

# LILANG 利郎

CHINA LILANG LIMITED  
中國利郎有限公司

*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 1234)

ANNUAL REPORT 2012







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### About China Lilang

China Lilang is one of the leading PRC menswear enterprises. As an integrated fashion enterprise, the Group designs, sources, manufactures and sells high-quality business and casual apparel for men under its core brand "LILANZ" and sub-brand "L2". Its products are sold across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC.

# 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  
Mr. Lai Shixian

## Board committees

### Audit Committee

Mr. Nie Xing (*Chairman*)  
Dr. Lu Hong Te  
Mr. Lai Shixian

### Remuneration Committee

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

### Nomination Committee

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

## Company secretary

Ms. Ko Yuk Lan

## Authorised representatives

Mr. Wang Dong Xing  
Ms. Ko Yuk Lan

## 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  
200 Chang Xing Road  
Jinjiang City  
Fujian Province  
The PRC

## Share registrars and transfer offices

### Royal Bank of Canada Trust Company (Cayman) Limited

4th Floor, Royal Bank House  
24 Shedden Road  
George Town  
Grand Cayman KY1-1110  
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

## Auditor

KPMG, *Certified Public Accountants*

## Principal bankers

Industrial Bank Co. Ltd.  
Bank of China Limited  
The Bank of East Asia, Limited  
Bank of China (Hong Kong) Limited

# Financial Highlights

	Year ended 31 December		
	2012 (RMB million)	2011 (RMB million)	Changes (%)
Turnover	2,793.4	2,708.0	+3.2
Gross profit	1,124.0	1,055.5	+6.5
Profit from operations	709.4	703.7	+0.8
Profit attributable to equity shareholders	626.8	623.1	+0.6
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	52.20	51.90	+0.6
— Diluted	52.04	51.66	+0.7
Shareholders' equity per share	198.40	181.30	+9.4
Interim dividend per share	HK13 cents	HK11 cents	+18.2
Special interim dividend per share	HK6 cents	HK5 cents	+20.0
Final dividend per share	HK19 cents	HK19 cents	—
Special final dividend per share	HK6 cents	HK6 cents	—
	(%)	(%)	(% points)
Gross profit margin	40.2	39.0	+1.2
Operating profit margin	25.4	26.0	-0.6
Net profit margin	22.4	23.0	-0.6
Return on average shareholders' equity <sup>(1)</sup>	27.5	30.9	-3.4
Effective tax rate	18.3	17.2	+1.1
Advertising and promotional expenses and renovation subsidies (as a percentage of turnover)	9.1	8.2	+0.9
	Year ended 31 December		Six months ended
	2012	2011	30 June 2012
Average inventory turnover days <sup>(2)</sup>	55	45	59
Average trade receivables turnover days <sup>(3)</sup>	74	63	76
Average trade payables turnover days <sup>(4)</sup>	47	65	58

## Notes:

- (1) Return on average shareholders' equity is equal to the profit attributable to equity shareholders divided by the average of the beginning and closing balance of total shareholders' equity.
- (2) Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by cost of sales and multiplied by the number of days in the year.
- (3) Average trade receivables turnover days is equal to the average of the beginning and closing trade and bills receivables balance divided by turnover (including value-added tax) and multiplied by the number of days in the year.
- (4) Average trade payables turnover days is equal to the average of the beginning and closing trade and trade bills payables balance divided by costs of sales and multiplied by the number of days in the year.

# 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" or "China Lilang") for 2012.

2012 had been a challenging year for the development of menswear industry in China. The debt crisis facing by many of the world's leading economies continued to cloud the global economy and created great challenges for China's economic development. In the same year, China's economy grew at its slowest pace in 13 years, easing to 7.8% for the year. The country's GDP had also extended the downward trend for the seventh consecutive quarter on a quarterly basis, with the retail consumer sector taking the brunt of it.

Regarding the market environment of the industry, heavy discounts were offered by some of the menswear brands during the year. However, as a leading brand in China's menswear industry, China Lilang values its brand image and did not follow its peers in aggressive pricing. The Group's turnover during the year was inevitably affected.

Despite the challenging business environment and uncertain prospects, the Group remains confident in the enormous potential of the menswear market in China. Therefore, we continued to analyze the situation and cautiously adjust our business strategy according to market dynamics with a positive attitude, aiming to enhance our core strengths and retain sufficient resources for a sustainable and healthy development in the long run.

In 2012, the Group's business was generally stable. Turnover increased by 3.2% from previous year to RMB2,793.4 million, and profit attributable to shareholders maintained at the similar level of RMB626.8 million. The Board of directors proposed a final dividend of HK19 cents per share and a special final dividend of HK6 cents per share. Taking into account the interim dividend of HK13 cents per share and the special interim dividend of HK6 cents per share paid, total annual dividend payout ratio was 67.8%.

As one of the leading menswear enterprises in China, we strongly believe that a prominent brand image is integral to our corporate core value as it enables the Group to thrive in the rapidly changing market environment and withstand market changes.

In 2012, the Group continued to further strengthen its brand image through its retail stores, marketing promotions and products. We are pleased to renew the contract with Mr. Chen Dao Ming (陳道明) as the spokesperson for the "LILANZ" brand. A new "LILANZ" TV commercial featuring Mr. Chen Dao Ming was taken in New York, which was then broadcasted, validating China Lilang's "Simple yet Sophisticated" (簡約而不簡單) brand image.

Despite the challenging operating environment, we believe investment in store image is beneficial to the long-term development of our brand. Therefore, we introduced a new third-generation image for our "LILANZ" retail outlets as planned during the year, aiming to enhance store image and drive sales growth. In addition to the self-operated flagship store located in the headquarter in Jinjiang City, the two self-operated "LILANZ" flagship stores of the Group located in Xian and Zhengzhou had begun pilot operation in late 2012.

We continued to market China Lilang's brands and apparel to target consumers via different promotional channels, aiming to attract more customers, increase customer loyalty, and enhance China Lilang's position in the fashion sector. During the year, the Group had made continuous advertising investment in both traditional and emerging media platforms covering various Chinese cities. These media included CCTV, popular fashion magazines and the internet. To maximize brand exposure and enhance brand awareness, the Group also used billboard advertising at the Shanghai Hongqiao International Airport and the Bangkok airport in Thailand, targeting frequent travellers with high spending power.

# LILANZ



The Group is dedicated to providing new designs and high quality to our consumers, so as to enhance its brand image and add value to its products. During the year, the Group has received a number of industry honors as recognitions of its efforts in enhancing design and brand image. Several awards were given to our core brand “LILANZ”, including the “Jack•The 8th China National Garment Association Award — Public Award (傑克•第八屆中國服裝品牌公眾大獎)”, “2012 China Branding Award — Best Creative Design Award (二零一二年品牌中國大獎最佳創意設計獎)”, “Top 10 China Most Valuable Private Menswear Brands (全國最具價值民營男裝品牌十強)”, “Top 100 China Most Valuable Private Brands (全國最具價值民營品牌百強)” under the Hurun Brand List (胡潤品牌榜), and “The 7th Asia’s 500 Most Influential Brands of the year 2012 (亞洲品牌500強)”.

Looking ahead, the steady economic growth and continuing urbanization in China will remain the major driving forces to improve national income and living standard. Although challenges from both external and internal environments as well as volatile Chinese economy have taken a toll on our industry in the short run, long-term development of the menswear market in China will sustain.

As one of the pioneers in menswear industry, China Lilang will rise to the challenges and take this opportunity to strengthen our competitive edges. In 2013, by focusing on consolidating the leading position and strengthening the competitiveness of its brands, improving its retail channel management, adhering to its sales and marketing strategies and capitalizing on its unique product designs and development capabilities, and strengthening its supply chain management to improve its product quality and offer more value for money, the Group will endeavor to seize business opportunities and meet the challenges ahead, and bring generous returns to its shareholders. Assuming the business environment continues to improve in the coming years, the Group is confident in achieving stable growth in 2014.

The achievements of China Lilang are attributable to the concerted efforts of our team and continued support from our shareholders, staff and business partners. We will continue to work diligently and weather the forthcoming difficulties to deliver satisfactory performance in 2013.

**Wang Dong Xing**  
*Chairman*

13 March 2013

# Management Discussion And Analysis

## Industry overview

In 2012, the global politics and economy were volatile. Although the European debt crisis abated in the first half of the year, various countries around the world entered into election period and the United States faced its fiscal cliff in the second half of the year. All these made the market prospect uncertain. Under the shadow of various external factors, China experienced the slowest economic growth since 1999.

As the economic growth momentum moderated and prospect remained uncertain, consumer sentiment was adversely affected. The Consumer Confidence Index trended down and dipped to a year low in July. Moreover, the unfavorable weather such as a rainy spring and summer and a short autumn also significantly decelerated the sales growth of menswear in 2012. The aggressive discount offered by some of the menswear brands during the year impacted the Group's turnover.

As one of the leading menswear enterprises in China, China Lilang Limited (the "Company" or "China Lilang") always closely monitors the changes in the market environment. In 2012, the Group promptly and prudently adjusted its operating strategy to cope with the abrupt changes in the market. In view of the uncertain prospects, the Group revised the ordering arrangement with the distributors earlier last year and duly adjusted its annual store opening plan as precautions to control risks, in particular, to reduce the risk of overstocking in the sales channel, and flexibly coped with market changes together with distributors. Furthermore, as the industry is currently undergoing adjustment, the Group conducted more training for its distributors, enhanced its retail and supply chain management, up-graded the store image and continued its investment in research and development to strengthen its competitive edge.

Although the Company had implemented a number of measures to enhance competitive advantages and minimize the impact of the market environment on sales, the industry remained under severe pressure from the harsh market conditions and the unfavourable weather. As a result, the Group cancelled some of the winter orders after discussion with its distributors. In addition, the Chinese New Year came in February in 2013, later than in 2012, and thus postponed the festive shopping season. More winter products were delivered in January 2013, affecting the sales of 2012. The overall performance was below expectation.

## Financial review

For the twelve months ended 31 December 2012, profit attributable to equity shareholders was RMB626.8 million, representing a slight increase of 0.6% as compared to RMB623.1 million for the previous year. Impacted by the consumer market environment and weather conditions, some of the winter orders had been cancelled. In addition, since more of the winter orders were delivered in January 2013, sales growth of the Group's two brands "LILANZ" and "L2" for 2012 decelerated significantly. However, the Group's dedicated efforts to streamline the supply chain paid off as its gross profit margin rose to the target level despite the inventory provision. In addition, at the beginning of the year, the Group started controlling the distributors' sales order volume and strictly monitored the levels of ordering and inventory. Although the channel inventory level was higher than that of previous years, it was still a relatively healthy level compared to the peers.

### Turnover

For 2012, turnover increased by 3.2% to approximately RMB2,793.4 million, as compared to RMB2,708.0 million for the previous year. The slowdown of turnover growth was attributed to the impact of the macroeconomic situation and weather factors on the sales of the Group's products. The impact was more pronounced in the second half. On a seasonal basis, retail sales in the spring and summer were dragged down by the rainy weather. This, together with a short autumn, intensified the aggressive discounts offered by some of the menswear brands in the second half of the year. These exerted pressure on the sales channel and affected the execution of the winter orders. To ensure that the channel was in a healthy position, the Group cancelled part of the winter orders which were worth approximately RMB140.0 million in sales value after discussion with distributors. In addition, as the Chinese New Year was in February in 2013, there were more of the winter orders delivered in January 2013, resulting in a year-on-year decrease in sales in the second half of 2012. For the full year, the overall sales volume and average selling price of the Group slightly increased by 1.0% and 1.8% respectively.





