	253	547
Central and southern China (4)	**229**	**333**	210	321
Southwestern China (5)	**136**	**303**	119	286
Northwestern China (6)	**65**	**124**	57	124
Total	**863**	**1,698**	775	1,716

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

Operated by distributors



Operated by sub-distributors



Retail

The enhancing consumer understanding of our product quality and philosophy has driven our retail business growth. Coupled with the renovation of distributors' stores encouraged by the Group during the period to improve the quality of the retail outlets, same-store sales registered a year-on-year growth of double digits.

Marketing and Promotion

The Group has adopted unique marketing and promotional strategies to maximize the exposure to the main target audience. In 2002, the Group advocated a "simple yet sophisticated" (簡約而不簡單) design concept, and invited a well-known Chinese actor Mr. Chen Dao Ming (陳道明) as the brand's spokesperson. In an effort to promote the brand and appeal to a broader audience, the Group invited Mr. Daniel Wu (吳彥祖) as the brand spokesperson in August 2009 in addition to Mr. Chen Dao Ming (陳道明). Through our comprehensive advertising and promotional campaigns, we have further fostered our brand image as an expression of lifestyle.

The Group's advertising and promotional expenses during the period amounted to a total of RMB140,197,000, representing a year-on-year decrease of 2.2 percentage points over the total turnover. The Group aims to maintain the advertising and distribution expenses at 9% to 11% of the total turnover, so as to ensure the brand's feature and philosophy can be effectively conveyed to consumers.

Meanwhile, the Group believes that participation in landmark fashion shows will help enhance brand reputation and uplift our brand image. We were invited to take part in the ''Milan Menswear Show'' (Milano Moda Uomo) and ''Japan Fashion Week in Tokyo'', both of which are major international fashion shows, in 2007 and 2008 respectively. In 2009, our "利郎" brand was awarded the Planning Award of ''2007–2008 China Apparel Brands Annual Awards'' (「2007–2008中國服裝品牌年度大獎」策劃大獎) and our ''利郎LILANZ'' brand was awarded the ''2009 Top 10 Most Influential and Famous Apparel Brands in Asia'' (2009亞洲服裝最具影響力十大馳名品牌).

Design and Product Development

The Group believes that our design is a key to brand success. We produce unique menswear of exquisite simplicity with high-quality tailoring techniques. Through an emphasis on innovative design, the Group endeavors to lead the fashion trends in business casual menswear market in China.

All products of the Group are designed by our internal design and product development team, headed by Mr. Ji Wen Bo. Mr. Ji is recognized as one of China's top ten fashion designers by China Fashion Designers Association, and as the top menswear designer in the nation by China Fashion Week Organizing Committee. Our design and product development team comprise 129 members, of which five members have received design awards in China. The Group launches an average of more than 300 products to the market on a quarterly basis.

A series of high-quality business casual apparels branded under the name of Mr. Ji Wen Bo was launched in the last quarter of 2009.

Production

Some of the apparels of the Group (including suits, jackets, shirts and pants) are produced in our production facilities located in Jinjiang, Jimei, Meiling and Changting, in the Fujian Province. These production facilities occupy a total construction area of approximately 49,115 square meters. As at 31 December, 2009, there are a total of 95 production lines in those production facilities. For the year ended 31 December 2009, the Group's total production output amounted to approximately 2,270,000 pieces of garments. During the same period, the production plants reached an average utilization rate of about 82%.

We outsource to contractors the production of our accessories, products that require special production capabilities, such as leather goods, and certain of our apparel products, especially those that we believe require less special skills and involve less proprietary designs, such as certain sweaters, trousers, T-shirts and some of the suits. All products outsourced are manufactured under LILANZ brand. Currently, the Group employs over 140 contractors. Most of the ten largest contractors have established business relationships with the Group for more than a year.

Furthermore, for a more effective control over production cost, during the year, the Group strived to reduce the number of suppliers of raw materials from 330 as of 31 December 2008 to 222 for the year ended 31 December 2009. The main raw materials used in our products are cotton, wool, polyester and blended fabrics.

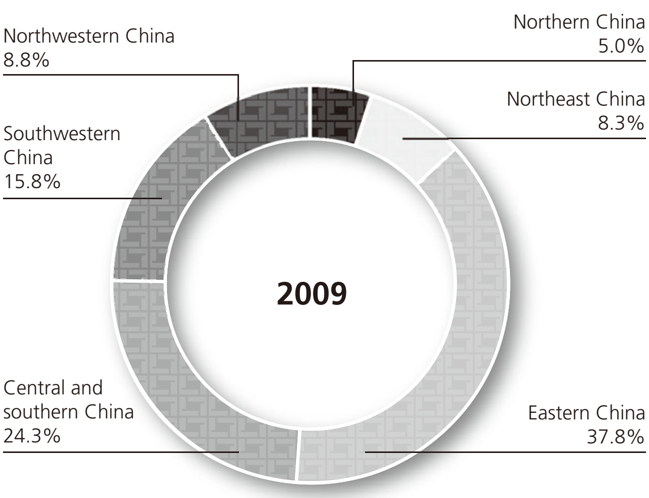
Financial Review

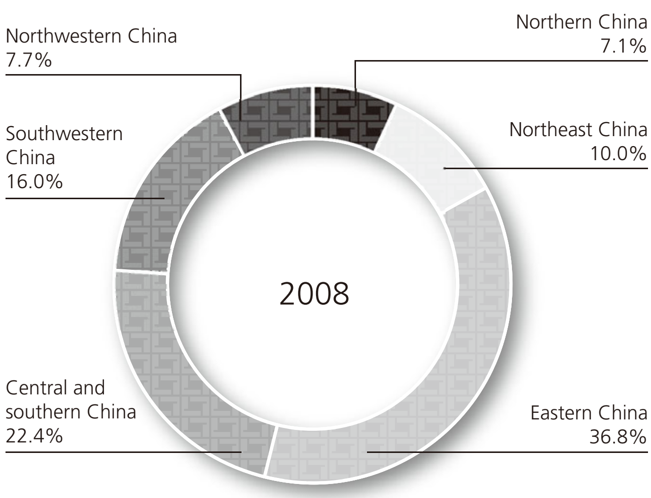
Turnover Breakdown by Region

The following table sets out the contribution to the turnover by region for the financial year.

	Turnover by geographical location, and the corresponding percentage of turnover			
	As of 31 December 2009		As of 31 December 2008	
Geographical location	(in RMB million)	% of turnover	(in RMB million)	% of turnover
Northern China (1)	**77.9**	**5.0**	80.5	7.1
Northeast China (2)	**129.2**	**8.3**	114.2	10.0
Eastern China (3)	**589.9**	**37.8**	417.6	36.8
Central and southern China (4)	**378.4**	**24.3**	254.9	22.4
Southwestern China (5)	**247.1**	**15.8**	181.2	16.0
Northwestern China (6)	**137.4**	**8.8**	87.3	7.7
Total	**1,559.9**	**100.0**	1,135.7	100.0

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

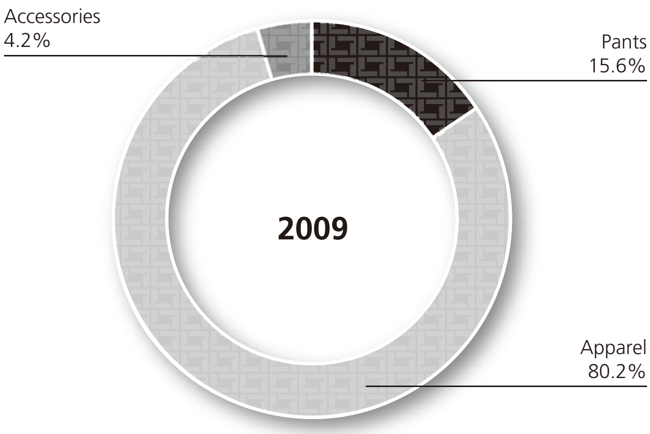


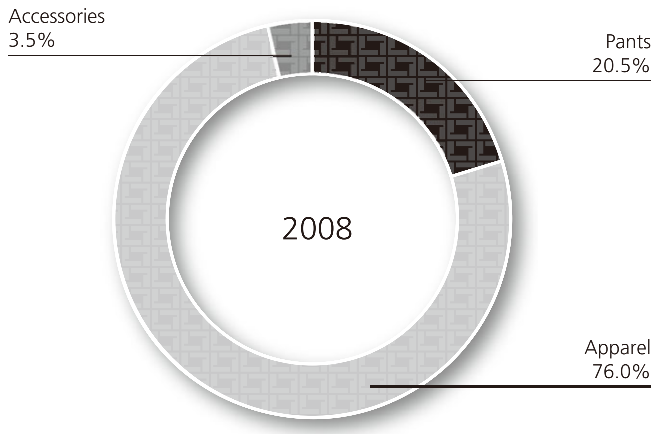


Turnover Breakdown by Product

The following table sets out the contribution to the turnover by product category for the financial year:

	Year ended 31 December				
	2009		2008		
	(RMB million)	% of turnover	(RMB million)	% of turnover	Changes (in %)
Pants	**243.3**	**15.6**	232.8	20.5	4.5
Apparel	**1,251.0**	**80.2**	863.1	76.0	44.9
Accessories	**65.6**	**4.2**	39.8	3.5	64.8
	1,559.9	**100.0**	1,135.7	100.0	37.4





During the financial year, turnover increased by 37.4% as compared with 2008 because of the increase in average selling prices, expansion of the distribution network and the early arrival of winter season in the Mainland in 2009. Number of LILANZ stores and the total sales floor area have been increased and the Group has developed a wide range of product lines to meet the demand of various markets in China.

Cost of Sales Breakdown by Production

The following table sets out the breakdown of the Group's cost of sales by production and the percentage of such costs to the total cost of sales for the financial year:

	Year ended 31 December				
	2009		2008		
	(RMB million)	% of cost of sales	(RMB million)	% of cost of sales	Changes (in %)
Self-production					
Raw materials	**425.2**	**42.2**	369.3	46.6	15.1
Direct labour	**41.8**	**4.1**	52.0	6.6	(19.6)
Overhead	**25.9**	**2.6**	24.9	3.2	4.0
	492.9	**48.9**	446.2	56.4	10.5
Subcontracting arrangement					
Subcontracting charges	**35.6**	**3.5**	13.6	1.7	161.8
	528.5	**52.4**	459.8	58.1	14.9
Outsourced production					
OEM purchases	**480.2**	**47.6**	331.8	41.9	44.7
Total	**1,008.7**	**100.0**	791.6	100.0	27.4

Use of Proceeds

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 25 September 2009 with net proceeds from the global offering of approximately HK$1,081.3 million (after deducting underwriting commissions and related expenses).

Net proceeds from the global offering (HK$ million)

Purposes of net proceeds	Percentage	Amount of net proceeds (in HK$ million)	Already utilised amount (in HK$ million) (As at 31 December 2009)	Remaining amount (in HK$ million) (As at 31 December 2009)
Expansion of product development studio in Shanghai and development of facilities in Xiamen	15%	162.2	**0.3**	**161.9**
The development of sub-brand (L2)	15%	162.2	**4.4**	**157.8**
Lease and refurbishment of the flagship store for operation by distributors	15%	162.2	–	**162.2**
Promotional and brand building activities	20%	216.3	–	**216.3**
Expansion of the production plant in Jinjiang City Technology and Industry Park	5%	54.1	–	**54.1**
The establishment of enterprise resource planning system, development of information technology network and obtainment of the necessary advisory services and system software	10%	108.1	–	**108.1**
Repayment of part of the Group's bank loans	10%	108.1	**108.1**	–
Working capital and other general corporate purposes	10%	108.1	–	**108.1**
	100%	1,081.3	**112.8**	**968.5**

The Directors intend to apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 11 September 2009 ("**Prospectus**").

Gross Profit Margin

The gross profit margin of the Group for 2009 was 35.3%, which is 5 percentage points higher as compared to 30.3% for 2008. The main reason for such increase was due to the increase in our average selling price as a result of the enhancement of our brand image and the provision of increased support and services to the distributors, which in turn contributed to the increase in our ex-factory prices. Increase in consumer's disposable income, demand for menswear products in China and strengthening of brand desirability have contributed significantly to the average increase in our suggested retail prices.

Other revenue

Other revenue for the financial year mainly represented government grants of RMB4.7 million (2008: RMB4.5 million).

Operating Expenses Ratio

The ratio of advertising and promotional expenses to turnover has decreased by 2.2 percentage points for the financial year as management tended to be more prudent on media advertising during the first half of 2009. Relatively, more budget will be reserved for 2010. The ratio of R&D costs to cost of sales remained constant, reflecting our continuous effort on maintaining R&D capabilities and quality control.

Finance Costs
The decrease in finance costs from RMB11.6 million in 2008 to RMB6.4 million in 2009 was mainly due to the decrease of interest expenses resulting from the significant reduction of bank loans as compared to 2008 (2009: RMB1 million; 2008: RMB140 million).

Effective Tax Rate
The effective tax rate increased from 3.4% in 2008 to 8.8% in 2009 mainly because one of our subsidiaries, Lilang (China) Co., Ltd. (利郎(中國)有限公司) has been subject to the PRC enterprise income tax at 12.5% since 1 January, 2009, while it was exempted from the PRC enterprise income tax in 2008.