Sales of the core brand “LILANZ” for the year amounted to RMB2,586.7 million, up slightly by 0.3%. In spite of such a challenging economic environment, the Group still attaches great importance to brand positioning and the profitability of the distributors and thus insists on maintaining a consistent pricing and retail discount policy. As a result, sales for the year were slower. Sales volume dropped by 2.7% year-on-year, while the average selling price increased slightly by 3.1% to RMB228 due to a change in product mix.

The sub-brand “L2” has been more sensitive to the macroeconomic situation and also the competition from international brands due to its positioning as a fashion brand for young consumers and that it operates relatively more stores in the first- and second-tier cities. In view of this situation, the Group carefully reviewed the product positioning strategy of “L2” and reformulated its product lines by focusing on trendy casual wear and scaling down the product lines for work and party. The average price of “L2” decreased by 2% due to a change in product mix. Turnover of “L2” for the year went up by 50.5% to RMB194.1 million due to a low base figure for the previous year.

For 2012, sales of “LILANZ” and “L2” accounted for approximately 92.6% (2011: 95.2%) and 6.9% (2011: 4.8%) respectively of the total turnover.

Among all product categories, tops remained as the main product category by sales, accounting for 70.8% (2011: 72.2%) of total turnover. However, its sales only recorded a slight increase of 0.6% because of the relatively higher inventory of 2011 autumn and winter collections at the sales channels. During the year, the Group continued to improve the fabric and quality of trousers. As a result, sales and average price of trousers recorded better

# Management Discussion And Analysis (continued)

growth rates of 9.6% and 6.0% respectively. Sales of accessories increased by 33.5% and accounted for 5.6% (2011: 4.3%) of total turnover. Among the accessories, sales of shoes doubled.

## Turnover by Region

Eastern China region and Central and Southern China region continued to be the major contributors of the Group's turnover and together accounted for 58.7% (2011: 59.7%) of the total turnover and 52.9% (2011: 52.8%) of the total number of stores in aggregate. Central and Southern China region and North Western China region recorded the fastest growth in sales for the year, and still maintained a double-digit sales growth despite the current economic environment. In particular, North Western China had the highest sales growth. The number of stores in the region increased by 28 or 11.7%, and the sales there rose by 22.1% during the year. Eastern China was more affected by the slowdown in retail consumption. This, coupled with the abnormal rainfall in the first half of the year, led to a 5.6% decrease in sales in the region. For Northern China and North Eastern China regions, as some of the stores operated by sub-distributors had

recorded unsatisfactory performance, the Group consolidated the stores network and closed down some of the underperforming stores in 2012. As a result, the sales performance of the regions was affected. Aiming to boost sales in these regions, the Group conducted training for the frontline staff of the sub-distributors to enhance the quality of service and store management. Currently, the Group is also working on the product development and design catering to the specific needs of the customers in those regions to improve sales.

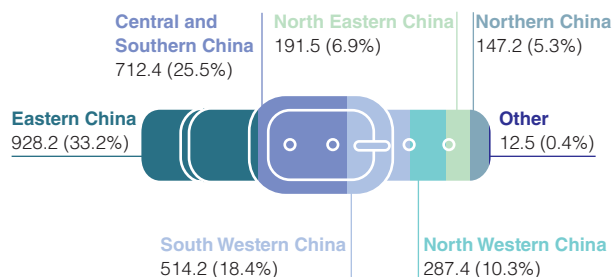
Eastern China region and Central and Southern China region were still the largest market for the sub-brand "L2" in 2012. Sales in these areas together accounted for approximately 72.3% (2011: 70.6%) of the total sales of "L2". Central and Southern China region and North Western China region recorded the fastest growth. During the year, the Group reconsolidated the sales network of "L2" and focused on the expansion in four main provinces, namely Henan, Shaanxi, Hunan and Hubei. It is expected that the sales contribution from Central and Southern China and North Western China regions will continue to increase.

Turnover by region for the year was set out below:

Region	2012		2011		Changes (%)
	RMB million	% of turnover	RMB million	% of turnover	
Northern China <sup>(1)</sup>	147.2	5.3%	163.4	6.0%	-9.9%
North Eastern China <sup>(2)</sup>	191.5	6.9%	209.1	7.7%	-8.4%
Eastern China <sup>(3)</sup>	928.2	33.2%	983.4	36.3%	-5.6%
Central and Southern China <sup>(4)</sup>	712.4	25.5%	632.2	23.4%	12.7%
South Western China <sup>(5)</sup>	514.2	18.4%	484.6	17.9%	6.1%
North Western China <sup>(6)</sup>	287.4	10.3%	235.3	8.7%	22.1%
Others	12.5	0.4%	-	-	-
<b>Total</b>	<b>2,793.4</b>	<b>100.0%</b>	<b>2,708.0</b>	<b>100.0%</b>	<b>3.2%</b>

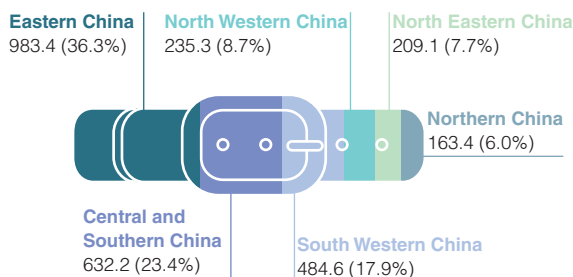
## 2012

Turnover by Region  
RMB million  
(% of turnover)



## 2011

Turnover by Region  
RMB million  
(% of turnover)



- (1) Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
- (2) North Eastern 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) South Western China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.
- (6) North Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

### Cost of Sales

Cost of sales increased by 1.0% to approximately RMB1,669.3 million, from approximately RMB1,652.5 million for the previous year. Included in the amount was inventory provision for the two brands “LILANZ” and “L2” totaling RMB59.5 million (2011: RMB5.8 million). In line with the Group’s policy, full provision had been made for inventories aged more than one year. In view of special circumstances in 2012, appropriate provision had been made by the Group for the unsold products of the year.

To support sales growth and business development, the Group continued to engage in a combination of in-house-production, subcontracting arrangement (process outsourcing) and outsourced production (OEM purchases) when manufacturing its products. The move aimed at achieving the highest quality, cost efficiency and flexibility in production arrangement. The Group maintained the original production scale during the year. Outsourced production accounted for approximately 54.7% (2011: 50.7%) of the total cost of sales. During the year, the Group enhanced the cost-efficiency of outsourced production by extending the control over the raw material suppliers for its outsourced production.

### Gross Profit and Gross Profit Margin

Gross profit increased by 6.5% to RMB1,124.0 million from RMB1,055.5 million in 2011. Gross profit margin increased by 1.2 percentage points to 40.2% (2011: 39.0%), meeting the Group’s target for gross profit margin improvement. The improvement in the gross profit margin was mainly attributable to the Group’s measures to streamline supply chain including the selection of more cost-efficient OEM suppliers, requiring more OEM suppliers to purchase from designated fabrics suppliers and the change of suppliers’ payment terms. These successfully reduced the cost of sales and improved gross profit margin. During the year, stable raw material cost also helped to improve gross profit and gross profit margin.

### Selling and Distribution Expenses

During the year under review, the selling and distribution expenses amounted to RMB325.0 million, accounting for approximately 11.6% of total turnover, representing an increase of 1.5 percentage points. Additional spendings were incurred for advertising and promotion as well as training conducted for distributors.

Advertising and promotional expenses and renovation subsidies amounted to RMB254.4 million for the year, which accounted for approximately 9.1% of the total turnover, up 0.9 percentage point from 8.2% for the previous year. It was mainly because the Group started renovating the stores in phases in the second half of 2012 to project a new store image. In addition, advertising and promotional expenses also increased as the Group increased its TV advertising spending during the UEFA European Football Championship final tournament and the Olympic Games period.

### Administrative Expenses

Administrative expenses of the Group were RMB102.9 million for the year, representing an increase of RMB14.3 million and accounting for approximately 3.7% of turnover, up 0.4 percentage point from 3.3% for the previous year. The increase of administrative expenses is mainly due to increased depreciation and amortization of property, plant and equipment and computer software by RMB4.8 million and the additional administrative expenses for expanding the business scale of sub-brand “L2”.

### Profit from Operations

Profit from operations rose by 0.8% to RMB709.4 million in 2012 from RMB703.7 million in 2011. The operating margin slightly decreased from 26.0% to 25.4%.

### Net Finance Income

For the year, net finance income of the Group was RMB57.4 million, representing an increase of RMB8.3 million. Of the amount, interest income increased by RMB21.3 million and interest expenses increased by RMB7.3 million.

### Income Tax

The effective income tax rate for the year was 18.3%, up from 17.2% for 2011. One of the PRC subsidiaries of the Group has been granted an “Advanced and New Technology Enterprise” status and is entitled to a preferential tax rate of 15% in 2012 and 2013.

# Management Discussion And Analysis (continued)

## Profit Attributable to Equity Shareholders of the Company

For the year ended 31 December 2012, the Group recorded a profit attributable to equity shareholders of approximately RMB626.8 million, representing an increase of 0.6%. Net profit margin was 22.4% (2011: 23.0%). Earnings per share were approximately RMB52.2 cents, representing an increase of 0.6% as compared to the previous year.

The sub-brand "L2" recorded a profit after tax of RMB1.1 million (2011: approximately RMB1.7 million).

## Final Dividends

The Board recommended a final dividend of HK19 cents per ordinary share (2011: HK19 cents) and a special final dividend of HK6 cents per ordinary share for the financial year (2011: HK6 cents), representing a total payout of about HK\$300.2 million (equivalent to approximately RMB241.4 million). Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the final dividend and the special final dividend will be paid in cash on or about 24 May 2013 to shareholders whose names appear on the register of members of the Company on 10 May 2013.

## Business review

### Retail and Distribution Network

Changes in store numbers in different regions during the year were as follows:

Region	Number of stores			As of 31 December 2012
	As of 1 January 2012	Store opened during the year	Store closed during the year	
Northern China	306	35	27	314
North Eastern China	419	35	35	419
Eastern China	990	127	74	1,043
Central and Southern China	736	99	39	796
South Western China	577	81	19	639
North Western China	240	37	9	268
	3,268	414	203	3,479



The Group endeavors to optimize its retail and sales network and enhance its store efficiency to foster healthy and long term business development. During 2012, to cope with challenges posed by the economy and industry conditions in China, the Group scaled back the plan for opening new shops and reconsolidated retail outlets which had low efficiency. A total of 195 "LILANZ" retail outlets were added during the year. As the macroeconomic environment and competition from foreign brands impacted "L2", the Group reconsolidated its sales network during the year to focus on the markets of four provinces, namely Henan, Shaanxi, Hunan and Hubei. A total of 16 "L2" retail outlets were added in the year.

Eastern China and Central and Southern China regions, which were two main contributors of the Group's turnover, accounted for 52.9% of the total number of stores of the Group.

As of 31 December 2012, the number of distributors and sub-distributors of "LILANZ" were 64 and 1,472 respectively, operating a total of 3,227 "LILANZ" retail outlets, of which 1,069 retail outlets were directly operated by distributors and 2,158 retail outlets by their sub-distributors. The retail outlet network comprised 2,295 stand-alone stores and 932 concession counters in department stores. The total area of the retail outlets was approximately 359,000 square meters (2011: 326,000 square meters), representing an increase of about 10%.

By the end of December 2012, "L2" had 252 retail outlets, of which 170 were in Eastern China and Central and Southern China regions. Stores in the two regions accounted for 67.5% of the total number of stores. "L2" had 41 distributors (16 of whom were also the distributors of "LILANZ") and 68 sub-distributors. There were 170 retail outlets directly operated by distributors and the other 82 retail outlets were operated by their sub-distributors. The store network consisted of 155 stand-alone stores and 97 concession counters in department stores. The total area of retail outlets was approximately 26,700 square meters (2011: 25,300 square meters), representing an increase of about 6%.

The Group has made steady progress in opening mega stores with sizes of 300 to 500 square meters. During the year, a total of six mega stores were opened, of which one is located in Shanghai, one in Kunming (a provincial

capital city), three in prefecture-level cities in Zhejiang, Yunnan and Jiangsu, and one in county-level city in Shaanxi. The self-operated flagship stores in Xian and Zhengzhou had begun pilot operation in late 2012.

In view of the increasing popularity of online sales in China market, the Group paid extra attention to the development of E-channel. During the year, the Group continued to make use of its online sales platform to sell "LILANZ" and "L2" products. The products and their prices on the online sales platform are the same as those in the retail outlets except for out-of-season products.

### **Sales Channel Management**

Under such challenging economic environment, sales channel management is more important than ever. During the year, the Group conducted intensive training for the distributors and their management teams. The training programs covered retail management, franchise and chain stores business management, and methods of coping with the dynamics of the changing market, in order to improve and enhance the management of the retail channels.

At the same time, the Group recognizes the importance of retail management to the healthy expansion and development of the business and is also aware of investment market's concern regarding retail channel control and retail inventory management of apparel enterprises which are operating under a distribution model. In view of this, the Group continues to make every effort to strengthen the day-to-day control over its sales channel. The Group embarked on developing software systems since late 2009 for accessing the sales and inventory records of each retail outlet online. By the end of 2012, all the retail outlets except those in department stores were connected online. This enables the Group to obtain point of sales data accurately and in a timely manner so that it can address specific problems promptly, and also help the research and development of products meeting market needs better.

In regard to the retail inventory management, the Group encourages distributors to operate one to two discount stores in each province, to have inventory clearance sales in stores for about 30 days before their formal opening or renovation, and to organize temporary promotion counters in department stores at the end of seasons to actively clear inventories.

# Management Discussion And Analysis (continued)

## Marketing and Promotion

One of the most valuable assets of the Group is its brand names. Prominent brand image and unique brand identity add value to the brand names and products of the Group, which would help to consolidate the leading position of the Group in the business casual menswear market in China. The Group adopted effective and targeted marketing strategies after evaluating the effectiveness of different advertising channels. During the year, the Group continued to make its store image upgrade an integral part of its brand promotion, and combined the store image upgrade with targeted marketing activities to maximize the promotional effect, and in turn enhance its brand image.



The Group regards its stores as an important channel for advertising and enhancing brand image. In the second half of 2012, the Group introduced a new third-generation store image and subsidized distributors to renovate the retail outlets in phases, so as to unify and upgrade the Group's store image. Based on a "bamboo leaf" concept, the store front, interior wall and other decorating accessories are fashionably and elegantly designed. High-end metallic materials and bright lighting effects were used to showcase the display products in a simple yet elegant style. In addition, the third-generation design has further made use of island display cabinets for displaying products such as shoes and accessories for sale with an aim to improve sales efficiency. The Group finished renovating about 280 retail outlets in the second half of 2012, and plans to renovate 700 to 800 retail outlets in 2013. It is expected that the whole renovation project for all retail outlets will take about three and a half years to finish and will be completed by 2015.

During the year, the Group launched various promotional activities to strengthen its brand image, including increased spending on advertising on CCTV during UEFA European Football Championship final tournament held in June and the Olympic Games held in July/August. The Group also made a new "LILANZ" TV commercial in New York which was first released in the second half of 2012.



In addition to regular promotions and advertising activities, including advertising on CCTV, magazines and online, as well as billboards at Shanghai Hongqiao Airport, the Group also placed "LILANZ" billboards at the Bangkok airport, targeting outbound-travelling consumers with high spending power. The Group expects to continue to invest moderately in advertising and promotions in 2013.

The famous mainland China movie and TV star, Mr. Chen Dao Ming (陈道明), renewed his contract with the Group in late 2012 to remain the spokesperson for the "LILANZ" brand to accentuate the brand image.

## Design and Product Development

The Group believes that product design and quality are the keys to a successful brand, and thus always attaches great importance to product style and quality. Adhering to this philosophy, the Group has committed to achieving excellence through continuous research, design and development of new products over the years, focusing on fashionable and simple style with innovative product designs to become the trend-setter in the business casual menswear market in China. In addition, the Group also strives to enhance the products' value for money by improving the garment fabrics used in its products.

The brand image and product design of the Group has been well recognized in the industry. During the year, the Group's core brand "LILANZ" was honored with several brand and design awards, including the "Jack•The 8th China National Garment Association Award — Public Award (傑克•第八屆中國服裝品牌公眾大獎)", "2012 China Branding Award — Best Creative Design Award (二零一二年品牌中國大獎最佳創意設計獎)", "Top 10 China Most Valuable Private Menswear Brands (全國最具價值民營男裝品牌十強)" and "Top 100 China Most Valuable Private Brands (全國最具價值民營品牌百強)" under the Hurun Brand List (胡潤品牌榜), and "The 7th Asia's 500 Most Influential Brands of the year 2012 (亞洲品牌500強)", which affirmed the Group's achievement in fashion design and building brand image after years of dedication, and its leading position in China's menswear industry.

Currently, "LILANZ" has a product design and development team of over 100 staff in Jinjiang, and a product design and development team of about 35 employees for the sub-brand "L2" in Shanghai. In order to enhance the product research and development capability and keep abreast of market needs, the Group has established a product planning department during the year under review, which carries out market research to support product design planning, so as to offer products that satisfy the market demand well. It is expected the product planning department on research and design will begin to yield results as the 2013 spring and summer collections are launched into market.

## Trade Fairs

The 2013 spring and summer trade fairs of "LILANZ" and "L2" were held in September 2012. Impacted by the difficult retail environment and a higher inventory level which resulted from the rainy spring and summer in 2012, the total order value of the core brand "LILANZ" decreased by 9%, while its average selling price achieved a low single-digit increase. The total order value of the sub-brand "L2" rose by 17% year-on-year, but the average selling price of its 2013 spring and summer collections will decrease year on year due to the adjustment of its product lines. Delivery of orders for the spring and summer collections commenced in January 2013.

The 2013 autumn trade fairs will be held from mid-March to early April. In view of the relatively high channel inventory level from autumn 2012 as compared to the previous year, the Group expects the orders of 2013 autumn trade fairs to decrease year-on-year.

## Production and Supply Chain

The Group's production plants are located at Wuli and Changting, Fujian Province, and have a total gross floor area of approximately 42,000 square meters. Presently, there are 80 production lines. The production plants achieved an average utilization rate of over 90% during the year.

During the year, the Group strengthened cooperation with its fabrics suppliers to further control production costs while maintaining the uniqueness of fabrics for the products. At the same time, the Group put more efforts in controlling the raw material procurement for outsourced production and required more OEM suppliers to purchase from designated fabrics suppliers. The Group also shifted more production orders from subcontracting arrangement to outsourced production so as to increase flexibility in production and uplift its production capacity to meet replenishment orders.

The Group's long-term strategy in respect of production and supply chain management is to strengthen cooperation with its OEM suppliers. By optimizing production flexibility and enhancing its production capacity to meet replenishment orders, the Group plans to further reduce the proportion of orders received from trade fairs in 2014 to better control the risk of excessive inventory at the sales channel.

# Management Discussion And Analysis (continued)



## Prospects

In 2013, the business environment of apparel retail industry in China remains challenging. In situations where uncertainties exist in the macro-economy, the consumption and retail market is filled with risks and opportunities. As one of the leading menswear enterprises in China, China Lilang still believes in the importance of brand building to the healthy development of an enterprise in the long run. Therefore, the Group continues to implement prudent and flexible operation strategy and adhere to its brand positioning by avoiding aggressive discount. In 2013, the overriding objectives of the Group are to enhance the competitiveness of its brands and ensure the viability of its sales channels. The Group will also continue to invest in research and development and strengthen its supply chain management to further improve its product quality and produce products which are better value for money to gear up for long-term development.

As the channel inventory levels for the spring, summer and autumn of 2012 are relatively high as compared to previous years, the Group expects that the sales for 2013 will be affected. Moreover, since the Group encourages its distributors to speed up their destocking process, the total order value of the autumn trade fair starting mid-March of 2013 is expected to decrease. However, assuming that the overall business environment does not deteriorate, the Group is confident that the situation for the 2013 winter trade fair will stabilize after the adoption of various measures.

In addition, China Lilang will continue to set its pace for store opening according to market conditions. To reduce the risk of excessive store expansion, the Group will not aggressively increase the number of stores until there is obvious improvement in the macroeconomic environment. For “LILANZ”, the target number of store openings is 200 to 300 for 2013, and it is also expected that about 200 stores with low efficiency will be closed during the year. Regarding “L2”, the Group will continue to adjust its store network and focus on the major markets in four provinces with growth potential, namely Henan, Shaanxi, Hunan and Hubei. The Group has set a target of opening about 70 to 90 “L2” stores in 2013 and also expects that about 50 stores with low efficiency will be closed during the year. When choosing locations for new “L2” stores, the Group intends to form partnership with shopping mall operators and open stores in those shopping malls with high consumer traffic in order to boost store sales.

The Group will continue to enhance the competitiveness of its brands. The store renovation plan to project the new third-generation store image in the second half of 2012 for “LILANZ” will continue and will be carried out in another 700 to 800 stores in 2013. At the same time, in order to provide the best services and products for consumers, the Group will continue to arrange training on retail management for distributors, and to allocate more resources to product research and development. Specifically, it will add more staff for fabric research and development and will strengthen cooperation with suppliers.

In view of the uncertainties facing the industry, the Group will postpone the construction of the proposed new headquarters in Jinjiang, Fujian until macro-economic environment improves.

Despite the difficult business environment, China will stay on track for economic growth and its accelerating urbanization will continue to increase the people’s income. These developments will support the steady growth of the country’s domestic consumption. The demand for fashionable and branded high-quality products will remain robust. As a leading business casual menswear enterprise in China, the Group is still confident about the long-term growth potential of the menswear industry in China.



To capture growth opportunities in the long run, the Group will continue to enhance its brand image and product design, and improve the management of its retail channels and their inventory. These measures will aim at consolidating China Lilang's leading position in the challenging market. The Group has geared up for long-term and healthy development in order to realize sustainable growth and reward its shareholders, employees and customers for their support.

## Liquidity and financial resources

### Cash Flow

	Year ended 31 December	
	2012 RMB million	2011 RMB million
Net cash generated from operating activities	557.6	233.6
Capital expenditure	(63.7)	(157.5)
Free cash inflow	493.9	76.1
Cash and bank balances (including pledged bank deposits)	1,816.7	1,245.0

As at 31 December 2012, the Group's total cash and bank balances were held in RMB (98.8%), HKD (1.1%) and USD (0.1%).

As at 31 December 2012, cash and cash equivalents of the Group amounted to RMB1,242.8 million (placements of fixed deposits and pledged deposits held at banks with maturity over 3 months totalling RMB100.0 million and RMB470.0 million respectively were regarded as investing activities in the consolidated cash flow statement), representing an increase of RMB1.8 million as compared with the cash and cash equivalents balance of RMB1,241.0 million as at 31 December 2011. This was mainly attributable to:

- Net cash inflows from operating activities amounting to RMB557.6 million.
- Net cash outflows from investing activities amounting to RMB570.8 million, comprising mainly increases in placements of fixed deposits and pledged deposits held at banks with maturity over three months by RMB100.0 million and RMB470.0 million respectively, and capital expenditure for property, plant and equipment, construction in progress, lease prepayments and intangible assets totalling RMB63.7 million.
- Net cash inflows from financing activities amounting to RMB15.2 million, mainly attributable to the proceeds from secured bank loans totalling RMB443.7 million less the payments of final dividend and special final dividend totalling RMB241.4 million in respect of the year ended 31 December 2011, and the interim dividend and the special interim dividend totalling RMB183.4 million in respect of the year ended 31 December 2012.