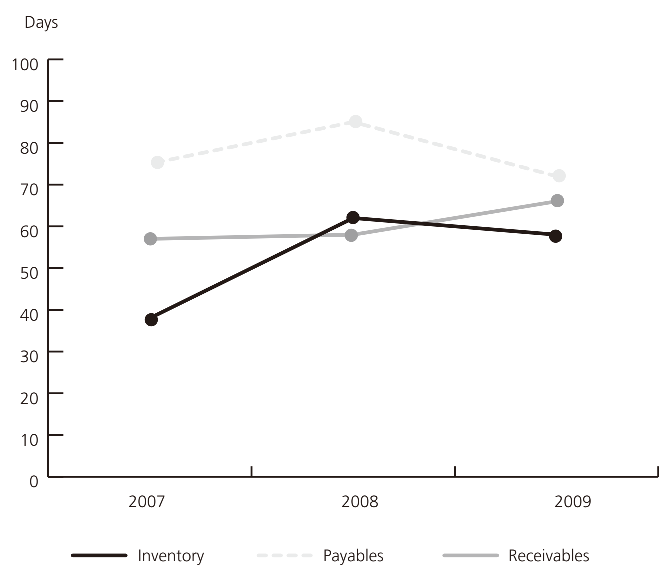
Net Profit Margin
The net profit margin increased by 5.8 percentage points (2009: 19.4%, 2008: 13.6%), which is in line with the increase in gross profit margin.

Dividends
The Board recommend a final dividend of RMB11 cents per ordinary share for the financial year, representing a total payout of RMB132 million, a distribution of approximately 45% of the current year's profit attributable to equity shareholders.

Closure of register of members
In order to determine the entitlement to the proposed final dividend for the year, the register of members will be closed from Monday, 3 May 2010 to Thursday, 6 May 2010 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 30 April 2010 for registration.

Assets/Liabilities Turnover Days
Despite the remarkable growth of turnover and scale of operation, the Group has successfully implemented measures to control the inventory level and credit risk. Both the average inventory and creditor turnover days have further improved, and the average trade receivables turnover days remained at a similar level when compared with 2008.

The average trade and bills payables turnover days decreased from 85 days for 2008 to 72 days for 2009 because the Group accelerated the payment of trade payables so as to obtain preferential terms on mass purchases.



Liquidity and Financial Resources

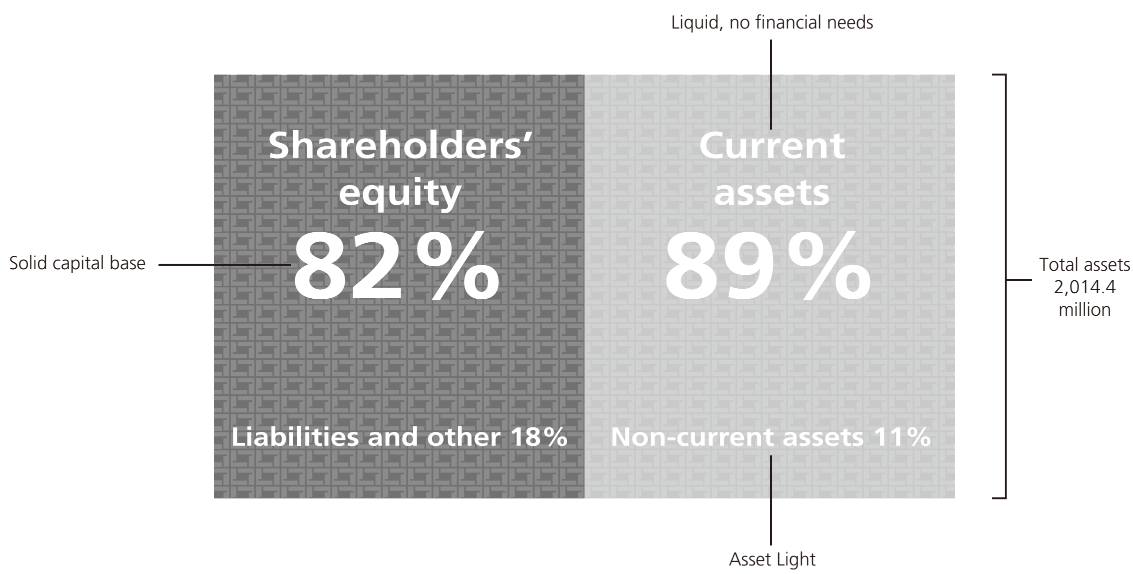
As at 31 December 2009, the cash and cash equivalents of the Group amounted to RMB844.1 million (placement of fixed deposits held at banks with maturity over 3 months totaling RMB308.1 million was regarded as an investing activity in the consolidated cash flow statement), representing an increase of RMB790.5 million as compared with the total cash balance of RMB53.6 million as at 31 December, 2008. However, the total cash and bank balance (including pledged bank deposits and fixed deposits) was significantly increased to RMB1,186.2 million as at 31 December 2009 (2008: RMB95.8 million). This is attributable to:

- Cash inflows from operating activities amounting to RMB387.0 million, representing improved management of working capital and outstanding operating results.

- Cash inflows from financing activities amounting to RMB735.7 million, mainly representing the cash proceeds from issue of shares during the IPO amounting to RMB952.8 million

As at 31 December 2009, total assets of the Group were RMB2,014.4 million of which current assets were RMB1,791.9 million. Total liabilities were RMB372.3 million and total shareholders' equity amounted to RMB1,642.1 million. There were only RMB1 million of outstanding bank loan and our gearing ratio was decreased from 16.2% in 2008 to 0.1% in 2009.

Strong Financial Positions



Pledge of Assets

As at 31 December 2009, deposits with certain banks with a total amount of RMB34.1 million (2008: RMB42.2 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

Contingent Liabilities

As at 31 December 2009, the Group had no significant contingent liabilities.

Financial Management Policies

The Group continues to control financial risks in a prudent manner and proactively adopts internationally recognised corporate management standards to safeguard the interests of shareholders. The functional currency of the Company is the Hong Kong Dollar and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly recognised in equity as a separate reserve. As the Group conducts business transactions principally in Renminbi, the exchange rate risk at the Group's operational level is not significant. Accordingly, the Group does not employ any financial instruments for hedging purposes.

Prospects

With the rapidly growing economy, accelerated urbanization, rising disposable income and changing consumption patterns of increasingly affluent urban consumers in China, the domestic demand for menswear will continue to strengthen in the future. As a leading menswear brand in China, we are very optimistic about the development prospects.

The "simple yet sophisticated" design concept and unique market positioning have provided the Group with opportunities to develop a wide variety of products. In future, we plan to continue to improve and expand our existing product range in order to diversify our product portfolio. We will also strive to expand our customer base, and seek for greater market share. To meet this development goal, the Group is actively preparing the launch of our sub-brand — "L2".

"L2" is a brand which targets young businessmen between the age of 20 and 30, and is designed by a newly built independent design team of the Group, led by Italian designer Mr. Michelangelo Bombino. For a more distinctive brand positioning, the Group has appointed celebrity Mr. Daniel Wu (吳彥祖) as "L2" brand's spokesperson. The Group is planning to present a new "L2" product line in April, 2010.

To diversify product range and a broaden customer profile under the Lilanz brand, the Group will continue to identify opportunities to develop other sub-brands in order to solidify the Group's growth foundation.

At the same time, the Group will further consolidate and expand the distribution network in order to extend the retail business coverage. The Group plans to realize an annual increase of about 300-400 outlets in the next three years, and establish a foothold in first and second tier cities by increasing exposure to the second tier cities and strengthening brand image.

The Group is also committed to improving its operation and production management capability. Through upgrading of its information systems, the Group is in the process of directly linking its production and supply chain management systems. This enables the Group to make production and logistics planning in a more effective manner.

As one of the leading menswear brands in China, the Group intends to capture the enormous market growth opportunities by taking full advantage of its brand recognition and strengthening its competitive edges, while striving for better performance in order to reward shareholders, employees and customers for their support.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

We are firmly committed to compliance of statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Group's stated objective is to enhance its corporate value, focus on the solid growth in net profit and consistently stable cash flow, to ensure the Group's long-term, sustainable development and to achieve sound returns for shareholders. The Group is committed to raising its corporate governance standards and to increase the transparency of its operations. Such objective will be achieved by constantly improving the quality of corporate governance of China Lilang through constant reviews and training for Directors as well as staff and the appointment of external professional advisers.

The Board adopted its own Code of Corporate Governance, which covered all the code provisions and some of the recommended best practices of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company had complied with all the code provisions of the CG Code throughout the year ended 31 December 2009.

Board of Directors

The Group endeavours to enhance corporate efficiency and profitability through the Board. The Directors recognize their collective and individual responsibility to the shareholders and perform their duties diligently to achieve positive results for the Company and to maximize returns for shareholders.

The Board currently comprises seven Executive Directors and three Independent Non-executive Directors, whose biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 28 to 33. Save as disclosed, there is no other material financial, business or relevant relationships among the Directors.

The Board is responsible for governing the Company and managing assets entrusted by the shareholders. The principal responsibilities of the Board include the formulation of the Group's business strategies and management objectives, supervision of the management and evaluation of the effectiveness of management strategies.

Day-to-day management of the Group's businesses is delegated to the Executive Director or officer in charge of each division. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, finances and shareholders including financial statements, dividend policy, significant changes in accounting policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment of the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary. A director should declare his/her interests and abstain from voting in respect of any proposal or transaction discussed by the Board in which he/she is deemed by the Board to have a conflicting interest.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board Meetings and withdraw from voting at the meetings as appropriate. The Company has adopted an internal guideline to seek annual confirmation from Directors in respect of any transactions of the Company or its subsidiaries in which they or their associates may be interested.

Chairman and Chief Executive Officer

The Chairman of the Board, Mr. Wang Dong Xing, is responsible for the overall management of the Board and has significant control on operational decisions of the Group. On the contrary, the Chief Executive Officer, Mr. Wang Liang Xing, is responsible for managing the day-to-day operations of the Group's business. Lilang has kept these roles separated and distinctive as it ensures better checks and balances and hence better corporate governance.

Independence of Independent Non-executive Directors

Independent Non-executive Directors accounted for more than one fourth of the members of the Board. The Independent Non-executive Directors are outstanding executives or experts in the apparel and finance industry who brings with them expertise in different areas. They provide adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. The role of the Independent Non-executive Directors is to provide independent and objective opinions to the Board. All independent Non-executive Directors have submitted a written confirmation of their independence to the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that all of the Independent Non-executive Directors are independent.

Board proceedings

Regular Board meetings are held to discuss the Group's operation, financial performance, corporate governance and future developments. This allows the Group to review and monitor the financial and operating performance and its business units respectively. In order to ensure timely access to discharge their duties, the Board Committees are given at least 14 days prior notice with an agenda that includes supporting papers of not less than 3 days.

Minutes of the Board and the Board Committees' attendance are taken by the Company Secretary and are open for inspection, together with the supporting papers. Draft and final versions of minutes are sent to all Directors for their comment and records, respectively.

The Company held 2 full Board meetings for the year ended 31 December 2009, which were attended by all Directors.

Board meetings will be held on a regular basis with additional meetings convened as and when necessary to determine overall strategic directions, objectives, approve interim, annual results and other significant matters.

Board Committees

To cover particular aspects of the Company's affair and to assist in the execution of its responsibilities, the Board has set up two Committees, namely Audit Committee and Remuneration Committee. The Committees have been structured to include a majority of Independent Non-executive Directors as members in order to reinforce independence. Each of the Committees is governed by its respective terms of reference.

All Committees are provided with sufficient resources to discharge their duties. The Committees report to the Board on a regular basis to discuss significant issues and findings and to provide advice to the Board on particular issues.

Audit Committee

The Company has established an Audit Committee in compliance with Rules 3.21 to 3.23 of the Listing Rules on 12 September, 2008, which comprises three Independent Non-executive Directors, namely Mr. Nie Xing, Dr. Lu Hong Te and Mr. Chen Tien Hui. The Chairman of the Audit Committee is Mr. Nie Xing, whose expertise in financial planning and analysis, management, investment and corporate financing enables him to provide leadership for the Committee.

The principal responsibilities of the Audit Committee are to conduct critical and objective reviews of the Group's financial and accounting practices and internal controls. These include determining the nature and scope of statutory audit, reviewing the Group's interim and annual accounts and assessing the completeness and effectiveness of the Group's accounting and financial controls.

The terms of reference of the Audit Committee are consistent with the provisions of the CG Code.

The Audit Committee did not hold any meeting during the year ended 31 December 2009.

Remuneration Committee

The Company has established a Remuneration Committee in compliance with the CG Code on 12 September 2008, which comprises one Executive Director and two Independent Non-executive Directors, namely Mr. Wang Cong Xing, Mr. Nie Xing and Mr. Chen Tien Tui. Mr. Wong Cong Xing is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure for the Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No director will take part in any discussion on his or her own remuneration. The details of their fees are set out in note 7 of the financial statements.

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board of Directors, market rates and factors such as each director's workload, responsibility, job complexity and the Group's performance are taken into account.

The Remuneration Committee held one meeting with full attendance on 4 September 2009. At the meeting, it reviewed the terms (in particular, the remuneration package) of the appointment letters and service contracts of the Directors and recommended the shareholders of the Company to approve the appointment letters and service contracts. No director was involved in deciding his own remuneration.

Appointment and Re-election of Directors

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent Non-executive Directors.

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to assist in the recruitment and selection process when necessary.