# Management Discussion And Analysis (continued)

## Bank Loans

As at 31 December 2012, the Group had bank loans totalling RMB443.7 million (2011: RMB nil). The net cash position as at 31 December 2012 was as follows:

	Year ended 31 December	
	2012 RMB million	2011 RMB million
Cash and bank balances (including pledged bank deposits)	1,816.7	1,245.0
Less: Total borrowings	(443.7)	–
Net cash	1,373.0	1,245.0

As at 31 December 2012, the Group's bank loans were denominated in HKD (66.2%) and USD (33.8%), fully secured by pledged bank deposits and were repayable as follows:

	Year ended 31 December	
	2012 RMB million	2011 RMB million
Within 1 year or on demand	150.2	–
After 1 year but within 2 years	293.5	–
Total bank loans	443.7	–

All bank loans are at floating interest rates.

## Trade working capital turnover days

	Year ended 31 December	
	2012 Days	2011 Days
Average inventory turnover days	55	45
Average trade receivables turnover days	74	63
Average trade payables turnover days	47	65

The average inventory turnover days increased by 10 days to 55 days this year. As the Chinese New Year was in February in 2013, there were more of the 2012 winter products delivered in January 2013. In addition, as noted in the section headed Financial Review, some of the orders for the winter collections had been cancelled. As at 31 December 2012, the carrying value, net of provision, of inventories in relation to these cancelled orders amounted to approximately RMB39.6 million.

The average trade receivables turnover days were 74 days, an increase of 11 days from last year as extended credits were given to distributors.

The average trade payables turnover days were 47 days, a decrease of 18 days from last year. The turnover days based on the year-end balance were 45 days as compared to 49 days in 2011.

## Pledge of assets

As at 31 December 2012, deposits with certain banks totalling RMB473.9 million (2011: RMB4.0 million) were pledged as securities for bank loans and bills payable. The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payable.

## Capital commitments and contingencies

As at 31 December 2012, the Group had total capital commitments of RMB257.2 million, primarily related to the development of ERP system and the proposed construction of a new headquarters.

These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2012, the Group had no material contingent liabilities.

## Financial management policies

The Group continues to control financial risks in a prudent manner. 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 recognized 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.

## Human resources

As at 31 December 2012, the Group had 2,900 staff. Total staff costs for the year amounted to approximately RMB146.1 million (2011: RMB129.8 million).

The Group places great emphasis on recruiting and training quality personnel. We recruit talents from universities and technical schools and provide pre-employment and on-going training and development opportunities to our staff members. The training programs cover areas such as sales and production, customer services, quality control, sales fairs planning, workplace ethics and training of other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees based on factors such as market rates, responsibility, job complexity as well as the Group's performance. The Group has also adopted a share option scheme to recognize and reward the contribution of the employees to the growth and development of the Group.

## Closure of register of members

The register of members will be closed from Thursday, 2 May 2013 to Friday, 3 May 2013 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2013 annual general meeting ("2013 AGM"). In order to qualify for attending and voting at the 2013 AGM, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, 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 Tuesday, 30 April 2013.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2013 AGM, the register of members will be closed from Thursday, 9 May 2013 to Friday, 10 May 2013 (both days inclusive) for the purpose of determining shareholders who qualify for the proposed final dividend and special final dividend. In order to qualify for the proposed final dividend and special final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, 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 Wednesday, 8 May 2013.

# Corporate Governance Report

The Board is firmly committed to compliance of statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasizing transparency, accountability and integrity. Policies and practices on corporate governance are reviewed on a regular basis and as required to ensure that they remain appropriate and compliance with legal and regulatory requirements.

The Company complied with the code provisions of the Code on Corporate Governance Practices (the “Former Code”, formerly set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)) during the period from 1 January 2012 to 31 March 2012 and of the Corporate Governance Code and Corporate Governance Report (the “New Code”, the new edition of the Code on Corporate Governance Practices, which came into effect on 1 April 2012) during the period from 1 April 2012 to 31 December 2012.

## (A) Board of directors

The Board is responsible for governing the Company and managing assets entrusted by the shareholders. 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 four Independent Non-executive Directors:

### **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  
Mr. Lai Shixian (appointed on 13 December 2012)

Their biographical details and (where applicable) their family relationships are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 26 to 30 in the annual report. A list of the Directors identifying their role and function and whether they are Independent Non-executive Directors are available on the Company’s website.

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 Directors or senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board include those affecting the Group’s overall strategies, budget and plans, publication of financial statements, dividend policy, appointment of members to the various Board Committees and major investments.

To comply with the requirements under the New Code in respect of corporate governance functions, the Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, 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.

#### **Directors' and Officers' Insurance**

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

#### **Directors' Continuous Training and Professional Development**

Each newly appointed Directors is given necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant laws and regulations.

Since 1 April 2012, all Directors are provided with monthly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to the Board during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records provided by the Directors, a summary of training received by the Directors during the period from 1 April 2012 to 31 December 2012 is as follows:

<b>Directors</b>	<b>Types of continuous professional development programmes</b>
<b>Executive Directors</b>	
Mr. Wang Dong Xing	A
Mr. Wang Liang Xing	A
Mr. Wang Cong Xing	A, B
Mr. Cai Rong Hua	A, B
Mr. Hu Cheng Chu	C
Mr. Wang Ru Ping	B
Mr. Pan Rong Bin	A
<b>Independent Non-executive Directors</b>	
Dr. Lu Hong Te	B
Mr. Chen Tien Tui	B
Mr. Nie Xing	D
Mr. Lai Shixian (appointed on 13 December 2012)	N/A

# Corporate Governance Report (continued)

Notes:

- A: Attending seminars/workshops in retail, franchise and chain stores management.
- B: Attending seminars on corporate governance matters.
- C: Attending forum relating to brand management.
- D: Reading seminar materials and updates relating to corporate governance matters.

## Chairman and Chief Executive Officer

The Chairman of the Board, Mr. Wang Dong Xing, is responsible for the overall management of and leadership for the Board and ensuring that good corporate governance practices and procedures are established. He is also responsible to ensure all Directors receive adequate information in a timely manner and are properly briefed on issues arising on board meetings. During the year, the Chairman had one meeting with the Independent Non-executive Directors without the Executive Directors present.

The Chief Executive Officer, Mr. Wang Liang Xing, is responsible for managing the day-to-day operations of the Group's business.

The Company has kept these roles separated and distinctive as this ensures better checks and balances and hence better corporate governance.

## Independence of Independent Non-executive Directors

Currently, the four Independent Non-executive Directors have extensive experiences in apparel industry and consumer market in China, who bring with them expertise in different areas. The role of the Independent Non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. The Independent Non-executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors.

Each Independent Non-executive Director has submitted annual confirmation of his independence to the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the Independent Non-executive Directors are independent.

## Board Committees

To cover particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established Audit Committee, Remuneration Committee and Nomination Committee. Each of the Committees is delegated by the Board with specific roles and responsibilities and reports to the Board on matters discussed and their findings. Their terms of reference are available on the Company's website.

All Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

### (i) *Audit Committee*

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Nie Xing, Dr. Lu Hong Te and Mr. Lai Shixian. 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 review and supervise the financial reporting process and internal control system of the Group. These include reviewing the Group's interim and annual reports.

The Audit Committee had two meetings during the year ended 31 December 2012. During the meetings, the Audit Committee had considered internal control review findings, the annual report of the Group for the year ended 31 December 2011 and the interim report of the Group for the six months ended 30 June 2012, as well as the reports prepared by the external auditor covering major findings in the course of its audit/review.

(ii) *Remuneration Committee*

The Remuneration Committee comprises two Independent Non-executive Directors and one Executive Director, namely Mr. Chen Tien Tui, Mr. Nie Xing and Mr. Wang Cong Xing. Starting from 13 February 2012, Mr. Chen Tien Tui has replaced Mr. Wang Cong Xing as the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy as well as the specific remuneration packages 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 own remuneration.

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, performance, responsibility, job complexity and the Group's performance are taken into account.

During the year ended 31 December 2012, the Remuneration Committee held one meeting to discuss and approve for recommendation to the Board the bonus (if any) for the year ended 31 December 2011 and salary adjustments (if any) for the year ended 31 December 2012 of Executive Directors and senior management.

Details of Directors' and senior management's remuneration are set out in notes 8 to 10 of the financial statements.

(iii) *Nomination Committee*

The Nomination Committee was established on 13 February 2012 and comprises one Executive Director and two Independent Non-executive Directors, namely Mr. Wang Dong Xing, Dr. Lu Hong Te and Mr. Chen Tien Tui. Mr. Wang Dong Xing is the Chairman of the Nomination Committee.

The principal responsibilities of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and as required to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors.

During the year ended 31 December 2012, the Nomination Committee held one meeting to consider and approve for recommendation to the board the appointment of Mr. Lai Shixian as an additional Independent Non-executive Director. The Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs.

# Corporate Governance Report (continued)

## Board Proceedings

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

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 abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary in sufficient details the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

## Meetings

The attendance of individual Directors at board meetings, Audit Committee meetings, Remuneration Committee meeting, Nomination Committee meeting and Annual Meeting held during the year ended 31 December 2012 are set out below:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Annual Meeting
No. of meetings held during the year ended 31 December 2012	5	2	1	1	1
Executive Directors					
Mr. Wang Dong Xing	5	N/A	N/A	1	1
Mr. Wang Liang Xing	4	N/A	N/A	N/A	–
Mr. Wang Cong Xing	5	N/A	1	N/A	1
Mr. Cai Rong Hua	5	N/A	N/A	N/A	–
Mr. Hu Cheng Chu	4	N/A	N/A	N/A	1
Mr. Wang Ru Ping	4	N/A	N/A	N/A	1
Mr. Pan Rong Bin	5	N/A	N/A	N/A	–
Independent Non-executive Directors					
Dr. Lu Hong Te	5	2	N/A	1	–
Mr. Chen Tien Tui	5	1	1	1	1
Mr. Nie Xing	5	2	1	N/A	1
Mr. Lai Shixian (appointed on 13 December 2012)	N/A	N/A	N/A	N/A	N/A



### **Appointment and Re-election of Directors**

Each of the Executive Directors and Independent Non-executive Directors of the Company has entered into a service contract with the Company for a specific term subject to his retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or 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.

### **Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("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 also been requested to comply with the provisions of the Securities Dealing Code.

### **Company Secretary**

Ms. Ko Yuk Lan, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the financial year, the Company Secretary has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of the Company Secretary is set out in the section headed "Biographical Details of Directors and Senior Management" on pages 26 to 30 in the annual report.

## **(B) Financial reporting and internal control**

### **Financial Reporting**

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, 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 ensure the Company maintains a sound and effective internal control system.

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic rotational basis based on the risk assessments of the operations and controls. The scope of review for the year had been determined and approved by the Audit Committee. No major issue but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

# Corporate Governance Report (continued)

## External Auditor

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

During the year, the fees payable to KPMG in respect of its statutory audit services (including interim review) provided to the Group was RMB2,276,000. Fees payable to KPMG for internal control review, non-audit services, for the year amounted to RMB350,000.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

## (C) Non-compete undertaking by controlling shareholders

Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International Limited and Ming Lang Investments Limited 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 the Group) which directly or indirectly competes or may compete with the business of the Group. To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in the Group's favour on 4 September 2009.

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

- (i) the 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) the Company 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 the annual report or by way of announcement;
- (iii) the Company will disclose in the corporate governance report on how the terms of the non-compete undertaking have been complied with and enforced; and
- (iv) in the event that any of the 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 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.

The 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 the Group and to protect the interests of the 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.

## **(D) Communications with shareholders and investors relations**

### **Investors Relations**

The Company believes that effective communication with its shareholders and the investment community in a fair and timely basis is essential. Continuous dialogue are held with research analysts and institutional investors by means of roadshows, one on one meetings, conference calls and investors conferences to keep them abreast of the Group's business and development.

### **Shareholders' Rights**

The Company encourages shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong or via email to [ir@lilanz.com.hk](mailto:ir@lilanz.com.hk).

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

The attendance record of the Directors at the annual general meeting held during the year is set out under the paragraph headed "Meetings" above.

During the financial year, there were no changes in any of the Company's constitutional documents.

# Biographical Details Of Directors And Senior Management

## Directors

### Executive Directors

**Mr. Wang Dong Xing** (王冬星先生), aged 52, is the chairman and an executive Director of the 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 the Group. He is responsible for the 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 the 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), an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院) and a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院). Mr. Wang has over 20 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang 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). He 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), standing committee member of the Jinjiang Chamber of Commerce (晉江市工商聯(總商會)) and chairman of the Quanzhou APEC Business Travel Card Association (泉州市APEC(亞太經合組織)商務旅行卡協會).

Mr. Wang is the elder brother of Mr. Wang Liang Xing and Mr. Wang Cong Xing, who are also executive Directors of the 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 Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) of the Company.

**Mr. Wang Liang Xing** (王良星先生), aged 50, is the vice chairman, the chief executive officer and an executive Director of the Company. He was appointed as an executive Director on 13 June 2008. He has been with the Group since its establishment in April 1995 and is one of the founders of the Group. Mr. Wang is responsible for the Group's overall business development, strategic planning and corporate management. He is also responsible for the corporate development and the internal management system of the 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), an EMBA programme organised by Xiamen University (廈門大學) and a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院). He has over 20 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is also the 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) and was accredited as the "Brand China People of the Year 2010" (2010品牌中國年度人物).

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Cong Xing, and the brother-in-law of Mr. Cai Rong Hua, who are also executive Directors 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 Cong Xing** (王聰星先生), aged 44, is the vice chairman and an executive Director of the Company. He was appointed as an executive Director on 2 January 2008. Mr. Wang has been with the Group since its establishment in April 1995 and is one of the founders of the Group. He is responsible for finance and information technology management for the Group. He is also responsible for corporate development and the internal management system of the Group and supervising the implementation of the annual, quarterly and monthly financial plans of the 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.

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Liang Xing, who are also executive Directors of the Company. He is also a director and a shareholder of Ming Lang Investments Limited and Xiao Sheng International Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

**Mr. Cai Rong Hua** (蔡榮華先生), aged 44, is an executive Director of the Company. He joined the Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for product research and development for the Group. He is also responsible for negotiating with the major suppliers of the 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) and an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院). He has over 10 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Cai is the brother-in-law of Mr. Wang Liang Xing, who is an executive Director 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. Hu Cheng Chu** (胡誠初先生), aged 68, is an executive Director of the Company. He joined the 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 the 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 is currently the vice chairman of the Quanzhou Association of Professional Managers (泉州職業經理人協會) and a supervisor of the Association of China Brand Managers of the Brand China Industry Union (品牌中國產業聯盟之中國品牌經理人協會). Mr. Hu was accredited as the top 10 planner for corporate sales and marketing in the PRC for the year 2007 and 2008, and for the year 2009 and 2010 (2007–2008年及2009–2010年中國十大企業營銷策劃人), the top 10 brand manager in China for the year 2010 (2010中國十大品牌經理人) and the China Great Wall outstanding advertising personage award for the year 2011 (2011年中國廣告主長城獎—人物獎之功勳獎).

Mr. Hu 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 50, is an executive Director of the Company. He joined the 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 development of the operational facilities of the Group as well as overseeing the maintenance and legal compliance in relation to the 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.

Mr. Wang 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.

# Biographical Details Of Directors And Senior Management (continued)

**Mr. Pan Rong Bin** (潘榮彬先生), aged 39, is an executive Director of the Company. He joined the Group in February 2003 and was appointed as an executive Director on 13 June 2008. Prior to acting as the general manager of the Group's core brand "LILANZ" since March 2011, Mr. Pan was responsible for the marketing and distribution operations of the Group's core brand "LILANZ".

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) 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. He has over 10 years of retail and sales management experience in the menswear industry in the PRC.

Mr. Pan 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 52, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. 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.

Dr. Lu is an independent non-executive director of three companies in Taiwan, namely 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 64, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. Mr. Chen is the chief executive officer and an executive director of Victory City International Holdings Limited (冠華國際控股有限公司) (stock code: 539) and a non-executive director of Ford Glory Group Holdings Limited (福源集團控股有限公司) (stock code: 1682), the shares of which are listed on the Stock Exchange. He has over 30 years experience in the textile industry.

**Mr. Nie Xing** (聶星先生), aged 48, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. 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 an 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. Mr. Nie is currently the chairman of the Audit Committee.

**Mr. Lai Shixian** (賴世賢先生), aged 38, is an independent non-executive Director of the Company. He joined the Board on 13 December 2012. Mr. Lai is the chief operating officer, an executive director and a vice president of ANTA Sports Products Limited (安踏體育用品有限公司) (stock code: 2020), the shares of which are listed on the Stock Exchange, and is primarily responsible for the supply chain and administrative management of that group of companies. Mr. Lai holds an EMBA degree from China Europe International Business School.

## Senior management

**Ms. Ko Yuk Lan** (高玉蘭女士), aged 51, is the chief financial officer and company secretary of the Group. She first joined the Group in January 2008 and worked with the Group until September 2008. She rejoined the Group in May 2010. Ms. Ko graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) with a Professional Diploma in Management Accountancy. She has over 25 years of experience in financial management and corporate finance. Prior to joining the Group, she had worked in an international accounting firm and other companies listed on the main board of the Stock Exchange. Ms. Ko is a member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Cost and Management Accountants. She is currently an independent non-executive director of Hosa International Limited (浩沙國際有限公司) (stock code 2200), the shares of which are listed on the Stock Exchange.

**Mr. Lin Yi-Chieh** (林易杰先生), aged 36, is the head of the human resources department of the Group's core brand "LILANZ". 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. Mr. Lin joined the Group on 7 June 2007.

**Ms. Shi Mei Ya** (施美芽女士), aged 36, is the head of the production department of the Group's core brand "LILANZ". She completed a programme in fine chemical engineering at Fujian Radio and TV University (福建省廣播電視大學) 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 a master programme in business administration for senior managers (高級經理工商管理碩士) at Xiamen University (廈門大學). Ms. Shi joined the Group on 1 August 1998 and has been the head of production department of the Group's core brand "LILANZ" since November 2008.

**Mr. Zhang Yu Feng** (章宇峰先生), aged 42, is the head of marketing in the sales and marketing department of the Group's core brand "LILANZ". 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 Cheung Kong Graduate School of Business (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 China regions. He joined the Group on 27 August 2007 and since then he has been the head of the marketing in the sales and marketing department of the Group's core brand "LILANZ".

**Mr. Zhuang Zhi Han** (莊志函先生), aged 43, is the deputy financial controller of the 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 obtained an EMBA degree from Xiamen University (廈門大學) in January 2013. Prior to joining the Group, he worked in Xiixin Electronic Stock Company Limited (夏新電子股份有限公司), responsible for the overall financial affairs. He joined the Group on 1 September 2008.

## Biographical Details Of Directors And Senior Management (continued)

**Mr. Chen Wei Jin** (陳維進先生), aged 43, is the head of the group ordering department of the 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 the Group on 1 March 2004 as the manager of the group ordering department of the Group. Mr. Chen is the brother-in-law of Mr. Wang Dong Xing, an executive Director of the Company.

**Ms. Chen Zhi Mei** (陳志梅小姐), aged 31, is the assistant to the vice president of the sales and marketing department of the Group's core brand "LILANZ". 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 the Group on 8 June 2001 and has worked as the assistant to the vice president of the sales and marketing department of the Group's core brand "LILANZ" since 2005.

**Mr. Huang Ming Hai** (黃明海先生), aged 37, is the deputy financial controller of the Group's core brand "LILANZ". 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), a programme in financial management at the Adult Education College of Huaqiao University (華僑大學), and 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 is currently attending a distance-learning programme in finance (成人高等教育會計學專業函授課程) at the Fujian Agriculture and Forestry University Continuing Education School (福建農林大學成人教育學院). He joined the Group on 24 April 1995.



# 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 2012.

## Principal place of business

The Company was incorporated in the Cayman Islands and is domiciled in Hong Kong and has its registered office at Suite 3402, 34/F., Lippo Centre, Tower One, 89 Queensway, Hong Kong. The Group's principal place of business is in the PRC.

## 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 18 to the financial statements.

## Major customers and suppliers

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

	2012		2011	
	Percentage of the group's total		Percentage of the group's total	
	Sales	Purchases	Sales	Purchases
The largest customer	13.6%		13.2%	
Five largest customers in aggregate	30.7%		31.1%	
The largest supplier		3.3%		3.6%
Five largest suppliers in aggregate		12.8%		15.2%

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 suppliers.

## Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 92 of the annual report.

## Financial statements

The profit of the Group for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 43 to 91 of the annual report.

## Transfer to reserves

Profits attributable to shareholders, before dividends, of RMB626,797,000 (2011: RMB623,138,000) have been transferred to reserves. Other movements in reserves of the Group are set out in the consolidated statement of changes in equity.

An interim dividend of HK13 cents (2011: HK11 cents) per ordinary share and a special interim dividend of HK6 cents (2011: HK5 cents) per ordinary share was paid on 12 September 2012. The Directors now recommend the payment of a final dividend of HK19 cents (2011: HK19 cents) per ordinary share and a special final dividend of HK6 cents (2011: HK6 cents) per ordinary share in respect of the year ended 31 December 2012.

# Report Of The Directors (continued)

## Charitable donations

Charitable donations made by the Group during the year amounted to RMB544,000 (2011: RMB1,249,000).

## Non-current assets

Details of acquisitions and other movements of non-current assets (including fixed assets, construction in progress, investment property, lease prepayments, intangible assets and deposits for purchases of fixed assets and land use rights) are set out in notes 13 to 17 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 29(c) to the consolidated financial statements. Shares were issued during the year on exercise of share options.

## 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 Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2012 and at any time up to the date of this annual report.

## 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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

## 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  
Mr. Lai Shixian (appointed on 13 December 2012)

Details of the Directors' biographies have been set out on pages 26 to 30 of the annual report.

In accordance with article 105(A) of the Company's articles of association, Mr. Wang Cong Xing, Mr. Cai Rong Hua, Mr. Pan Rong Bin 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.

In accordance with article 109 of the Company's articles of association, Mr. Lai Shixian will retire from the Board at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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.

# Report Of The Directors (continued)

## Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2012, the interests and short positions of the directors and chief executives 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 ("Model Code") contained in Appendix 10 to the Listing Rules:

Name of shareholder	Name of Group Company/ Associated Corporation	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)	25.50%
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)	25.50%
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)	25.50%
Mr. Cai Rong Hua	The Company	Beneficial owner	9,010,000 shares (L)	0.75%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US\$1.00 each (L)	8.00%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.37%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US\$1.00 each (L)	5.00%
Mr. Wang Ru Ping	The Company	Beneficial owner	2,700,000 shares (L)	0.22%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3.00%
Mr. Pan Rong Bin	The Company	Beneficial owner	2,700,000 shares (L)	0.22%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3.00%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of the 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 Mr. Hu Cheng Chu, 3% by each of Mr. Wang Ru Ping and Mr. 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 2012, none of the Directors and chief executives 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.