The appointment letters and service contracts of all the Directors were approved at a Board meeting held on 4 September 2009. All Directors participated in the meeting. Each Director had abstained from voting on the respective resolution approving his own appointment letter/service contract.

In accordance with the Company's articles of association, a person may be appointed as a member of the Board at any time either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors and to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the shareholders.

All Independent Non-executive Directors have been appointed for an initial term of two years commencing from 4 September 2009, which shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice expiring at the end of the initial term of their appointment or any time thereafter to the other.

Each of the Directors is given comprehensive training on corporate governance matters and regulatory requirements on securities transactions by directors of listed issuers on appointment to the Board. The Company will continue to provide ongoing training for the Directors to ensure that they would be able to comply with the stringent regulatory requirements. The Company has also established and operated a "securities information" platform that allows Directors to have timely information of the securities market and familiarize themselves with the rules of the securities market, with a view to ongoing enhancement of corporate governance standards.

Financial Reporting

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

Internal Controls

The Board recognizes its responsibility to maintain an appropriate internal control system and to ensure accurate reporting of the Company's state of affairs to shareholders and the public in a timely manner.

The Group's internal control system is designed to enhance operating effectiveness and efficiency, to safeguard assets against misappropriation and unauthorized disposition, to maintain appropriate accounting records and financial reports that are true and fair, and to ensure compliance with relevant laws and regulations. The system aims at providing a reasonable, but not absolute, assurance against material misstatement or loss and managing rather than eliminating operational risks.

The Board, through the Audit Committee, reviewed the internal control system of the Group for the year ended 31 December 2009, which covered all material controls, including controls over financial reporting, operations and compliance, as well as risk management functions, and considered that the system of internal control operations in the Group have been in place and functioning effectively.

Under our framework, the Group's management is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board of Directors and its Audit Committee oversee the actions of the Group's management and monitor the effectiveness of the controls that have been put in place.

External Auditors

KPMG has been appointed as the external auditors of the Company. The Audit Committee is responsible for the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors for the Group. In particular, the Committee will, prior to the execution of contract with the external auditors and the commencement of their duties, consider whether the non-audit functions will result in any potential material conflict of interest.

During the year, the fee payable to KPMG in respect of its statutory audit services provided to the Company was HK$1,380,000.

The Board is satisfied with the audit fees, the performance of KPMG and has recommended their re-appointment as the Company's external auditors at the forthcoming AGM.

Securities Transactions of Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Securities Dealing Code"). A copy of the Securities Dealing Code is provided to all Directors on their appointment. Reminders will be issued to the Directors prior to the respective Board meetings to approve the Company's interim results and annual results to remind the Directors that they are not allowed to deal in the Company's securities during the periods specified in the Securities Dealing Code and that all transactions must comply with the Securities Dealing Code. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year.

Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Securities Dealing Code.

Price-Sensitive Information

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company:

- Is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced as soon as reasonably practicable;

- Conducts its affairs with close regard to the guidelines on disclosure of price-sensitive information issued by the Stock Exchange.

Non-compete undertaking by controlling shareholders

Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International and Ming Lang Investments are the controlling shareholders (within the meaning of the Listing Rules) of the Company ("Controlling Shareholders"). Each of the Controlling Shareholders has confirmed to the Company that none of them is engaged in, or interested in any business (other than our Group) which directly or indirectly competes or may compete with our business. To protect our Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in our favour on 4 September 2009, details of which are set out on P.145 of the Prospectus.

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

(i) our independent Non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;

(ii) we will disclose any decisions on matters reviewed by the independent Non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through our annual report or by way of announcement;

(iii) we will disclose in the corporate governance report of our annual report on how the terms of the non-compete undertaking have been complied with and enforced; and

(iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the non-compete undertaking, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Company's articles of association.

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

Each of the Controlling Shareholders has confirmed to the Company that he/it has complied with the non-compete undertaking. The Independent Non-Executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with.

Investors Relations and Communication

The Board manages investor relations systematically as a key duty as they acknowledge the crucial element of effective communication with its shareholders and investors. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meetings of the Company provide a forum for shareholders to express their concerns directly to the Board.

Our Investor Relations Department communicates with research analysts and institutional investors on an on-going basis and provides them with up-to-date and comprehensive information about the Group's strategies and development.

The Company also issues press releases from time to time throughout the year and responds to requests for information and queries from the investors. Current information on the Company including interim and annual reports, announcements, press releases and presentation materials can be retrieved through our Company's website at www.lilanz.com. Information on the website is updated in a timely manner to ensure timeliness, fairness and transparency of our disclosure. We recognize that not all shareholders and stakeholders have ready access to the internet. For those who do not, hard copies of information listed above are available free of charge upon request to the Company Secretary.

Shareholders

Lilang has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards, as it provides our shareholders and potential investors with the information necessary for them to form their own judgment and to provide feedback to us. We understand that the integrity of the information we provide is essential for building market confidence.

The Board and the Group's senior management recognizes their responsibility to represent the interests of all shareholders and to maximize shareholder value. Therefore, we strongly encourage shareholders to put forward proposals at the general meetings of the Company and provide written notice of such proposals to the Company Secretary at the registered office of the Company. Enquires may be put to the Board by contacting either the Company Secretary through our hotline 852-2526-6968, email at jamesyu@lilanz.com.hk or neonchan@lilanz.com.hk or by raising questions at the general meetings of the Company. Questions on the procedures for convening or putting forward proposals at a general meeting may also be put to the Company Secretary by the same means.

We will continue to review and, where appropriate, improve on our corporate governance practices in light of evolving experience, regulatory requirements and international developments. Corporate Governance is an evolving process. Good corporate governance is a journey, rather than a final destination.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Dong Xing (王冬星先生), aged 49, is the chairman and an executive Director of our Company. He was appointed as an executive Director on 13 June 2008. Mr. Wang has been with our Group since its establishment in April 1995 and is one of the founders of our Group. He is responsible for our Group's overall business development, strategic planning and corporate management. He is also responsible for formulating operation direction, devising annual plan and financial budget and making recommendations on significant investments of our Group to the Board for approval. He completed a diploma programme for chief executive officers of enterprises (企業總裁高級研修班) from the Economics College of Peking University (北京大學經濟學院) in 2004 and is currently attending an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院). He is also a representative of the Quanzhou Municipal People's Congress, Fujian Province (福建省泉州市人民代表大會) and standing vice chairman of the Jinjiang City Sewing and Apparel Association (晉江市紡織服裝協會). Mr. Wang is also vice chairman of the Jinjiang Committee of China Democratic National Construction Association (民主建國會晉江委員會), vice president of the Jinjiang Qingyang Chamber of Commerce (晉江青陽商會理事會), council chairman of the Jinjiang Qingyang Foreign Investment Enterprise Association (晉江青陽外商投資企業協會) and standing committee member of the Jinjiang Chamber of Commerce (晉江市工商聯 (總商會)). Mr. Wang has over 20 years of manufacturing and management experience in the menswear industry in the PRC. From 1995 to 2002, Mr. Wang had been the president and vice chairman of Lilang (Fujian) Garment Co., Ltd. ("Lilang Fujian"). He is currently the chairman and the vice chairman of Lilang Fujian and Lilang (Xiamen) Garment Co., Ltd. ("Lilang Xiamen"), respectively, and is the vice chairman of Lilang (China) Co., Ltd. ("Lilang China"). Since 2007, Mr. Wang has also been the director of Lilang (Hong Kong) International Co., Limited ("Lilang International"). Each of Lilang Fujian, Lilang Xiamen, Lilang China and Lilang International is the wholly-owned subsidiary of the Company. Mr. Wang is the elder brother of Mr. Wang Liang Xing and Mr. Wang Cong Xing, who are also executive Directors of our Company. He is the brother-in-law of Mr. Chen Wei Jin, a member of the senior management of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Wang Liang Xing (王良星先生), aged 47, is the vice chairman, the chief executive officer and an executive Director of our Company. He was appointed as an executive Director on 13 June 2008. He has been with our Group since its establishment in April 1995 and is one of the founders of our Group. Mr. Wang is responsible for our Group's overall business development, strategic planning and corporate management. He is also responsible for the corporate development and the internal management system of our Group and recommending the appointment of senior management to the Board. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006 and is currently attending an EMBA programme organised by Xiamen University (廈門大學). He is also vice chairman of the Garment and Apparel Industry Association of Fujian Province (福建省服裝服飾行業協會), vice-chairman and standing supervisor of the Enterprises Credit Management Association of Quanzhou City (泉州市企業合同信用管理協會第一屆理事會) and a supervisor of the Garment Association of the PRC (中國服裝協會). He was one of 50 persons honoured with a 2005 PRC Enterprises Trademark Award (2005中國企業商標50人). He has over 20 years of manufacturing and management experience in the menswear industry in the PRC. From 1995 to 2002, Mr. Wang had been the chairman and since 2002, the vice chairman and president of Lilang Fujian. He is currently the president and vice chairman of Lilang Fujian, Lilang China and Lilang Xiamen. Since 2007, Mr. Wang has also been the director of Lilang International. Each of Lilang Fujian, Lilang Xiamen, Lilang China and Lilang International is the wholly-owned subsidiary of the Company. Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Cong Xing, the executive Directors of our Company. He is a brother-in-law of Mr. Cai Rong Hua, who is an executive Director of our Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Wang Cong Xing (王聰星先生), aged 41, is the vice chairman and an executive Director of our Company. He was appointed as an executive Director on 2 January 2008. Mr. Wang has been with our Group since its establishment in April 1995 and is one of the founders of our Group. Mr. Wang is responsible for finance, quality control, information technology and product management for our Group. He is also responsible for corporate development and the internal management system of our Group and supervising the implementation of the annual, quarterly and monthly financial plans of our Group. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. He has over 20 years of manufacturing and management experience in the menswear industry in the PRC. From 1995 to 2002, Mr. Wang had been the vice president of Lilang Fujian. Since 2002, Mr. Wang has also been the vice president and vice chairman of Lilang Fujian. He is also currently vice president and vice chairman of Lilang Fujian and Lilang China and chairman and vice president of Lilang Xiamen. Since 2004 and 2007, Mr. Wang has also been the director of Lilang International and Lilang Holdings Limited respectively. Each of Lilang Fujian, Lilang Xiamen, Lilang China, Lilang International and Lilang Holdings is the wholly-owned subsidiary of the Company. Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Liang Xing, who are also executive Directors of our Company. He is also a director and a shareholder of Ming Lang Investments Limited and Xiao Sheng International Limited, which are controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Cai Rong Hua (蔡榮華先生), aged 41, is an executive Director of our Company. He joined our Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for research and development for our Group. He is also responsible for negotiating with the major suppliers of our Group. Mr. Cai completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. He has over 10 years of manufacturing and management experience in the menswear industry in the PRC and is currently vice president of Lilang Fujian, a director and vice president of Lilang China. Each of Lilang Fujian and Lilang China is the wholly-owned subsidiary of the Company. Mr. Cai is the brother-in-law of Mr. Wang Liang Xing, who is an executive Director of our Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Hu Cheng Chu (胡誠初先生), aged 65, is an executive Director of our Company. He joined our Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for brand management, market promotion and public relation for our Group. He is also responsible for appraising the performance of and reviewing the annual and monthly budget of the brand management department of our Group. Mr. Hu completed part-time professional political engineering course and professional administrative management course from Fudan University in 1988 and 1989, respectively, and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院). He was previously the factory manager of the Shanghai Hua Chang Aluminium Factory (上海華昌鋁制廠). He is the vice chairman of the Quanzhou Association of Professional Managers (泉州職業經理人協會). In 2009, Mr. Hu was accredited as the top 10 planner for corporate sales and marketing in the PRC for the year 2007 and 2008 (2007– 2008年中國10大企業營銷策劃人). Since 1998, Mr. Hu has been the director and vice president of Lilang Fujian, a wholly-owned subsidiary of the Company. Mr. Hu is also currently director and vice president of Lilang China and Lilang Xiamen, both being wholly-owned subsidiaries of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Wang Ru Ping (王如平先生), aged 47, is an executive Director of our Company. He joined our Group in April 1995 and was appointed as an executive Director on 13 June 2008. He is responsible for supervising the construction-in-progress and future development of our operational facilities as well as overseeing the maintenance and legal compliance in relation to our operational facilities. Mr. Wang completed a programme on public relations and administrative management from the Faculty of International Economics at the Adult Education College of Huaqiao University (華僑大學成人教育學院) in 2000 and a diploma programme for chief executive officers of enterprises (企業總裁高級研修班) from the Faculty of Economics at Peking University (北京大學) in 2004. He has over 10 years of manufacturing and management experience in the menswear industry in the PRC. Since 1998, Mr. Wang has been the vice president and director of Lilang Fujian, a wholly-owned subsidiary of the Company. He is also currently a vice president and director of Lilang China and Lilang Xiamen, both being wholly-owned subsidiaries of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Pan Rong Bin (潘榮彬先生), aged 36, is an executive Director of our Company. He joined our Group in February 2003 and was appointed as an executive Director on 13 June 2008. He is responsible for daily operations, marketing and distribution for our Group. He is also responsible for devising the annual marketing and distribution plan and annual marketing budget of our Group and supervising the implementation thereof. Mr. Pan completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院), the PRC in 2006. From 2001 to 2005, Mr. Pan was a representative in the Nanping Municipal People's Congress, Fujian Province (福建省南平市人民代表大會). Since 1995 to 2007, he was a member of the Chinese People's Political Consultative Conference of Jianyang City, Fujian Province (中國人民政治協商會議福建省建陽市委員會). He was honoured with the Award for the Model of Labour in Quanzhou City, Fujian Province (福建省泉州市勞動模範) in May 2006. From 1994 to 2007, he was the general manager of Fujian Jianyang Longda Trade and Development Co., Ltd. (福建建陽市隆達貿易發展有限公司). He has over 10 years of retail and sales experience in the menswear industry in the PRC. From 2003 to 2005, he had been the special assistant to the general manager and deputy head of sales and marketing department for Lilang Fujian and from 2005 to 2007, the special assistant to president and the head of sales and marketing department of Lilang China. He is currently vice president of the sales and marketing department for Lilang Fujian and Lilang China. He is also a director and vice president of Lilang Xiamen. Each of Lilang Fujian, Lilang China and Lilang Xiamen is a wholly-owned subsidiary of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Independent non-executive Directors