Save in connection with any share options to subscribe for the shares of the Company which may be granted to any of the Directors under the Company's share option scheme as detailed in the paragraph headed Share Option Scheme, 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 2012, 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)	55.09%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	72,205,000 shares (L) (Note 3)	6.01%

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 Mr. Hu Cheng Chu, 3% by each of Mr. Wang Ru Ping and Mr. 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 Mr. Hu Cheng Chu, 3% by each of Mr. Wang Ru Ping and Mr. 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 2012, the Directors were 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 transaction

The related party transaction for the year as disclosed in note 32 to the consolidated financial statements also constituted continuing connected transaction under the Listing Rules, which is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Details of such continuing connected transaction (as defined under the Listing Rules) are set out below in accordance with the requirements of the Listing Rules:

# Report Of The Directors (continued)

## **Tenancy Agreement with Jinlang (Fujian) Investments Co., Ltd (“Jinlang Fujian”)**

Jinlang Fujian is wholly owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, three of the executive Directors and controlling shareholders (within the meaning of the Listing Rules) of the Company. Jinlang Fujian is therefore a connected person of the Company under the Listing Rules.

The Group, as lessee, entered into a tenancy agreement with Jinlang Fujian, as landlord, on 15 December 2010 (the “Tenancy Agreement”) in respect of the premises of the Company’s headquarters at Lilang Industrial Park, 200 Chang Xing Road, Jinjiang City, Fujian Province (the “Premises”) with aggregate gross floor area of approximately 27,757 sq. m. for a term commencing from 1 January 2011 to 31 December 2013. The monthly rent payable by the Group to Jinlang Fujian under the Tenancy Agreement was RMB252,591 (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 ended 31 December 2012, total rental paid or payable by the Group under the Tenancy Agreement amounted to RMB3,031,092 which did not exceed the annual caps for this transaction.

## **Opinion from the Independent Non-executive Directors and auditor on the continuing connected transaction**

The Directors (including all Independent Non-executive Directors) have reviewed the continuing connected transaction and confirmed that this transaction was entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the relevant agreement governing it and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

KPMG, the auditor the Company, was engaged to report on the Group’s continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The Company has received an unqualified letter from KPMG containing their finding and conclusions in respect of the continuing connected transaction disclosed above in accordance with Rule 14A.38 of the Listing Rules.

## **Directors’ interests in contracts**

Save as disclosed in the paragraph headed “Continuing connected transaction” above and in note 32 to the consolidated 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**

During the year, save as disclosed in note 32 to the consolidated financial statements and in the paragraph headed “Continuing Connected Transaction” in this report, there had been no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (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. 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 throughout the year ended 31 December 2012.

## Equity-settled share based payments

The Company 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.

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 under the Pre-IPO Share Option Scheme at an exercise price of HK\$3.12 per share, being 80% of the initial public offering price. No further option could be granted under the Pre-IPO Share Option Scheme after 4 September 2009.

Details of movements of the options during the year are set out below:

Name or category of participants	As at 1 January 2012	Options granted by the Company Number of underlying shares				As at 31 December 2012	Exercise period
		Granted	Exercised	Cancelled	Lapsed		
Employees	5,407,837	-	(106,614)	-	-	5,301,223	Note 1
Employees	105,878	-	-	-	-	105,878	Note 2
Employees	2,646,956	-	-	-	-	2,646,956	Note 3
	8,160,671	-	(106,614)	-	-	8,054,057	

# Report Of The Directors (continued)

Notes:

1. The outstanding options at 31 December 2012 are exercisable by the grantees 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 1,293,174 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 2,933,786 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. The outstanding options at 31 December 2012 are exercisable by the 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 31,763 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 63,526 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. The outstanding options at 31 December 2012 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 794,086 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 1,588,173 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.

The number of shares to be issued upon the exercise of the outstanding options under the Pre-IPO Share Option Scheme was 8,054,057 (representing 0.67% of the issued share capital of the Company) as at 31 December 2012 and the date of approval of this report.

## 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 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 this report, the total number of shares which may be issued upon the exercise of all options (excluding for this purpose options which have lapsed) which have been or 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 9.99% of the shares of the Company in issue as at the balance sheet date and the date of approval of this report. 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 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.

On 29 November 2011 (the "Date of Offer"), the Company offered to grant options to subscribe for an aggregate of 1,130,000 shares of the Company to employees of the Group under the Share Option Scheme at an exercise price of HK\$6.63 per share. The closing prices of the Company's shares immediately before the Date of Offer and on the Date of Offer were HK\$6.01 and HK\$6.63 respectively. The offers were accepted by the grantees within 21 days from the Date of Offer.

**Options granted by the Company**  
**Number of underlying shares**

Name or category of participants	As at				As at 31 December 2012	Exercise period	Exercise price	
	1 January 2012	Granted	Exercised	Cancelled				Lapsed
Employees	1,130,000	-	-	-	-	1,130,000	Note	HK\$6.63

Note: The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of one year period after 29 November 2011 (the "Date of Offer") and ending on the day falling seven years after the Date of Offer, during which, (a) up to 265,000 options granted may be exercised on or prior to the end of the second year after the Date of Offer; (b) subject to (a), up to 530,000 options granted may be exercised on or prior to the end of the third year after the Date of Offer; (c) subject to (a) and (b), up to 710,000 options granted may be exercised on or prior to the end of the fourth year after the Date of Offer; (d) subject to (a), (b) and (c), up to 890,000 options granted may be exercised on or prior to the end of the fifth year after the Date of Offer; and (e) subject to (a), (b), (c) and (d), 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.

The number of shares to be issued upon the exercise of the outstanding options under the Share Option Scheme was 1,130,000 (representing 0.09% of the issued share capital of the Company) as at 31 December 2012 and the date of approval of this report.

# Report Of The Directors (continued)

## Retirement schemes

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 27 to the consolidated financial statements.

## Auditor

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

**Wang Dong Xing**

*Chairman*

Hong Kong, 13 March 2013

# Independent Auditor's Report



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

We have audited the consolidated financial statements of China Lilang Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 43 to 91, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 information.

## **Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

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

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

# Independent Auditor's Report (continued)

## 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 2012 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

13 March 2013

# Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2012  
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
<b>Turnover</b>	3	<b>2,793,370</b>	2,707,995
Cost of sales		<b>(1,669,325)</b>	(1,652,527)
<b>Gross profit</b>		<b>1,124,045</b>	1,055,468
Other revenue	4	<b>15,346</b>	11,630
Selling and distribution expenses		<b>(325,014)</b>	(274,442)
Administrative expenses		<b>(102,948)</b>	(88,556)
Other operating expenses		<b>(2,031)</b>	(369)
<b>Profit from operations</b>		<b>709,398</b>	703,731
Net finance income	5	<b>57,399</b>	49,096
<b>Profit before taxation</b>	6	<b>766,797</b>	752,827
Income tax	7(a)	<b>(140,000)</b>	(129,689)
<b>Profit attributable to equity shareholders of the Company</b>	11	<b>626,797</b>	623,138
<b>Other comprehensive income for the year</b>			
Exchange differences on translation of financial statements of subsidiaries outside the mainland of the People's Republic of China (the "PRC")		<b>262</b>	(8,893)
<b>Total comprehensive income for the year</b>		<b>627,059</b>	614,245
<b>Earnings per share</b>			
Basic (cents)	12	<b>52.20</b>	51.90
Diluted (cents)		<b>52.04</b>	51.66

The notes on pages 49 to 91 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 29(b).

# Consolidated Balance Sheet

At 31 December 2012  
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	13	327,762	204,333
Investment property	14	–	29,387
Lease prepayments	15	36,605	37,419
Intangible assets	16	6,952	7,991
Deposits for purchases of fixed assets and land use rights	17	61,451	120,424
Deferred tax assets	26(b)	21,917	10,185
Pledged bank deposits	22	320,000	–
		<b>774,687</b>	409,739
<b>Current assets</b>			
Inventories	19	280,287	225,194
Trade and other receivables	20	737,564	714,791
Pledged bank deposits	22	153,939	4,040
Fixed deposits held at banks with maturity over three months	23	100,000	–
Cash and cash equivalents	23	1,242,788	1,240,977
		<b>2,514,578</b>	2,185,002
<b>Current liabilities</b>			
Bank loans	24(a)	150,180	–
Trade and other payables	25	360,283	339,446
Current tax payable	26(a)	33,693	28,766
		<b>544,156</b>	368,212
<b>Net current assets</b>		<b>1,970,422</b>	1,816,790
<b>Total assets less current liabilities</b>		<b>2,745,109</b>	2,226,529
<b>Non-current liabilities</b>			
Bank loans	24(a)	293,497	–
Deferred tax liabilities	26(b)	68,696	48,351
Retention payables		910	972
		<b>363,103</b>	49,323
<b>Net assets</b>		<b>2,382,006</b>	2,177,206

	Note	2012 RMB'000	2011 RMB'000
<b>Capital and reserves</b>			
Share capital	29(c)	105,801	105,792
Reserves		2,276,205	2,071,414
<b>Total equity</b>		<b>2,382,006</b>	2,177,206

Approved and authorised for issue by the board of directors on 13 March 2013

**Mr. Wang Dong Xing**  
*Chairman*

**Mr. Wang Liang Xing**  
*Chief Executive Officer*

**Mr. Wang Cong Xing**  
*Executive Director*

The notes on pages 49 to 91 form part of these financial statements.

# Balance Sheet

At 31 December 2012  
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
<b>Non-current assets</b>			
Investments in subsidiaries	18	139,505	139,505
<b>Current assets</b>			
Trade and other receivables	20	197	–
Amount due from a subsidiary	21	124,195	388,966
Cash and cash equivalents	23	5,424	6,181
		129,816	395,147
<b>Current liabilities</b>			
Trade and other payables	25	245	512
Amount due to a subsidiary	21	2,237	2,237
		2,482	2,749
<b>Net current assets</b>		<b>127,334</b>	392,398
<b>Total assets less current liabilities</b>		<b>266,839</b>	531,903
<b>Non-current liability</b>			
Bank loan	24(a)	144,738	–
<b>Net assets</b>		<b>122,101</b>	531,903
<b>Capital and reserves</b>			
Share capital	29(a)	105,801	105,792
Reserves		16,300	426,111
<b>Total equity</b>		<b>122,101</b>	531,903

Approved and authorised for issue by the board of directors on 13 March 2013

**Mr. Wang Dong Xing**  
Chairman

**Mr. Wang Liang Xing**  
Chief Executive Officer

**Mr. Wang Cong Xing**  
Executive Director

The notes on pages 49 to 91 form part of these financial statements.



# Consolidated Statement Of Changes In Equity

For the year ended 31 December 2012  
(Expressed in Renminbi)

Note	Attributable to equity shareholders of the Company					Retained profits	Total equity	
	Share capital (note 29(c)) RMB'000	Share premium (note 29(d)(i)) RMB'000	Statutory reserve (note 29(d)(ii)) RMB'000	Capital reserve (note 29(d)(iii)) RMB'000	Exchange reserve (note 29(d)(iv)) RMB'000			
At 1 January 2011	105,775	796,431	110,826	26,994	(15,219)	835,330	1,860,137	
Changes in equity for 2011:								
Profit for the year	-	-	-	-	-	623,138	623,138	
Other comprehensive income for the year	-	-	-	-	(8,893)	-	(8,893)	
Total comprehensive income for the year	-	-	-	-	(8,893)	623,138	614,245	
Shares issued under share option schemes	29(c)(i)	17	742	-	(221)	-	538	
Equity settled share-based payments	29(d)(iii)	-	-	-	2,026	-	2,026	
Dividend approved in respect of the previous year	29(b)	-	(144,066)	-	-	-	(144,066)	
Dividends declared in respect of the current year	29(b)	-	(155,674)	-	-	-	(155,674)	
Appropriation to statutory reserve	-	-	65,605	-	-	(65,605)	-	
At 31 December 2011 and 1 January 2012		<b>105,792</b>	<b>497,433</b>	<b>176,431</b>	<b>28,799</b>	<b>(24,112)</b>	<b>1,392,863</b>	<b>2,177,206</b>
Changes in equity for 2012:								
Profit for the year	-	-	-	-	-	626,797	626,797	
Other comprehensive income for the year	-	-	-	-	262	-	262	
Total comprehensive income for the year	-	-	-	-	262	626,797	627,059	
Shares issued under share option schemes	29(c)(i)	9	367	-	(109)	-	267	
Equity settled share-based payments	29(d)(iii)	-	-	-	2,298	-	2,298	
Dividend approved in respect of the previous year	29(b)	-	(241,377)	-	-	-	(241,377)	
Dividends declared in respect of the current year	29(b)	-	(183,447)	-	-	-	(183,447)	
Appropriation to statutory reserve	-	-	-	22,827	-	(22,827)	-	
At 31 December 2012		<b>105,801</b>	<b>72,976</b>	<b>199,258</b>	<b>30,988</b>	<b>(23,850)</b>	<b>1,996,833</b>	<b>2,382,006</b>

The notes on pages 49 to 91 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2012  
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
<b>Operating activities</b>			
Cash generated from operations	23(b)	684,051	325,819
PRC corporate income tax paid		(123,960)	(92,200)
PRC dividend withholding tax paid		(2,500)	–
<b>Net cash generated from operating activities</b>		<b>557,591</b>	233,619
<b>Investing activities</b>			
Payment for purchase of property, plant and equipment		(37,557)	(120,373)
Payment for purchase of investment property		–	(279)
Payment for purchase of intangible assets		(1,162)	(1,887)
Payment for purchase of land use rights		(25,000)	(35,000)
Proceeds from disposal of property, plant and equipment		2,012	325
Interest income received		60,880	43,385
(Increase)/decrease in fixed deposits held at banks with maturity over three months		(100,000)	575,594
Increase in pledged bank deposits		(470,000)	–
<b>Net cash (used in)/generated from investing activities</b>		<b>(570,827)</b>	461,765
<b>Financing activities</b>			
Proceeds from bank loans		443,677	97,248
Repayment of bank loans		–	(97,248)
Proceeds from issue of shares under share option scheme	29(a)	267	538
Interest expense paid		(3,940)	(428)
Dividends paid	29(b)	(424,824)	(299,740)
<b>Net cash generated from/(used in) financing activities</b>		<b>15,180</b>	(299,630)
<b>Net increase in cash and cash equivalents</b>		<b>1,944</b>	395,754
<b>Cash and cash equivalents at 1 January</b>		<b>1,240,977</b>	847,457
<b>Effect of foreign exchange rate changes</b>		<b>(133)</b>	(2,234)
<b>Cash and cash equivalents at 31 December</b>	23(a)	<b>1,242,788</b>	1,240,977

The notes on pages 49 to 91 form part of these financial statements.

# Notes To The Financial Statements

(Expressed in Renminbi)

## 1 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the “Group”).

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 cost 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 33.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 1 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 from 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 1(i)).

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

The cost of self-constructed items of property, plant and equipment includes the 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 1(t)).

No depreciation is provided in respect of construction in progress.

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.
  
- Leasehold improvements    shorter of 5 years or remaining term of the lease
  
- Plant and machinery    10 years
  
- 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.

## 1 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 stated at cost less accumulated depreciation and impairment losses (see note 1(i)). Depreciation is recognised in profit or loss 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 stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights which are 50 years.

### (g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Computer software	5 years
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Both the useful life and method of amortisation are reviewed annually.

### (h) 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 held under operating leases, payments made 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. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 1 Significant accounting policies (continued)

### (i) Impairment of assets

#### (i) *Impairment of current and non-current receivables*

Current and non-current receivables that are stated 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 Group 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. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

# 1 Significant accounting policies (continued)

## (i) Impairment of assets (continued)

### (ii) *Impairment of other assets*

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

- property, plant and equipment;
- construction in progress;
- investment property;
- lease prepayments;
- intangible assets; and
- investments 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 first 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.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 1 Significant accounting policies (continued)

### (j) 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.

### (k) Trade and other receivables

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

### (l) 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 the amount initially recognised 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.

### (m) Trade and other payables

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

### (n) 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.



## 1 Significant accounting policies (continued)

### (o) Employee benefits

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

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

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

#### (ii) *Share-based payments*

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

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

### (p) 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 years.

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.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 1 Significant accounting policies (continued)

### (p) Income tax (continued)

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

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 1 Significant accounting policies (continued)

### (q) 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.

### (r) 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 and is after deduction of returns and any trade discounts.

#### (ii) *Interest income*

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

#### (iii) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same year 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 the profit or loss as other revenue on a cash receipt basis.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 1 Significant accounting policies (continued)

### (s) 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 mainland China is Hong Kong dollars and the functional currency of the subsidiaries in mainland China 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 mainland China 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 mainland China, 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.

### (t) 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 year 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.

### (u) Research and development

Expenditure on research activities is recognised as an expense in the year 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 year in which it is incurred.

## 1 Significant accounting policies (continued)

### (v) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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.

### (w) 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 wholesaling of menswear and accessories in the PRC. Accordingly, no segmental analysis is presented.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 2 Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, Amendments to IFRS 7, Financial Instruments: Disclosure — Transfer of financial assets is relevant to the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### Amendments to IFRS 7, Financial instruments: Disclosure

The amendments to IFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. Details of the credit risk associated with these transfer of financial assets are set out in note 30(a).

## 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").

The Group has one customer with whom transactions have exceeded 10% of the Group's turnover for each of the years ended 31 December 2012 and 2011. The amount of sales to this customer amounted to approximately RMB380,021,000 for the year (2011: RMB356,714,000). Details of concentrations of credit risk arising from customers are set out in note 30(a).

## 4 Other revenue

	2012 RMB'000	2011 RMB'000
Government grants	15,217	11,263
Others	129	367
	<b>15,346</b>	11,630

Government grants of RMB15,217,000 (2011: RMB11,263,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlements were unconditional and under the discretion of the relevant authorities.

## 5 Net finance income

	2012 RMB'000	2011 RMB'000
Interest income	65,287	44,018
Net foreign exchange (loss)/gain	(196)	5,506
Interest on bank borrowings	(7,692)	(428)
	<b>57,399</b>	49,096

## 6 Profit before taxation

Profit before taxation is arrived at after charging:

	2012 RMB'000	2011 RMB'000
<b>(a) Staff costs (note (i)):</b>		
Salaries, wages and other benefits	141,469	126,043
Contributions to defined contribution retirement plans	2,315	1,743
Equity settled share-based payment expense (note 28)	2,298	2,026
	<b>146,082</b>	129,812
<b>(b) Other items:</b>		
Amortisation of lease prepayments	814	814
Amortisation of intangible assets	2,201	1,772
Depreciation (note (i))	22,427	16,466
Auditor's remuneration	2,432	2,207
Cost of inventories (note (i))	1,669,325	1,652,527
Loss on disposal of property, plant and equipment	1,775	666
Operating lease rental in respect of properties (note (i))	9,546	9,150
Research and development costs (notes (i) and (ii))	47,423	20,843
Subcontracting charges (notes (i) and (iii))	82,054	126,508

Notes:

- (i) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, depreciation and operating lease rental in respect of properties totalling RMB206,567,000 (2011: RMB220,373,000) included in items disclosed above.
- (ii) Research and development costs include salaries, wages and other benefits totaling RMB15,194,000 (2011: RMB12,480,000) for employees in the design department, which are included in the staff costs as disclosed in note 6(a).
- (iii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 7 Income tax in the consolidated statement of comprehensive income

### (a) Income tax in the consolidated statement of comprehensive income represents:

	2012 RMB'000	2011 RMB'000
<b>Current tax</b>		
Provision for PRC corporate income tax for the year (note 26(a))	126,511	94,843
Under-provision for PRC corporate income tax in respect of prior year	2,376	–
PRC dividend withholding tax (note (vi))	2,500	–
	<b>131,387</b>	94,843
<b>Deferred tax</b>		
Origination of temporary differences (note 26(b))	8,774	38,173
Distribution of dividends (note 26(b))	(2,500)	–
Effect on deferred tax balances at the beginning of the year resulting from a change in tax rate (notes (iv) and 26(b))	2,339	(3,327)
	<b>140,000</b>	129,689

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 for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2012 and 2011.
- (iii) Taxation for the Group's PRC subsidiaries are calculated using the income tax rates applicable to the subsidiaries. In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, one of the subsidiaries has been granted Advanced and New Technology Enterprise status which entitles the subsidiary to a reduced income tax rate at 15% for 2012 and 2013. Another subsidiary was entitled to tax concessions whereby the profits of that subsidiary was taxed at preferential income tax rate for the year ended 31 December 2012.
- (iv) The changes in tax rates have been taken into account for the calculation of the deferred tax in the Group's 2011 and 2012 financial statements and the opening balance of deferred tax of the related subsidiaries are re-estimated at the applicable tax rates.
- (v) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. As all of the Group's PRC subsidiaries are directly owned by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of the PRC dividend withholding tax. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.
- (vi) PRC dividend withholding tax represents tax charged by the PRC tax authority on dividends distributed by the Group's PRC subsidiary during the year.



## 7 Income tax in the consolidated statement of comprehensive income (continued)

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

	2012 RMB'000	2011 RMB'000
<b>Profit before taxation</b>	<b>766,797</b>	752,827
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	<b>192,949</b>	188,806
Tax effect of non-deductible expenses	<b>3,648</b>	2,456
Tax effect of non-taxable income	<b>(1,232)</b>	(1,464)
Tax effect of tax concessions	<b>(82,925)</b>	(93,782)
Effect on deferred tax balances at the beginning of the year resulting from a change in tax rate (note 26(b))	<b>2,339</b>	(3,327)
Under-provision in prior year	<b>2,376</b>	–
Withholding tax effect of undistributed profits retained by PRC subsidiaries (note 26(b))	<b>22,845</b>	37,000
<b>Actual tax expense</b>	<b>140,000</b>	129,689

## 8 Directors' remuneration

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

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2012 Total RMB'000
<b>Executive Directors</b>					
Wang Dong Xing	—	1,040	13	—	1,053
Wang Liang Xing	—	1,300	13	—	1,313
Wang Cong Xing	—	780	13	—	793
Cai Rong Hua	—	585	13	—	598
Hu Cheng Chu	—	585	—	—	585
Wang Ru Ping	—	585	13	—	598
Pan Rong Bin	—	585	13	—	598
<b>Independent Non-executive Directors</b>					
Lu Hong Te	200	—	—	—	200
Chen Tien Tui	200	—	—	—	200
Nie Xing	200	—	—	—	200
Lai Shixian (since December 2012)	10	—	—	—	10
<b>Total</b>	<b>610</b>	<b>5,460</b>	<b>78</b>	<b>—</b>	<b>6,148</b>

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 8 Directors' remuneration (continued)