Dr. Lu Hong Te (呂鴻德博士), aged 49, is an independent non-executive Director of our Company. He joined our Group on 13 June 2008 when he was appointed as an independent non-executive Director. Dr. Lu obtained a bachelor's degree in management from National Cheng Kung University in 1983 and a master's degree and a doctoral degree in business from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively. Dr. Lu is a professor at the department of business administration at Chung Yuan Christian University in Taiwan, specialising in marketing and sales management and corporate competitive strategies. He also serves as a visiting professor at several institutions, including SGP International Management Academy, Nanyang Technological University's EMBA Centre and Xiamen University's EMBA Centre, and serves as a consultant to, among others, the Chinese Association for Industrial Technology Advancement (台灣產業科技發展協進會) and the Taiwan Entrepreneurs Society Taipei/Toronto (加拿大多倫多台商會). He is an independent non-executive director of four companies in Taiwan, namely Everlight Chemical Industrial Corporation (台灣永光化學工業股份有限公司) (stock code: 1711) and Aiptek International Inc. (台灣天瀚科技股份有限公司) (stock code: 6225), the shares of which are listed on the Taiwan Stock Exchange, and Firich Enterprises Co., Ltd. (台灣伍豐科技股份有限公司) (stock code: 8076) and Lanner Electronics Inc. (台灣立端科技股份有限公司) (stock code: 6245), the shares of which are traded in the Gre Tai Securities Market (證券櫃檯買賣中心) in Taiwan. He is also an independent non-executive director of three other companies, namely Capxon International Electronic Company Limited (凱普松國際電子有限公司) (stock code: 469), Anta Sports Products Limited (安踏體育用品有限公司 (Stock code: 2020)) and China SCE Property Holdings Limited (中駿置業控股有限公司 (Stock code: 1966)), the shares of which are listed on the Stock Exchange.

Mr. Chen Tien Tui (陳天堆先生), aged 61, is an independent non-executive Director of our Company. He joined our Group on 13 June 2008 when he was appointed as an independent non-executive Director. Mr. Chen is the chief executive officer and an executive director of Victory City International Holdings Limited (stock code: 539), the shares of which are listed on the Stock Exchange. He has over 29 years experience in the textile industry.

Mr. Nie Xing (聶星先生), aged 45, is an independent non-executive Director of our Company. He joined our Group on 13 June 2008 when he was appointed as an independent non-executive Director. Mr. Nie is a graduate from the Jiangxi University of Finance and Economics (江西財經學院) with a bachelor's degree in economics in 1986 and further obtained a master's degree in business administration from the Open University of Hong Kong (香港公開大學) in December 2000. He is the executive director and vice president of China Green (Holdings) Limited (中國綠色食品(控股)有限公司) (stock code: 904), the shares of which are listed on the Stock Exchange, and is responsible for the financial planning and analysis, management, investment and corporate financing of that group of companies. He is a former independent director of Guomai Technologies, Inc. (國脈科技股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange. He ceased to be the independent director of Guomai Technologies, Inc. in January 2008.

SENIOR MANAGEMENT

Mr. Ji Wen Bo (計文波先生), aged 51, is the chief fashion designer of our Group. He is a senior designer and engineer, having completed a programme in professional craftsmanship and art at Changchun University (長春大學) during the years between 1980 and 1982. In 1998, Mr. Ji was elected as one of the Ten Best Fashion Designers in the PRC and was recognised as the top national menswear designer for 2001, 2002 and 2003 by the organising committee of the China Fashion Week. In 2004, he presented a series of menswear with the theme of Oriental Spirit — Chinese Charisma (東方神韵 — 中國魅力) at the Paris — China Fashion Week (巴黎 — 中國時裝周) during Les Annees Chine — France (中法文化年) and was awarded the Eighth China Fashion Design ''Golden Award'' (金頂獎) by the China Fashion Association (中國服裝設計師協會). Mr. Ji was invited to present his own range of designs during the International Fashion Week of Pusan, Korea (韓國釜山國際時裝周) in 2006 and showcase menswear collections with the theme of ''Lilang — Ji Wen Bo'' (利郎 — 計文波) in the ''Milan Menswear Show'' (Milano Moda Uomo) of Italy in 2007. From 2003 to 2005, Mr. Ji was the general manager and chief fashion designer of Xidelong Fujian Sporting Goods Co., Ltd. (喜得龍福建體育用品有限公司) and the design controller of Fujian Yundun Apparel Co., Ltd. (福建雲敦服飾有限公司). In 2008, Mr. Ji also participated in fashion shows in Japan and Taiwan. Mr. Ji joined our Group as a design consultant of Lilang Fujian on 4 October 2001 and acted as chief fashion designer of Lilang Fujian and Lilang China since January 2007.

Mr. Ji Sheng (季聲先生), aged 54, is the vice president of the administration and human resources department of our Group. He has more than 16 years of experience in human resources management and corporate communication. He completed a leadership training course relating to party administration organised by the Executive Management College (行政管理學院) (previously known as Shanghai Municipal Industrial College of the Chinese Communist Party (中共上海市工業黨校)) in 1987. From August 1993 to May 2009, Mr. Ji had taken up senior management positions in various foreign-invested and domestic corporations in the PRC with management oversight in human resources management and corporate communication. Mr. Ji has been engaged by various consultancy firms and MBA programs of universities in the PRC as trainer and speaker on the topic of human resources knowledge and management skills. Mr. Ji was awarded the ''Best Contribution Award'' by the Antai College of Economics and Management (安泰經濟與管理學院) of Shanghai Jiaotong University (上海交通大學) in 2008 for his contribution as an instructor of its MBA program. Mr. Ji joined our Group on 8 June 2009 as the vice president of the administration and human resources department of Lilang China and is responsible for the human resources management and corporate communication of our Group.

Mr. Yu James (余致力先生), aged 34, is our chief financial officer and company secretary. He has more than ten years of experience in auditing, advisory business services and finance management. Mr. Yu graduated from The California State University with a Bachelor's Degree in Accountancy. He became a member of The American Institute of Certified Public Accountants on 20 October 2001. Prior to joining our Group on 18 August 2008 as our chief financial officer and company secretary, he worked in the Assurance and Advisory Business Services department of Ernst & Young, Certified Public Accountants, and at CLP Holdings Limited and Shenzhou International Group Holdings Limited, both of which are companies listed on the main board of the Stock Exchange.

Mr. Lin Yi-Chieh (林易杰先生), aged 33, is the head of the CEO office of our Group. He obtained a master's degree in business administration from Xiamen University (廈門大學) in 2007 and completed a master programme in business administration at the University of Furtwangen in 2006. From 2002 to 2004, Mr. Lin was the quality control supervisor at Taiwan Qinglu Footwear Company (台灣清祿鞋業有限公司). From 2004 to 2005, Mr. Lin was the office manager of Taiwan Yelian Iron and Steel Company (台灣燁聯鋼鐵有限公司). Mr. Lin joined our Group as the head of the CEO office of Lilang China on 7 June 2007.

Ms. Shi Mei Ya (施美芽小姐), aged 33, is the head of the production department of our Group. She completed a programme in fine chemical engineering at Fujian Radio and TV University (福建廣播電視大學) in 1998 and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. She completed a programme in project management and is currently attending a master programme in business administration for senior mangers (高級經理工商管理碩士) at Xiamen University (廈門大學). Ms. Shi joined our Group on 1 August 1998 and had served as the office clerk, the supervisor of the distribution department, the deputy general manager of the factory for causal wear, the department head of production planning and the head of planning division for the sales and marketing department, the assistant to the head of the sales and marketing department, the head of the production department and the assistant to the president of Lilang Fujian. From 2006 to 2007, Ms. Shi had been the department head of the first division of the product management department (now known as the production department) of Lilang China. From 2007 to 2008, Ms. Shi had been the head of the production department and assistant to the vice president of the production department of Lilang China. Ms. Shi has been the head of production department of Lilang China since November 2008.

Mr. Zhang Yu Feng (章宇峰先生), aged 39, is the head of marketing in the sales and marketing department of our Group. He graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in professional trade and economics in 1992 and completed an EMBA core course from Chung Kong Business School (長江商學院) in 2006. From 1992 to 2007, he had worked in S. C. Johnson & Son, Inc. (美國莊臣父子公司) as sales representative and branch office manager, worked in Coty Inc. (法國科蒂化妝品集團) as regional manager and sales manager in China region, worked in Henkel AG (德國漢高公司) as National Trade Marketing Manager and National Sales Director, worked in Li Ning Company Limited (李寧有限公司) as department head targeting key clients and worked in Puma China (德國彪馬) as regional sales and marketing manager for the eastern, central and western regions. He joined our Group on 27 August 2007 and since then he has been the head of the marketing in the sales and marketing department of Lilang Fujian and Lilang China.

Mr. Zhuang Zhi Han (庄志函先生), aged 40, is the deputy financial officer of our Group. He graduated from Faculty of Accountancy from East China Technology University (華東工業大學) with a bachelor's degree in Economics major in accounting in 1994. He is currently attending a EMBA programme in Xiamen University. From 1994 to August 2008, he has been working in Xiaxin Electronic Stock Company Limited (夏新電子股份有限公司) responsible for financial duties, and he started to oversee the overall financial affairs of the company since 2003. He joined our Group as the deputy financial officer of Lilang China on 1 September 2008.

Mr. Chen Wei Jin, (陳維進先生), aged 40, is the head of the administration department of our Group. He graduated from Zhangzhou Normal University (漳州師範學院) with a professional diploma in administration in July 2000 and completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in February 2006. From 1989 to 2004, he served as the general manager of Jinjiang Weixin Knitters Factory (晉江維信針織廠). From 1996 to 2004, he also worked in the Jinjiang branch office of the China Life Insurance Company Limited (中國人壽保險有限公司晉江支公司) as the general manager of the sales department, where he was recognised as Pioneer of Sales and Marketing (營銷標兵) from 1998 to 2000 and Outstanding Supervisor for the year 2002. He joined our Group on 1 March 2004 as the manager of the group ordering department of Lilang Fujian. He is also the general manager of Wuli Industrial Park of Lilang China, the manager of the group ordering department of Lilang China and the head of the administration department of Lilang China.

Ms. Chen Zhi Mei (陳志梅小姐), aged 28, is the assistant to the vice president of the sales and marketing department of our Group. She completed a programme in law at Xiamen University (廈門大學) in June 2000 and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in February 2006. She joined our Group on 8 June 2001 as the office clerk in Lilang Fujian. From 2002 to 2005, she worked as the office head, customer service specialist, logistics invoice officer, customer service supervisor and secretary to the head of sales and marketing department of Lilang Fujian. From 2005 to 2007, she had worked as the assistant to the vice president of the sales and marketing department of Lilang China and the assistant to the head of Lilang Fujian.

Since 2007, she has worked as the assistant to the vice president of Lilang Fujian and assistant to the vice president of the sales and marketing department of Lilang China.

Mr. Huang Ming Hai (黃明海先生), aged 34, is the assistant to the chief financial officer of our Group. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in February 2006 and is currently attending a programme in financial management at the Adult Education College of Huaqiao University (華僑大學), and is attending an advanced programme in financial leadership development (財務領袖高級研修班課程) at Commerce College of Huaqiao University (華僑大學). He joined our Group on 24 April 1995. From 1995 to 2001, he worked as the tax preparer, invoice management officer and chief accountant in Jinjiang Xiaosheng and Lilang Fujian. From 2001 to 2005, he worked as the general accountant and accounting supervisor in Lilang Fujian. From 2005 to 2007, he worked as the deputy manager of the finance department of Lilang Fujian and the deputy department head of the finance department of Lilang China.

Since 2007, he has worked as the assistant to the chief financial officer of Lilang China.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2009.

Principal Activities

The principal activities of the Group are manufacturing and wholesaling of branded menswear and related accessories in the PRC. The principal activities and other particulars of the subsidiaries are set out in note 14 to the financial statement.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out on page 11 to 14 of the annual report.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and raw materials suppliers respectively during the financial year is as follows:

	2009 Percentage of the group's total		2008 Percentage of the group's total	
	Sales	**Purchases**	Sales	Purchases
The largest customer	**13.4%**		12.7%	
Five largest customers in aggregate	**35.2%**		34.6%	
The largest supplier		**5.0%**		4.6%
Five largest in aggregate		**18.2%**		16.8%

At no time during the year have the Directors, their associates or any shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and raw materials suppliers.

Four-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the latest four financial years is set out on page 6 of the annual report.

Consolidated Financial Statements

The profits of the Group for the year ended 31 December 2009 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 45 to 94 of the annual report.

Transfer to Reserves

Profits attributable to shareholders, before dividends, of RMB302,994,000 (2008: RMB154,132,000) have been transferred to reserves. Other movements in reserves of the Group are set out in note 26 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2009, calculated in accordance with the Companies Law of the Cayman Islands, amounted to RMB974,857,000 (2008: RMB139,329,000), of which RMB132,000,000 has been proposed as final dividend for the year.

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB391,000 (2008: RMB830,000).

Non-Current Assets

Details of acquisitions and other movements of non-current assets (including fixed assets, construction in progress, lease prepayments and intangible assets) are set out in notes 11 to 13 to the consolidated financial statements.

Bank Loans

Particulars of bank loans of the Group as at 31 December 2009 are set out in note 21 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 26 (c) to the consolidated financial statements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules since its listing on 25 September 2009.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company is incorporated.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company's shares have been listed on the Stock Exchange since 25 September 2009. Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 25 September 2009 to 31 December 2009.

Directors

The Directors during the financial year were:

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Wang Ru Ping
Mr. Pan Rong Bin

Independent Non-Executive Directors

Dr. Lu Hong Te
Mr. Chen Tien Tui
Mr. Nie Xing

Details of the Directors' biographies have been set out on pages 28 to 33 of the annual report.

In accordance with article 105(A) of the Company's articles of association, Mr. Wang Cong Xing, Mr. Hu Cheng Chu, Mr. Wang Ru Ping and Mr. Chen Tien Tui will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of 3 years commencing on 4 September 2009, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than six months' written notice expiring at the end of the initial term of their appointment or any time thereafter to the other.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Confirmation of Independence

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-Executive Directors to be independent.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2009, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules ("Model Code"):

Name of shareholder	Capacity/nature of interest	Capacity nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	25.5%
Mr. Wang Liang Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	25.5%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	25.5%
Mr. Cai Rong Hua	The Company	Beneficial owner	7,200,000 shares (L)	0.60%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US$1.00 each (L)	8%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.38%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US$1.00 each (L)	5%
Mr. Wang Ru Ping	The Company	Beneficial owner	2,700,000 shares (L)	0.23%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US$1.00 each (L)	3%
Mr. Pan Rong Bin	The Company	Beneficial owner	2,700,000 shares (L)	0.23%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US$1.00 each (L)	3%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.

2. Xiao Sheng International is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8% by Mr. Cai Rong Hua, 5% by Hu Cheng Chu, 3% by each of Wang Ru Ping and Pan Rong Bin, 2% by Mr. Chen Wei Jin, 1% by each of Mr. Wang Qiao Xing and Ms. Chen Yu Hua and 0.5% by Mr. Xu Tian Min.

Save as disclosed above, as at 31 December 2009, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

Interests and Short Positions of Substantial Shareholders

As at 31 December 2009, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	**Capacity/nature of interest**	**Number and class of securities** (Note 1)	**Approximate percentage of shareholding**
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.13%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	148,500,000 shares (L) (Note 3)	12.38%

Notes:

(1) The letter "L" denotes the person's long position in the shares of our Company.

(2) These shares were held by Xiao Sheng International. Xiao Sheng International is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8% by Mr. Cai Rong Hua, 5% by Hu Cheng Chu, 3% by each of Wang Ru Ping and Pan Rong Bin, 2% by Mr. Chen Wei Jin, 1% by each of Mr. Wang Qiao Xing and Ms. Chen Yu Hua and 0.5% by Mr. Xu Tian Min.

(3) These shares were held by Ming Lang Investments. Ming Lang Investments is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8% by Mr. Cai Rong Hua, 5% by Hu Cheng Chu, 3% by each of Wang Ru Ping and Pan Rong Bin, 2% by Mr. Chen Wei Jin, 1% by each of Mr. Wang Qiao Xing and Ms. Chen Yu Hua and 0.5% by Mr. Xu Tian Min.

Save as disclosed above, as at 31 December 2009, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Continuing Connected Transactions

Certain related party transactions for the year as disclosed in note 29(a) to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Details of such continuing connected transactions (as defined under the Listing Rules) are set out below:

(A) Tenancy Agreements with Jinlang (Fujian) Investments Co., Ltd ("Jinlang Fujian")

Jinlang Fujian is wholly owned by Mr. Wang Dong Xing, Mr. Wang Cong Xing and Mr. Wang Liang Xing, three of our executive Directors. Jinlang Fujian is therefore a connected person of the Company.

The following tenancy agreements were entered into between the Group as lessee and Jinlang Fujian as lessor:

(1) a tenancy agreement ("2008 Tenancy Agreement") dated 26 May 2008 was entered into between both parties for the lease of a piece of land with a site area of approximately 7,418 sq.m. located at Lilang Industrial Park, Nanhuan Road, Qingyang District, Jinjiang City, Fujian Province, together with two industrial buildings erected thereon, with an aggregate gross floor area of approximately 17,095 sq.m. for a term commencing from 1 March 2008 and ending on 31 December 2010. The leased area is used for office, showroom and staff dormitory purposes. The quarterly rent payable by our Group to Jinlang Fujian under the 2008 Tenancy Agreement is RMB329,750 (exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the premises). During the year, approximately RMB1,319,000 had been paid by the Group to Jinlang Fujian pursuant to the 2008 Tenancy Agreement.

(2) a tenancy agreement ("2009 Tenancy Agreement") dated 1 March 2009 was entered into between both parties for the lease of a piece of land with a site area of approximately 2,865 sq.m. located at Lilang Industrial Park, Nanhuan Road, Qingyang District, Jinjiang City, Fujian Province, together with several floors of a buildings erected thereon, with an aggregate gross floor area of approximately 10,972 sq.m. for a term commencing from 1 March 2009 and ending on 31 December 2010. The leased area is used as the offices of our marketing department, production department and our CEO office. The quarterly rent payable by our Group to Jinlang Fujian under the 2009 Tenancy Agreement is RMB213,945 (exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the premises). During the year, approximately RMB713,150 had been paid by the Group to Jinlang Fujian pursuant to the 2009 Tenancy Agreement.

Pursuant to a waiver granted by the Stock Exchange pursuant to Rule 14A.42(3) of the Listing Rules, the leases under the 2008 Tenancy Agreement and 2009 Tenancy Agreement are exempt from compliance with the announcement requirement under Rule 14A.47 of the Listing Rules. Details of the aforesaid waiver are set out in the Company's prospectus dated 11 September 2009. The Directors confirm that the aforesaid continuing connected transactions have been disclosed in accordance with the applicable disclosure requirements of Chapter 14A of the Listing Rules.

The transaction amounts under the 2008 Tenancy Agreement and 2009 Tenancy Agreement for the year have not exceeded the annual cap for these transactions.

(B) Opinion from the independent non-executive directors and auditors on the continuing connected transactions

All the independent non-executive Directors have reviewed the continuing connected transactions and confirmed that these transactions were entered into:

(1) in the ordinary course and usual course of business of the Group;

(2) on normal commercial terms or terms; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors have requested KPMG, the auditors of the Company, to perform certain agreed upon procedures on the continuing connected transactions and have received a confirmation letter from KPMG in accordance with Rule 14A.38 of the Listing Rules.

Directors' Interests in Contracts

Save as disclosed above and in note 29 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Contracts of significance

Save as disclosed in note 29 to the financial statements and in the paragraph headed "Continuing connected transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

Competing Business

None of the Directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year.

Each of Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International and Ming Lang Investments (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 4 September 2009, details of which are set out on P.145 of the Prospectus. The Independent Non-Executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with.

Equity-Settled Share Based Payments

Share Option Schemes

The Company has adopted a pre-initial public offering share option scheme on 12 September 2008 (the "Pre-IPO Share Option Scheme") and a share option scheme on 4 September 2009 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

Pre-IPO Share Option Scheme

Eligible participants of the Pre-IPO Share Option Scheme include (i) any employee (whether full time or part time, including executive directors) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors or proposed non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any advisor (professional or otherwise), consultant, individual or entity who in the opinion of the directors of the Company has contributed or will contribute to the growth and development of the Group and the listing of the shares of the Company on the Stock Exchange; and (iv) any company wholly owned by one or more eligible participants as referred to in (i) to (iii) above.

The offer of a grant of share options under the Pre-IPO Share Option Scheme may be accepted not later than the earlier of 21 days from the date of offer or 4 September 2009, upon payment of a nominal consideration of HK$1 in total by the grantee.

There is no individual limit under the Pre-IPO Share Option Scheme. No further option could be granted under the Pre-IPO Share Option Scheme after 4 September 2009.

On 4 September 2009, the Company granted options to subscribe for an aggregate of 9,611,100 shares of the Company to its senior management and employees at the exercise price of HK$3.12, being 80% of the final offer price under the initial public offering. Details of the options are set out below:

		Options granted by the Company Number of underlying shares						
Name or category of participant	**As at 1 January 2009**	**Granted**	**Cancelled**	**Lapsed**	**As at 31 December 2009**	**Exercise price per share**	**Date of grant**	**Exercise period**
Employees	–	6,540,631	–	–	6,540,631	HK$3.12	4 September 2009	Note 1
Employees	–	423,513	–	–	423,513	HK$3.12	4 September 2009	Note 2
Employees	–	2,646,956	–	–	2,646,956	HK$3.12	4 September 2009	Note 3

Notes:

1. These options are exercisable during the period commencing from the day immediately following the expiry of one year period after 25 September 2009 (the "Listing Date"), and ending on the day falling six years after the Listing Date, during which, (a) up to 30% of the options granted may be exercised on or prior to the end of the second year after the Listing Date; (b) subject to (a), up to 60% of the options granted may be exercised on or prior to the end of the third year after the Listing Date; and (c) subject to (a) and (b), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

2. These options are exercisable by the relevant grantees during the period commencing from the day immediately following the expiry of two year period after the Listing Date, and ending on the day falling seven years after the Listing Date, during which, (a) up to 30% of the options granted may be exercised on or prior to the end of the third year after the Listing Date; (b) subject to (a), up to 60% of the options granted may be exercised on or prior to the end of the fourth year after the Listing Date; and (c) subject to (a) and (b), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

3. These options are exercisable by the grantee during the period commencing from the day immediately following the expiry of three year period after the Listing Date, and ending on the day falling eight years after the Listing Date, during which, (a) up to 30% of the options granted may be exercised on or prior to the end of the fourth year after the Listing Date; (b) subject to (a), up to 60% of the options granted may be exercised on or prior to the end of the fifth year after the Listing Date; and (c) subject to (a) and (b), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

As at the date of approval of these financial statements, the number of shares to be issued upon the exercise of the outstanding options under the Pre-IPO Share Option Scheme is 9,611,100, representing 0.80% of the issued share capital of the Company as at that date.

Share Option Scheme

Eligible participants of the Share Option Scheme include, (i) any employee (whether full time or part time, including any executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly owned by one or more eligible participants as referred to in (i) to (vii) above. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 4 September 2009.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company.

In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

As at the balance sheet date and the date of the approval of these financial statements, the total number of shares which may be issued upon the exercise of all options (excluding for this purpose options which have lapsed) which may be granted under the Share Option Scheme and any share option scheme of the Group must not in aggregate exceed 120,000,000 shares, representing 10% of the shares of the Company in issue as at 25 September 2009 (the Listing Date) and the date hereof.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on 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 the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share option was granted by the Company during the year.

Details of these schemes are set out in note 25 to the financial statements.

Human Resources

The Group participates in a defined contribution retirement benefit scheme which covers the Group's eligible employees in the PRC, and a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 24 to the consolidated financial statements.

As at 31 December 2009, the Group had 3,832 staff. The total staff costs for the year under review amounted to approximately RMB81,256,000 (2008: RMB85,849,000).

The Group places great emphasis on recruiting quality personnel. We recruit talent from universities and technical schools and provide on-going training and development opportunities to our staff members. Our training programmes cover topics such as sales and production, customer service, quality control, sales fairs planning and pre-employment training. We have also provided training on fire protection, workplace ethics and other areas relevant to the industry.

The Group offers competitive remuneration schemes to its employees based on factors such as market rates, individual workload, responsibility, job complexity and the Group's performance. The Group has also adopted a pre-IPO share option scheme and share option scheme to recognise and reward the contribution of the employees of our Group to the growth and development of our Group.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 22 to 27.

Review of results

The Company has established an Audit Committee in compliance with Rules 3.21 to 3.23 of the Listing Rules on 12 September, 2008, which comprises three Independent Non-executive Directors, namely Mr. Nie Xing, Dr. Lu Hong Te and Mr. Chen Tien Tui. The Chairman of the Audit Committee is Mr. Nie Xing. The principal responsibilities of the Audit Committee are to conduct critical and objective reviews of the Group's financial and accounting practices and internal controls. These include determining the nature and scope of statutory audit, reviewing the Group's interim and annual accounts and assessing the completeness and effectiveness of the Group's accounting and financial controls.

The Group's financial statements for the year have been reviewed by the Audit Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

Auditors

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Wang Dong Xing
Chairman

Jinjiang, China, 22 March 2010

Independent Auditor's Report

Independent auditor's report to the shareholders of China Lilang Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Lilang Limited ("the Company") set out on pages 45 to 94, which comprise the consolidated and Company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Turnover	3	**1,559,874**	1,135,684
Cost of sales		**(1,008,738)**	(791,627)
Gross profit		**551,136**	344,057
Other revenue	4	**5,888**	5,868
Selling and distribution expenses		**(165,705)**	(146,469)
Administrative expenses		**(50,232)**	(34,300)
Other operating (expenses)/income		**(2,291)**	1,888
Profit from operations		**338,796**	171,044
Finance costs	5(a)	**(6,387)**	(11,551)
Profit before taxation	5	**332,409**	159,493
Income tax	6(a)	**(29,415)**	(5,361)
Profit attributable to equity shareholders		**302,994**	154,132
Earnings per share	10		
Basic (cents)		**30.87**	17.13
Diluted (cents)		**30.85**	N/A

The notes on pages 52 to 94 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(Expressed in Renminbi)

	2009 RMB'000	2008 RMB'000
Profit for the year	**302,994**	154,132
Other comprehensive income for the year		
Exchange differences on translation of financial statement of subsidiaries outside PRC net of nil tax	**(1,191)**	125
Total comprehensive income for the year	**301,803**	154,257

The notes on pages 52 to 94 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	11	**151,420**	135,823
Investment property	12	**30,963**	30,072
Lease prepayments	13	**39,047**	39,875
Deposits for purchase of fixed assets		**–**	3,615
Deferred tax assets	15(b)	**1,060**	997
		222,490	210,382
Current assets			
Inventories	16	**146,342**	171,487
Trade and other receivables	17	**458,379**	383,748
Amount due from a related company	18	**214**	220
Current tax recoverable	15(a)	**793**	–
Pledged bank deposits	19	**34,065**	42,201
Fixed deposits held at banks with maturity over three months	20	**308,070**	–
Cash and cash equivalents	20	**844,051**	53,567
		1,791,914	651,223
Current liabilities			
Bank loans	21	**1,000**	140,000
Trade and other payables	22	**359,435**	259,419
Amount due to a shareholder	23	**–**	18,471
Current tax payable	15(a)	**11,139**	890
		371,574	418,780
Net current assets		**1,420,340**	232,443
Total assets less current liabilities		**1,642,830**	442,825
Non-current liabilities			
Deferred tax liabilities	15(b)	**–**	1,543
Payables for construction in progress		**726**	1,987
		726	3,530
NET ASSETS		**1,642,104**	439,295

Consolidated Balance Sheet (continued)

At 31 December 2009

(Expressed in Renminbi)

	Note	**2009** **RMB'000**	2008 RMB'000
CAPITAL AND RESERVES			
Share capital	26(c)	**105,731**	176
Reserves		**1,536,373**	439,119
TOTAL EQUITY		**1,642,104**	439,295

Approved and authorised for issue by the board of directors on 22 March 2010

Mr. Wang Dong Xing	**Mr. Wang Liang Xing**	**Mr. Wang Cong Xing**
Chairman	*Chief Executive Officer*	*Executive Director*

The notes on pages 52 to 94 form part of these financial statements.

Balance Sheet

At 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Investments in subsidiaries	14	**139,505**	139,505
Current assets			
Trade and other receivables	17	**3,423**	20,303
Amount due from a subsidiary	18	**502,739**	–
Fixed deposits held at banks with maturity over three months	20	**264,060**	–
Cash and cash equivalents	20	**176,188**	–
		946,410	20,303
Current liabilities			
Trade and other payables	22	**2,304**	–
Amounts due to subsidiaries	18	**2,237**	20,303
		4,541	20,303
Net current assets		**941,869**	–
NET ASSETS		**1,081,374**	139,505
CAPITAL AND RESERVES	26(a)		
Share capital		**105,731**	176
Reserves		**975,643**	139,329
TOTAL EQUITY		**1,081,374**	139,505

Approved and authorised for issue by the board of directors on 22 March 2010

Mr. Wang Dong Xing	**Mr. Wang Liang Xing**	**Mr. Wang Cong Xing**
Chairman	*Chief Executive Officer*	*Executive Director*

The notes on pages 52 to 94 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2008		98	–	14,006	22,122	11	109,336	145,573
Shareholders' contributions		–	–	–	139,465	–	–	139,465
Shares issued on reorganisation	26(c)(ii)	244	139,329	–	–	–	–	139,573
Elimination of paid-up capital on reorganisation	26(c)(ii)	(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 and 1 January 2009		176	139,329	31,764	22,180	136	245,710	439,295
Capitalisation issue	26(c)(iii)	79,123	(79,123)	–	–	–	–	–
Shares issued under placing and public offering, net of issuing expenses	26(c)(iv)	26,432	926,321	–	–	–	–	952,753
Equity settled share-based payments	26(d)(iii)	–	–	–	1,293	–	–	1,293
Dividends declared or approved during the year	26(b)	–	–	–	–	–	(53,040)	(53,040)
Total comprehensive income for the year		–	–	–	–	(1,191)	302,994	301,803
Appropriation to statutory reserve		–	–	32,695	–	–	(32,695)	–
At 31 December 2009		105,731	986,527	64,459	23,473	(1,055)	462,969	1,642,104

The notes on pages 52 to 94 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Expressed in Renmnibi)

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Cash generated from operations	20(b)	**408,620**	45,878
Income tax paid		**(21,565)**	(2,740)
Net cash generated from operating activities		**387,055**	43,138
Investing activities			
Payment for purchase of property, plant and equipment		**(25,124)**	(60,339)
Payment for purchase of investment property		**(554)**	(30,072)
Payment for lease prepayments		**–**	(6,801)
Proceeds from disposal of property, plant and equipment		**473**	215
Decrease in amount due from a shareholder		**–**	1,294
Interest income received		**1,042**	3,538
Placement of fixed deposits held at banks with maturity over three months		**(308,070)**	–
Net cash used in investing activities		**(332,233)**	(92,165)
Financing activities			
Proceeds from bank loans		**250,000**	300,000
Repayment of bank loans		**(389,000)**	(254,500)
(Repayment to)/advances from shareholders		**(18,471)**	29,410
Proceeds from issue of shares, net of issuing expenses	26(a)	**952,753**	–
Payments of expenses relating to the proposed listing		**–**	(20,303)
Interest expense paid		**(6,576)**	(10,532)
Dividend paid	26(b)	**(53,040)**	–
Net cash generated from financing activities		**735,666**	44,075
Net increase/(decrease) in cash		**790,488**	(4,952)
Cash and cash equivalents at 1 January		**53,567**	58,519
Effect of foreign exchange rate changes		**(4)**	–
Cash and cash equivalents at 31 December	20	**844,051**	53,567

The notes on pages 52 to 94 form part of these financial statements.

1 General information

China Lilang Limited ("the Company") was incorporated in the Cayman Islands on 2 January 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as "the Group") are principally engaged in manufacturing and wholesaling of branded menswear and related accessories in the People's Republic of China ("PRC"). Pursuant to a reorganisation ("the Reorganisation"), the Company acquired the equity interests of entities under common control, and became the holding company of the subsidiaries now comprising the Group in the preparation of the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). Details of the Reorganisation are set out in the prospectus of the Company dated 11 September 2009.

The shares of the Company were listed on the Main Board of the Stock Exchange on 25 September 2009.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have 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").

These financial statements also comply with 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.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

(b) Basis of preparation of the financial statements

These financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries.

The consolidated financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical basis.

The preparation of these financial statements 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 statements and major sources of estimation uncertainty are discussed in note 30.

2 Significant accounting policies (continued)

(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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising form intra-group transactions are eliminated in full in preparing the consolidated financial statements. 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)).

(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 2(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 and borrowing costs (see note 2(s)).

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.

2 Significant accounting policies (continued)

(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 2(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 2(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 years.

2 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

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;
- lease prepayments; and
- investment in subsidiaries.

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.

2 Significant accounting policies (continued)

(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 2(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 2(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 and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(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.

2 Significant accounting policies (continued)

(n) Employee benefits (continued)

(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 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, 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.

2 Significant accounting policies (continued)

(o) Income tax (continued)

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) 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.

2 Significant accounting policies (continued)

(q) Revenue recognition (continued)

(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 lives of the asset by way of reduced depreciation expense.

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

(r) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The functional currency of the Company and its subsidiaries outside the PRC is Hong Kong dollars and the functional currency of the subsidiaries in the PRC is Renminbi.

Foreign currency transactions during the year 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 year which approximating 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.

2 Significant accounting policies (continued)

(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 these financial statements, 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.

3 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.

4 Other revenue

	2009 **RMB'000**	2008 RMB'000
Interest income from bank deposits	**1,042**	1,388
Government grants	**4,675**	4,480
Others	**171**	–
	5,888	5,868

5 Profit before taxation

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

		2009 **RMB'000**	2008 RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within one year	**6,109**	11,000
	Bank charges	**278**	551
		6,387	11,551
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**4,990**	11,593
	Salaries, wages and other benefits	**74,973**	74,256
	Share-based compensation	**1,293**	–
		81,256	85,849

5 Profit before taxation (continued)

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

	2009 RMB'000	2008 RMB'000
(c) Other items:		
Amortisation of lease prepayments	**828**	694
Auditors' remuneration	**1,465**	57
Cost of inventories (note (i))	**1,008,738**	791,627
Depreciation	**10,977**	6,081
Fair rental value of free properties occupied by the Group granted by shareholders	**–**	43
Loss/(gain) on disposal of property, plant and equipment	**112**	(3,081)
Operating lease rental in respect of properties	**5,989**	2,843
Research and development costs (notes (i) and (ii))	**7,453**	6,728
Subcontracting charges (note (i))	**35,617**	13,602

Notes:

(i) Cost of inventories sold includes research and development costs and subcontracting charges as disclosed above.

(ii) Research and development costs include staff costs of employees in the design, research and development department of RMB6,186,000 (2008: RMB5,285,000) for the year ended 31 December 2009 which are also included in the total staff costs as disclosed in note 5(b).

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2009 RMB'000	2008 RMB'000
Current tax		
Provision for PRC income tax for the year	**31,014**	2,652
Under-provision for PRC income tax in respect of prior year	**7**	–
	31,021	2,652
PRC Land Appreciation Tax	**–**	978
	31,021	3,630
Deferred tax		
Origination and reversal of temporary differences (notes 15(b))	**(1,606)**	1,731
	29,415	5,361

6 Income tax in the consolidated income statement (continued)

(a) Taxation in the consolidated income statement represents: (continued)

Notes:

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

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the year ended 31 December 2009 and 2008.

(iii) PRC income tax
Pursuant to the income tax rules and regulations of the PRC, provision for PRC income tax of the Group is calculated based on the following rates:

	2009	2008
Lilang (Fujian) Garment Co., Ltd ("Lilang Fujian")	**25%**	25%
Lilang (China) Co., Ltd ("Lilang China") (note 1)	**12.5%**	0%
Lilang (Xiamen) Garment Co., Ltd ("Lilang Xiamen") (notes (1) and (2))	**0%**	0%
Lilang (Shanghai) Co., Ltd ("Lilang Shanghai")	**25%**	N/A

Notes:

(1) These subsidiaries are 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 profits for the subsequent three years are taxed at 50% of the applicable taxes (the "tax holiday"). During the year ended 31 December 2009, Lilang China and Lilang Xiamen are in the third year and second year of their tax holiday respectively.

(2) Lilang Xiamen was established in the Xiamen Special Economic Zone and was entitled to a preferential tax rate of 15%. 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 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) Land Appreciation Tax ("LAT")
Pursuant to relevant rules and regulations in the PRC, such income from the sale or transfer of land use rights is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value determined based 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, 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 (Hong Kong) International Co., Limited will be subject to a 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits earned since 1 January 2008.

6 Income tax in the consolidated income statement (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2009 RMB'000	2008 RMB'000
Profit before taxation	**332,409**	159,493
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**84,458**	40,271
Tax effect of non-deductible expenses	**2,824**	2,000
Tax effect of non-taxable income	**(113)**	(105)
Effect of tax concessions	**(57,761)**	(41,978)
Under-provision in prior year	**7**	–
Land Appreciation Tax	**–**	978
Tax effect of Land Appreciation Tax	**–**	(245)
Tax effect of undistributed profits of PRC subsidiaries (note 15(b))	**–**	4,440
Actual tax expense	**29,415**	5,361

7 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2009

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
Wang Dong Xing	–	485	8	88	581
Wang Liang Xing	–	594	8	110	712
Wang Cong Xing	–	376	8	66	450
Cai Rong Hua	–	271	8	44	323
Hu Cheng Chu	–	268	7	44	319
Wang Ru Ping	–	270	8	44	322
Pan Rong Bin	–	231	8	61	300
Independent non-executive directors					
Lu Hong Tei	50	–	–	–	50
Chen Tien Tui	50	–	–	–	50
Nie Xing	50	–	–	–	50
Total	150	2,495	55	457	3,157

7 Directors' remuneration (continued)

Year ended 31 December 2008

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total 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

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 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 year.

8 Individual with highest emoluments

Of the five individuals with the highest emoluments, two (2008: one) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining three (2008: four) individuals are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	**1,823**	2,027
Discretionary bonuses	**325**	584
Contributions to retirement benefit scheme	**18**	38
Share-based compensation	**276**	–
	2,442	2,649

8 Individual with highest emoluments (continued)

The emoluments of the three (2008: four) individuals with the highest emoluments are within the following bands:

	2009 **_Number of individuals_**	2008 _Number of individuals_
Nil to RMB1,000,000	**2**	4
RMB1,000,001 to RMB2,000,000	**1**	–

9 Profit attributable to shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB11,202,000 (2008: RMB Nil) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2009 **RMB'000**
Amount of loss attributable to equity shareholders dealt with in the Company's financial statements	**(11,202)**
Final dividends from subsidiary attributable to the profits of the previous financial years, approved and paid during the year	**53,040**
Company's profit for the year (note 26(a))	**41,838**

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB302,994,000 (2008: RMB154,132,000) and the weighted average number of shares in issue during the year of 981,370,000 (2008: 900,000,000). The weighted average number of shares in issue during the years ended 31 December 2008 and 2009 is based on the assumption that 900,000,000 shares were in issue as if the shares issued at the date the Company became the holding company of the Group were outstanding throughout the entire period presented.

Weighted average number of ordinary shares

	2009 **'000**	2008 '000
Capitalisation upon legal establishment	**900,000**	900,000
Effect of shares issued upon placing and public offering on 25 September 2009	**81,370**	–
Weighted average number of ordinary shares	**981,370**	900,000

10 Earnings per share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to ordinary equity shareholders of the Company of RMB302,994,000 and the weighted average number of ordinary shares of 982,066,000, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2009 **'000**
Weighted average number of ordinary shares	**981,370**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 25)	**696**
Weighted average number of ordinary shares (diluted)	**982,066**

No disclosure of diluted earnings per share for the year ended 31 December 2008 has been made as there were no potential dilutive shares outstanding during the year.

11 Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Sub-total RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:									
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	342	1,490	7,182	279	5,356	1,007	15,656	11,273	26,929
Transfer from construction in progress	19,979	3,530	1,974	–	3,360	–	28,843	(28,843)	–
Disposals	(43)	–	(693)	(245)	(114)	–	(1,095)	–	(1,095)
Exchange adjustment	–	(3)	–	–	–	–	(3)	–	(3)
At 31 December 2009	100,655	12,492	35,258	3,199	15,242	3,407	170,253	2,444	172,697
Accumulated depreciation:									
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 year	2,283	2,243	3,165	177	2,339	538	10,745	–	10,745
Written back on disposals	(1)	–	(235)	(210)	(64)	–	(510)	–	(510)
Exchange adjustment	–	(1)	–	–	–	–	(1)	–	(1)
At 31 December 2009	4,222	3,143	8,400	845	3,788	879	21,277	–	21,277
Net book value:									
At 31 December 2009	96,433	9,349	26,858	2,354	11,454	2,528	148,976	2,444	151,420
At 31 December 2008	78,437	6,574	21,325	2,287	5,127	2,059	115,809	20,014	135,823

11 Property, plant and equipment (continued)

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

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

(c) A surplus of approximately RMB491,000 arising as a result of an independent valuation of the Group's property as at 30 June 2009 carried out by Jones Lang LaSalle Sallmanns Limited have not been incorporated in the Group's consolidated financial statements for the year ended 31 December 2009. It is the Group's policy to state its property, plant and equipment at cost less accumulated depreciation and impairment loss in accordance with IAS 16, Property, plant and equipment issued by the IASB. If such revaluation surplus was included in the Group's consolidated financial statements, additional annual depreciation charges of approximately RMB12,000 would be incurred.

12 Investment property

	2009 **RMB'000**	2008 RMB'000
Cost:		
At 1 January	**30,072**	–
Additions	**1,123**	30,072
At 31 December	**31,195**	30,072
Accumulated depreciation:		
At 1 January	**–**	–
Charge for the year	**232**	–
At 31 December	**232**	–
Net book value:		
At 31 December	**30,963**	30,072

The fair value of the investment property as at 31 December 2009, as determined 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 RMB35,973,000 assuming that the building ownership certificates have been obtained and the property could be freely transferred. 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 31 December 2009. The directors of the Company are of the opinion that Lilang China will be able to obtain the relevant ownership certificates by the end of 2010.

13 Lease prepayments

	2009 RMB'000	2008 RMB'000
Cost:		
At 1 January	**40,848**	14,758
Additions	**–**	27,213
Disposals	**–**	(1,123)
At 31 December	**40,848**	40,848
Accumulated amortisation:		
At 1 January	**973**	401
Charge for the year	**828**	694
Written back on disposals	**–**	(122)
At 31 December	**1,801**	973
Net book value:		
At 31 December	**39,047**	39,875

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2009, the remaining period of the land use rights ranges from 46 to 48 years.

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. The contingent consideration is payable if Lilang Xiamen could not meet certain criteria as set out in the acquisition agreement. The directors of the Company are of the opinion that Lilang Xiamen's fulfillment of such criteria is not probable, and therefore, the additional contingent consideration has been provided for in the financial statements.

14 Investments in subsidiaries

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**139,505**	139,505

Details of the subsidiaries are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operation	Particular of issued and fully paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Lilang Holdings Limited ("Lilang Holdings")	BVI	US$20,000	100%	100%	–	Investment holding
Lilang (Hong Kong) International Co., Limited ("Lilang International")	Hong Kong	HK$20,000	100%	–	100%	Investment holding
Lilang (Fujian) Garment Co., Ltd. ("Lilang Fujian")	The PRC	HK$20,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (China) Co., Ltd. ("Lilang China")	The PRC	HK$300,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (Xiamen) Garment Co., Ltd. ("Lilang Xiamen")	The PRC	US$30,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (Shanghai) Co., Ltd. ("Lilang Shanghai") (note (b))	The PRC	HK$Nil	100%	–	100%	Not yet commenced business

Notes:

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

(b) Registered capital of Lilang Shanghai is HK$200,000,000 which was yet to be contributed by the Group at 31 December 2009. The Group is required to contribute the registered capital of Lilang Shanghai on or before 30 November 2011.

15 Income tax in the consolidated balance sheet

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

	2009 RMB'000	2008 RMB'000
Provision for PRC income tax	**31,014**	2,652
PRC income tax paid	**(20,668)**	(1,762)
	10,346	890
Representing:		
Current tax recoverable	**(793)**	–
Current tax payable	**11,139**	890
	10,346	890

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

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

(i) The Group

	Depreciation allowances less than/ (in excess of) depreciation charges RMB'000	**Accrued expenses** RMB'000	**Others** RMB'000	**Undistributed profits of PRC subsidiaries** RMB'000	**Total** RMB'000
Deferred tax asset/(liability) arising from:					
At 1 January 2008	46	1,417	(278)	–	1,185
(Charged)/credited to profit or loss (note 6(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 6(a))	(42)	769	(40)	919	1,606
At 31 December 2009	(15)	4,596	–	(3,521)	1,060

15 Income tax in the consolidated balance sheet (continued)

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

(ii) Reconciliation to the consolidated balance sheet

	The Group	
	2009	2008
	RMB'000	RMB'000
Net deferred tax assets	**1,060**	997
Net deferred tax liabilities	–	(1,543)
	1,060	(546)

(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 2009, deferred tax liabilities of RMB18,236,000 (2008: RMB3,552,000) in respect of temporary differences relating to such undistributed profits of RMB364,726,000 (2008: RMB71,031,000) 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 2009 and 2008.

16 Inventories

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**19,797**	18,368
Finished goods	**126,545**	153,119
	146,342	171,487

16 Inventories (continued)

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

	The Group 2009 RMB'000	2008 RMB'000
Cost of inventories sold	**1,005,653**	789,473
Write-down of inventories	**3,085**	2,154
	1,008,738	791,627

17 Trade and other receivables

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Trade receivables	**406,603**	249,732	**–**	–
Bills receivable	**–**	1,560	**–**	–
	406,603	251,292	**–**	–
Prepayments to suppliers	**38,264**	98,811	**–**	–
Prepaid advertising expenses and renovation subsidies	**4,006**	4,083	**–**	–
VAT recoverable	**–**	3,408	**–**	–
Other deposits, prepayments and receivables	**9,506**	26,154	**3,423**	20,303
	458,379	383,748	**3,423**	20,303

(a) Ageing analysis

An ageing analysis of the trade and bills receivables is as follows:

	The Group 2009 RMB'000	2008 RMB'000
Within 3 months	**373,992**	210,956
3 months to 6 months	**32,076**	28,916
6 months to 1 year	**535**	11,420
	406,603	251,292

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 27(a).

17 Trade and other receivables (continued)

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the prospect of recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 2(h)(i)). At 31 December 2009 and 2008, the Group did not record any impairment losses in respect of trade and bills receivables.

(c) Trade and bills receivables that are not impaired

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Neither past due nor impaired	**393,064**	207,761
Less than 1 month past due	**11,524**	22,674
1 to 3 months past due	**2,002**	18,826
More than 3 months past due	**13**	2,031
	13,539	43,531
	406,603	251,292

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.

18 Amounts due from/(to) subsidiaries and a related company

The balances are of non-trade nature, unsecured, interest free and expected to be recovered within one year.

19 Pledged bank deposits

Bank deposits have been pledged as security for bills payable (see note 22). The pledged bank deposits will be released upon the settlement of relevant bills payable.

20 Cash and cash equivalents and fixed deposits held at banks

(a) Cash and cash equivalents and fixed deposits held at banks comprise:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks within three months to maturity when placed	**224,755**	–	**–**	–
Cash at bank and in hand	**619,296**	53,567	**176,188**	–
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**844,051**	53,567	**176,188**	–
Deposits with banks with more than three months to maturity when placed	**308,070**	–	**264,060**	–
	1,152,121	53,567	**440,248**	–

At 31 December 2009, deposits placed with banks in the PRC amounted to RMB565,895,000 (2008: RMB53,453,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2009**	2008
		RMB'000	RMB'000
Profit before taxation		**332,409**	159,493
Adjustments for:			
– Depreciation	5(c)	**10,977**	6,081
– Amortisation of lease prepayments	5(c)	**828**	694
– Fair rental value of free factory spaces provided by a shareholder	26(d)(iii)	**–**	43
– Equity-settled share-based payment expenses	5(b)	**1,293**	–
– Loss/(gain) on disposal of property, plant and equipment	5(c)	**112**	(3,081)
– Interest expense		**6,109**	11,000
– Interest income		**(1,042)**	(1,388)
Changes in working capital:			
– Decrease/(increase) in inventories		**25,145**	(75,454)
– Increase in trade and other receivables		**(74,631)**	(60,261)
– Decrease/(increase) in amounts due from a related company		**6**	(220)
– Decrease in pledged bank deposits		**8,136**	11,808
– Increase/(decrease) in trade and other payables		**100,463**	(2,962)
– Foreign exchange (gain)/loss		**(1,185)**	125
Cash generated from operations		**408,620**	45,878

21 Bank loans

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

As at 31 December 2009, bank loans of RMB1,000,000 (2008: RMB140,000,000) were secured by corporate guarantees granted by subsidiaries of the Group.

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Facility amount	**818,000**	383,000
Utilised facility amount in respect of:		
– Bank loans	**1,000**	140,000
– Bills payable (note 22)	**113,550**	140,670
	114,550	280,670

22 Trade and other payables

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**133,612**	51,146	**–**	–
Bills payable (note (a))	**113,550**	140,670	**–**	–
Trade and bills payables (note (b))	**247,162**	191,816	**–**	–
Receipts in advance	**26,816**	23,350	**–**	–
Accrued salaries and wages	**10,830**	7,374	**–**	–
Payables for purchase of fixed assets	**6,871**	6,861	**–**	–
Deferred income	**–**	300	**–**	–
Retirement benefit contribution payable	**25,237**	21,651	**–**	–
VAT payables	**15,245**	–	**–**	–
Other payables and accruals	**27,274**	8,067	**2,304**	–
	359,435	259,419	**2,304**	–

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

(a) Bills payable as at 31 December 2008 and 2009 were secured by pledged bank deposits as disclosed in note 19.

22 Trade and other payables (continued)

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 3 months	**218,414**	137,818
3 months to 6 months	**21,372**	50,330
6 months to 1 year	**3,593**	2,685
Over 1 year	**3,783**	983
	247,162	191,816

23 Amount due to a shareholder

The amount due to a shareholder at 31 December 2008 was non-trade related, unsecured, interest-free and had no fixed repayment terms. The whole amount was settled during 2009.

24 Employee retirement benefits

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authorities in the Fujian province whereby these PRC subsidiaries are 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

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the Prospectus, which were adopted on 12 September 2008 and 4 September 2009, respectively, 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 120,000,000 shares. The Pre-IPO Share Option Scheme and the Share Option Scheme shall be valid and effective for a period of 10 years ending on 11 September 2018 and 3 September 2019, respectively after which no further options will be granted.

25 Equity settled share-based transactions (continued)

The exercise price of options under Pre-IPO Share Option Scheme is HK$3.12 being 20% discount to the initial public offering price of HK$3.90.

The exercise price of options under the Share Option Scheme shall 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 daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day;

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

(iii) the nominal value of a share.

(a) The terms and conditions of the grants that existed during the years are as follows:

(i) Pre-IPO Share Option Scheme

	Number of instrument	Exercise conditions	Contractual life of options
Options granted to employees:			
– on 4 September 2009	6,540,631	One year from the date of listing of the Company's shares	6 years
– on 4 September 2009	423,513	Two years from the date of listing of the Company's shares	7 years
– on 4 September 2009	2,646,956	Three years from the date of listing of the Company's shares	8 years
	9,611,100		

(ii) Share Option Scheme

At 31 December 2009, no options were granted under Share Option Scheme.

(Expressed in Renminbi)

25 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise price of share options are as follows:

	2009		2008	
	Exercise price	***Number of options***	*Exercise price*	*Number of options*
Outstanding at 1 January	**–**	**–**	–	–
Granted during the year	**HK$ 3.12**	**9,611,100**	–	–
Outstanding at 31 December	**HK$ 3.12**	**9,611,100**	–	–
Exercisable at 31 December	**–**	**–**	–	–

No share options were exercised during the year.

The share options outstanding at 31 December 2009 had an exercise price of HK$3.12 and a weighted average remaining contractual life of 6.3 years.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options is measured by reference to the fair value of share options. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

	2009
Fair value at measurement date	**HK$1.13**
Share price	**HK$3.90**
Exercise price	**HK$3.12**
Expected volatility	**54.17% – 54.24%**
Expected option life	**5 years**
Expected dividends	**4.58%**
Risk-free interest rate	**2.01% – 2.28%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

26 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of change in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set below:

The Company

	Note	Share capital RMB'000	Share premium (Note 26(d)(i)) RMB'000	Exchange reserve (Note 26(d)(iv)) RMB'000	Capital reserve (Note 26(d)(iii)) RMB'000	Accumulated loss RMB'000	Total reserve RMB'000
At 2 January 2008 (date of incorporation)		88	–	–	–	–	88
Shares issued for reorganisation	26(c)(ii)	88	139,329	–	–	–	139,417
Total comprehensive income for the year		–	–	–	–	–	–
At 31 December 2008 and 1 January 2009		176	139,329	–	–	–	139,505
Capitalisation issue	26(c)(iii)	79,123	(79,123)	–	–	–	–
Shares issued under placing and public offering, net of issuing expenses	26(c)(iv)	26,432	926,321	–	–	–	952,753
Equity settled share-based payments		–	–	–	1,293	–	1,293
Dividends declared or approved during the year	26(b)	–	–	–	–	(53,040)	(53,040)
Total comprehensive income for the year		–	–	(975)	–	41,838	40,863
At 31 December 2009		105,731	986,527	(975)	1,293	(11,202)	1,081,374

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2009 RMB'000	2008 RMB'000
Dividends declared and paid during the year	**53,040**	–
Dividend proposed after the balance sheet date of RMB11 cents per share	**132,000**	–
	185,040	–

Dividends declared and paid during the year represent dividends declared prior to listing of the Company. The rate of dividend per share is not presented for these dividends as it is not indicative of the rate at which future dividends will be declared.

The dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

26 Capital, reserves and dividends (continued)

(c) Share capital

Movements in the Company's authorised share capital are as follows:

	Note	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000
Authorised:				
At 2 January 2008	(i)	0.10	2,000	200
At 31 December 2008 and 1 January 2009	(i)	0.10	2,000	200
Increase in share capital on 4 September 2009	(i)	0.10	99,998,000	9,999,800
At 31 December 2009	(i)	0.10	100,000,000	10,000,000

	Note	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000	RMB'000
Issued and fully paid:					
At 2 January 2008	(ii)	0.10	1,000	100	88
Issue of shares for reorganisation	(ii)	0.10	1,000	100	88
At 31 December 2008 and 1 January 2009	(ii)	0.10	2,000	200	176
Capitalisation issue	(iii)	0.10	898,000	89,800	79,123
Issues of shares under placing and public offering	(iv)	0.10	300,000	30,000	26,432
At 31 December 2009		0.10	1,200,000	120,000	105,731

26 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(i) Authorised share capital

The Company was incorporated on 2 January 2008 with an authorised share capital of HK$200,000 divided into 2,000,000 shares of HK$0.10 each. On 4 September 2009, the authorised share capital of the Company was increased to HK$10,000 million by the creation of an additional 99,998 million shares of HK$0.10 each.

(ii) Capitalisation upon incorporation/reorganisation

The Company was incorporated on 2 January 2008 with an issued capital of 1,000,000 shares at HK$0.10 per share which were issued at nil consideration to its then shareholders. On 12 September 2008, the Company allotted and issued 1,000,000 shares with par value of HK$0.1 each as a consideration to purchase the entire issued share capital of Lilang Holdings and for full settlement of RMB139,422,000 owed by Lilang International to the shareholders.

(iii) Capitalisation issue

Pursuant to the written resolution on 4 September 2009, the Company additionally allotted and issued 898,000,000 shares of HK$0.10 each to the then existing shareholders of the Company. This resolution was conditional on the share premium account being credited as a result of the Company's public offering and pursuant to this resolution, a sum of RMB79,123,000 standing to the credit of the share premium account was subsequently applied in paying up this capitalisation in full.

(iv) Issue of shares under placing and public offering

On 25 September 2009, the Company issued 300,000,000 shares with a par value of HK$0.10 each, at a price of HK$3.9 per share by way of a global initial public offering to Hong Kong and overseas investors ("the Offering"). Net proceeds from the Offering amounted to RMB952,753,000 (after offsetting listing expenses of RMB78,133,000), out of which RMB26,432,000 and RMB926,321,000 were recorded in share capital and share premium respectively.

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) 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.

26 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(iii) Capital reserve

The capital reserve comprises the following:

(i) Fair rental value of properties owned by the shareholders but occupied by the Group in 2008 free of charge amounting to RMB43,000.

(ii) Capitalisation of a loan from shareholders amounting to RMB139,422,000 in 2008.

(iii) The portion of the grant date fair value of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for the share-based payments in note 2(n).

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 2(r).

(e) Distributability of reserves

At 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB974,857,000 (2008: RMB139,329,000). After the balance sheet date the directors proposed a final dividend of RMB11 cents per ordinary share, amounting to RMB132,000,000. This dividend has not been recognised as a liability at the balance sheet date.

(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 in order 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 payable and loan from a third party) as shown in the consolidated balance sheet 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 sheet, plus long term loan from shareholders and net debt.

26 Capital, reserves and dividends (continued)

(f) Capital risk management (continued)

The adjusted net debt-to-capital ratios at 31 December 2008 and 2009 were as follows:

		The Group		The Company	
		2009	**2008**	**2009**	**2008**
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Bank loans	21	**1,000**	140,000	**–**	–
Bills payable	22	**113,550**	140,670	**–**	–
Total debts		**114,550**	280,670	**–**	–
Add: Proposed dividends		**132,000**	–	**132,000**	–
Less: Pledged bank deposits	19	**(34,065)**	(42,201)	**–**	–
Fixed deposits held at banks with maturity over three months	20	**(308,070)**	–	**(264,060)**	–
Cash and cash equivalents	20	**(844,051)**	(53,567)	**(176,188)**	–
Adjusted net (funds)/debt		**(939,636)**	184,902	**(308,248)**	–
Total capital		**1,642,104**	439,295	**1,081,374**	139,505
Less: Proposed dividends		**(132,000)**	–	**(132,000)**	–
Adjusted capital		**1,510,104**	439,295	**949,374**	139,505
Adjusted net debt-to capital ratio		**N/A**	42%	**N/A**	N/A

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

27 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 deposits with bank and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 to 180 days from the date of billing. Normally, the Group obtains deposits from customers prior to delivery of goods.

At the balance sheet date, the Group has concentration of credit risk as the trade receivables from the five largest customers represented 27.0% (2008: 24.7%) of the total trade receivables, while 13.5% (2008: 12.2%) of the total trade receivables were due from the largest single customer.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(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 remaining contractual settlement dates of the Group's and the Company's financial liabilities at the balance sheet date, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, base on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

27 Financial risk management and fair value (continued)

(b) Liquidity risk (continued)

The Group

	2009				2008			
	Contractual undiscounted cash outflow				Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	1,006	–	1,006	1,000	144,990	–	144,990	140,000
Trade and other payables	359,435	–	359,435	359,435	259,419	–	259,419	259,419
Amount due to a related party	–	–	–	–	18,471	–	18,471	18,471
Payables for construction in progress	–	726	726	726	–	1,987	1,987	1,987
	360,441	726	361,167	361,161	422,880	1,987	424,867	419,877

The Company

	2009				2008			
	Contractual undiscounted cash outflow				Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables	2,304	–	2,304	2,304	–	–	–	–
Amounts due to subsidiaries	2,237	–	2,237	2,237	20,303	–	20,303	20,303
	4,541	–	4,541	4,541	20,303	–	20,303	20,303

27 Financial risk management and fair value (continued)

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from bank loans, pledged deposits, bank deposits and cash at bank.

The following table details the interest rate profile of the Group's and the Company's interest-generating financial assets and interest-bearing financial liabilities at the balance sheet date:

	The Group			
	2009		2008	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate instruments:				
Pledged deposits	**0.87%**	**34,065**	0.36%	42,201
Bank deposits	**0.91%**	**532,825**	–	–
Bank loans	**–**	**–**	7.28%	(100,000)
		566,890		(57,799)
Variable rate instruments:				
Bank loans	**5.31%**	**(1,000)**	5.31%	(40,000)
Cash at bank and in hand	**0.20%**	**619,296**	0.36%	53,567
Total instruments		**1,185,186**		(44,232)

	The Company			
	2009		2008	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate instruments:				
Bank deposits	**0.60%**	**264,060**	–	–
Variable rate borrowings:				
Cash at bank and in hand	**0.01%**	**176,188**	–	–
Total instruments		**440,248**		–

(ii) Sensitivity analysis

As at 31 December 2009, it is estimated that a general increase/decrease of 100 basis point in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB5,689,000 (2008: RMB135,000). 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 interest expense by a change in interest rates. The analysis has been performed on the same basis in 2008.

27 Financial risk management and fair value (continued)

(d) Foreign currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk at the balance sheet date are primarily, Hong Kong dollars and United States dollars.

(i) Exposure to currency risk

The following table details the Group's and the Company's major exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group			
	2009		2008	
	HK$'000	**US$'000**	HK$'000	US$'000
Cash and cash equivalents	**87,091**	**6,067**	9	1

	The Company	
	2009	2008
	RMB'000	RMB'000
Amounts due to subsidiaries	**(2,237)**	–

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if the foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	**Effect on profits after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profits after tax and retained profits RMB'000
Hong Kong dollars	**5%**	**3,384**	5%	–
	(5)%	**(3,384)**	(5)%	–
United States dollars	**5%**	**1,839**	5%	–
	(5)%	**(1,839)**	(5)%	–

27 Financial risk management and fair value (continued)

(d) Foreign currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2008.

(e) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2008 and 2009.

28 Commitments

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	2009 **RMB'000**	2008 RMB'000
Contracted for	**1,787**	5,483
Authorised but not contracted for	**145,408**	179,516
	147,195	184,999

(b) Investment commitments

At 31 December 2008, the Group had commitments in respect of capital contribution to Lilang Xiamen of US$25,450,074 (equivalent to RMB173,459,000). The amount has been fully paid in 2009.

At 31 December 2009, the Group had commitments in respect of capital contribution to Lilang China and Lilang Shanghai of HK$300,000,000 (equivalent to RMB264,060,000) and HK$200,000,000 (equivalent to RMB176,040,000) respectively. The capital contributions to Lilang China and Lilang Shanghai are required to be paid on or before 29 September 2011 and 30 November 2011 respectively.

28 Commitments (continued)

(c) Operating lease commitments

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2009	2008
	RMB'000	RMB'000
Within one year	**1,602**	1,679
After one year to five years	–	267
	1,602	1,946

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

29 Material related party transactions

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

During the year ended 31 December 2009, 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
Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")	Effectively 33.3%, 33.3% and 33.4% owned by Wang Liang Xing, Wang Dong Xing and Wang Cong Xing respectively

(a) Recurring transactions

	2009	2008
	RMB'000	RMB'000
Lease of land and properties		
– Wang Brothers	–	43
– Jinlang Fujian	**2,032**	1,099
	2,032	1,142

29 Material related party transactions (continued)

(a) Recurring transactions (continued)

During the year ended 31 December 2008, 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 a similar production plant during the year ended 31 December 2008 was RMB43,000.

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

(b) Non-recurring transactions

	2009 RMB'000	2008 RMB'000
Cash advances to a shareholder of the Company (note) – Wang Cong Xing	**19,942**	9,409
Sales of land use rights and properties (note) – Jinlang Fujian	–	11,582

Note:

The advances to a shareholder of the Company are unsecured and interest free. The amounts disclosed above are also the maximum amounts due from the related parties during the year.

(c) Balances with related parties

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

	2009 RMB'000	2008 RMB'000
Amount due from a related company – Jinlang Fujian	**214**	220
Amount due to a shareholder – Wang Cong Xing	–	18,471

The amounts due from related parties are unsecured, interest-fee and have no fixed terms of repayment. There was no provision for impairment loss made against these amounts at 31 December 2008 and 2009.

29 Material related party transactions (continued)

(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 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**4,876**	3,784
Discretionary bonus	**928**	1,697
Contributions to defined contribution retirement benefit scheme	**123**	185
Share-based compensation	**502**	–
	6,429	5,666

Total remuneration is included in "staff costs" (see note 5(b)).

30 Significant accounting estimates and judgements

The methods, estimates and judgements 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 judgements, on matters that are inherently uncertain. The critical accounting judgements 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 judgement 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 judgement 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.

(Expressed in Renminbi)

30 Significant accounting estimates and judgements (continued)

(c) Income taxes (continued)

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 judgement 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 judgement. 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.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

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 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.

32 Immediate and ultimate controlling party

At 31 December 2009, the Directors consider the immediate and ultimate controlling party of the Group to be Xiao Sheng International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

Design & Production: iOne Financial Press Limited www.ione.com.hk

China Lilang Limited
中國利郎有限公司
(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)
(Stock Code 股份代號：1234)

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