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2011 Total RMB'000
<b>Executive Directors</b>					
Wang Dong Xing	–	1,040	13	–	1,053
Wang Liang Xing	–	1,300	13	–	1,313
Wang Cong Xing	–	780	13	–	793
Cai Rong Hua	–	585	13	–	598
Hu Cheng Chu	–	585	–	–	585
Wang Ru Ping	–	585	13	–	598
Pan Rong Bin	–	585	13	–	598
<b>Independent Non-executive Directors</b>					
Lu Hong Te	200	–	–	–	200
Chen Tien Tui	200	–	–	–	200
Nie Xing	200	–	–	–	200
<b>Total</b>	<b>600</b>	<b>5,460</b>	<b>78</b>	<b>–</b>	<b>6,138</b>

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 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

## 9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2011: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining two (2011: two) individuals are as follows:

	<b>2012</b> RMB'000	2011 RMB'000
Salaries and other benefits	<b>2,096</b>	2,107
Discretionary bonuses	<b>491</b>	494
Contributions to retirement benefit schemes	<b>24</b>	23
Share-based compensation	<b>1,407</b>	652
	<b>4,018</b>	3,276

## 9 Individual with highest emoluments (continued)

The emoluments of the two (2011: two) individuals with the highest emoluments are within the following bands:

	2012 Number of individuals	2011 Number of individuals
HK\$1,500,001 to HK\$2,000,000 (RMB1,206,001 to RMB1,608,000)	1	1
HK\$2,000,001 to HK\$2,500,000 (RMB1,608,001 to RMB2,010,000)	–	1
HK\$2,500,001 to HK\$3,000,000 (RMB2,010,001 to RMB2,412,000)	–	–
HK\$3,000,001 to HK\$3,500,000 (RMB2,412,001 to RMB2,814,000)	1	–

## 10 Remuneration of senior management

Remuneration of senior management of the Group, including amounts paid to the highest paid employees other than directors as disclosed in note 9 is as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	3,398	3,671
Discretionary bonuses	761	763
Contributions to retirement benefit schemes	42	44
Share-based compensation	1,519	949
	<b>5,720</b>	<b>5,427</b>

Remunerations of the senior management of the Group are within the following bands:

	2012 Number of individuals	2011 Number of individuals
Nil to HK\$1,000,000 (Nil to RMB804,000)	7	8
HK\$1,000,001 to HK\$1,500,000 (RMB804,001 to RMB1,206,000)	–	–
HK\$1,500,001 to HK\$2,000,000 (RMB1,206,001 to RMB1,608,000)	1	1
HK\$2,000,001 to HK\$2,500,000 (RMB1,608,001 to RMB2,010,000)	–	1
HK\$2,500,001 to HK\$3,000,000 (RMB2,010,001 to RMB2,412,000)	–	–
HK\$3,000,001 to HK\$3,500,000 (RMB2,412,001 to RMB2,814,000)	1	–

## 11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company for the year includes a profit of RMB15,525,000 (2011: loss of RMB112,000) which has been dealt with in the financial statements of the Company.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 12 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 RMB626,797,000 (2011: RMB623,138,000) and the weighted average number of ordinary shares in issue of 1,200,763,000 (2011: 1,200,597,000).

*Weighted average number of ordinary shares*

	2012 '000	2011 '000
Issued ordinary shares at 1 January	1,200,732	1,200,519
Effect of share options exercised	31	78
Weighted average number of ordinary shares	1,200,763	1,200,597

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB626,797,000 for the year (2011: RMB623,138,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company.

*Weighted average number of ordinary shares (diluted)*

	2012 '000	2011 '000
Weighted average number of ordinary shares	1,200,763	1,200,597
Effect of deemed issue of shares under the Company's share option schemes for nil consideration	3,710	5,749
Weighted average number of ordinary shares (diluted)	1,204,473	1,206,346

## 13 Property, plant and equipment

### The Group

	Properties and 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
<b>Cost:</b>									
At 1 January 2011	102,906	17,594	36,581	6,141	18,908	4,840	186,970	23,635	210,605
Additions	-	1,128	5,460	2,237	3,154	800	12,779	28,434	41,213
Transfer from construction in progress	-	2,524	-	-	1,420	-	3,944	(3,944)	-
Transfer to intangible assets (note 16)	-	-	-	-	-	-	-	(139)	(139)
Disposals	-	-	(124)	(739)	(925)	(2)	(1,790)	-	(1,790)
Exchange adjustment	-	(30)	-	-	(5)	(4)	(39)	(267)	(306)
At 31 December 2011 and 1 January 2012	102,906	21,216	41,917	7,639	22,552	5,634	201,864	47,719	249,583
Additions	87,614	1,492	4,891	651	3,795	1,698	100,141	20,178	120,319
Transfer from construction in progress	21,907	24,028	3,778	-	1,072	837	51,622	(51,622)	-
Transfer from investment property (note 14)	31,474	-	-	-	-	-	31,474	-	31,474
Disposals	(1,686)	(3,008)	(3,554)	-	(262)	(101)	(8,611)	-	(8,611)
Exchange adjustment	-	(5)	-	-	(2)	(1)	(8)	(61)	(69)
At 31 December 2012	242,215	43,723	47,032	8,290	27,155	8,067	376,482	16,214	392,696
<b>Accumulated depreciation:</b>									
At 1 January 2011	6,778	6,045	8,438	1,260	6,409	1,614	30,544	-	30,544
Charge for the year	2,541	3,495	4,155	788	3,647	913	15,539	-	15,539
Written back on disposals	-	-	(83)	(286)	(429)	(1)	(799)	-	(799)
Exchange adjustment	-	(30)	-	-	(2)	(2)	(34)	-	(34)
At 31 December 2011 and 1 January 2012	9,319	9,510	12,510	1,762	9,625	2,524	45,250	-	45,250
Transfer from investment property (note 14)	3,015	-	-	-	-	-	3,015	-	3,015
Charge for the year	3,214	7,809	3,971	695	4,565	1,245	21,499	-	21,499
Written back on disposals	(680)	(2,475)	(1,514)	-	(82)	(73)	(4,824)	-	(4,824)
Exchange adjustment	-	(5)	-	-	(1)	-	(6)	-	(6)
At 31 December 2012	14,868	14,839	14,967	2,457	14,107	3,696	64,934	-	64,934
<b>Net book value:</b>									
At 31 December 2012	227,347	28,884	32,065	5,833	13,048	4,371	311,548	16,214	327,762
At 31 December 2011	93,587	11,706	29,407	5,877	12,927	3,110	156,614	47,719	204,333

- (a) The Group's properties and 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.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 14 Investment property

	The Group	
	2012 RMB'000	2011 RMB'000
<b>Cost:</b>		
At 1 January	31,474	31,195
Additions	–	279
Transfer to property, plant and equipment (note 13)	(31,474)	–
At 31 December	–	31,474
<b>Accumulated depreciation:</b>		
At 1 January	2,087	1,160
Charge for the year	928	927
Transfer to property, plant and equipment (note 13)	(3,015)	–
At 31 December	–	2,087
<b>Net book value</b>	–	29,387

The property is located in the PRC under a medium-term lease and was originally intended to be leased out to a distributor as an authorised retail store and classified as investment property. The directors changed the intention and decided to use this property as a self-operated flagship store. The amount was transferred to property, plant and equipment accordingly. The flagship store had begun pilot operation in late 2012.

## 15 Lease prepayments

	The Group	
	2012 RMB'000	2011 RMB'000
<b>Cost:</b>		
At 1 January and at 31 December	40,848	40,848
<b>Accumulated amortisation:</b>		
At 1 January	3,429	2,615
Charge for the year	814	814
At 31 December	4,243	3,429
<b>Net book value:</b>		
At 31 December	36,605	37,419

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2012, the remaining period of the land use rights ranges from 43 to 45 years.

## 16 Intangible assets

	The Group	
	2012 RMB'000	2011 RMB'000
<b>Cost:</b>		
At 1 January	10,726	8,700
Additions	1,162	1,887
Transfer from construction in progress (note 13)	–	139
At 31 December	11,888	10,726
<b>Accumulated amortisation:</b>		
At 1 January	2,735	963
Charge for the year	2,201	1,772
At 31 December	4,936	2,735
<b>Net book value:</b>		
At 31 December	6,952	7,991

Intangible assets represent the enterprise resource planning and information technology system software.

The amortisation charge for the year is included in administrative expenses in the consolidated statement of comprehensive income.

## 17 Deposits for purchases of fixed assets and land use rights

	The Group	
	2012 RMB'000	2011 RMB'000
Deposit for land use rights (note (a))	60,000	35,000
Purchase of property (note (b))	–	85,424
Others	1,451	–
	61,451	120,424

- (a) The deposit is in respect of the purchase of the land use rights for 50 years on leasehold land located in Jinjiang, Fujian Province, the PRC for the proposed development of a new headquarters. The total consideration for the land use rights amounts to approximately RMB64,993,000.

The deposit will be transferred to lease prepayments upon the issue of the land use rights certificate to the Group.

- (b) The amount was in respect of a retail outlet in Xian, Shaanxi Province, the PRC for the operation of a self-operated flagship store. The flagship store had begun pilot operation in late 2012 and the amount was transferred to property, plant and equipment accordingly.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 18 Investments in subsidiaries

	2012 RMB'000	2011 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			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Lilang Holdings Limited	BVI	US\$20,000	100%	100%	–	Investment holding
Lilang (Hong Kong) International Co., Limited	Hong Kong	HK\$20,000	100%	–	100%	Trading, investment holding and provision of management services
Lilang (Fujian) Garment Co., Ltd.	The PRC	HK\$20,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (China) Co., Ltd.	The PRC	HK\$300,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (Xiamen) Garment Co., Ltd.	The PRC	US\$30,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (Shanghai) Co., Ltd.	The PRC	HK\$120,000,000	100%	–	100%	Wholesaling of menswear and accessories

Note: All entities established in the PRC are wholly foreign owned enterprises.



## 19 Inventories

### (a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2012 RMB'000	2011 RMB'000
Raw materials	35,104	37,389
Work-in-progress	4,449	589
Finished goods	240,734	187,216
	<b>280,287</b>	225,194

As at 31 December 2012, raw materials included materials totalling RMB712,000 (2011: RMB20,857,000) held by sub-contractors.

### (b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2012 RMB'000	2011 RMB'000
Cost of inventories sold	1,609,853	1,646,680
Write-down of inventories	59,472	5,847
	<b>1,669,325</b>	1,652,527

## 20 Trade and other receivables

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade receivables	685,840	639,560	–	–
Bills receivable	–	1,920	–	–
Trade and bills receivables (notes (a), (b) and (c))	685,840	641,480	–	–
Prepayments to suppliers	24,159	65,031	–	–
Prepaid advertising expenses	2,069	884	–	–
VAT deductible	1,358	335	–	–
Other deposits, prepayments and receivables	24,138	7,061	197	–
	<b>737,564</b>	714,791	<b>197</b>	–

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 20 Trade and other receivables (continued)

### (a) Ageing analysis

An ageing analysis of the trade and bills receivables, based on the invoice date and none of which is considered to be individually or collectively impaired, is as follows:

	The Group	
	2012 RMB'000	2011 RMB'000
Within 3 months	509,531	578,614
3 months to 6 months	165,426	53,098
6 months to 1 year	10,883	9,768
	<b>685,840</b>	641,480

Trade and bills receivables are due within 90–240 days (2011: 90–180 days) from the date of billing. Further details on the Group's credit policy are set out in note 30(a).

### (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 recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 1(i)(i)). For the year ended 31 December 2012, the Group did not record any impairment losses in respect of trade and bills receivables (2011: RMB Nil).

### (c) Trade and bills receivables that are not impaired

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

	The Group	
	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	677,693	620,580
Less than 1 month past due	8,147	18,357
1 to 3 months past due	–	1,660
More than 3 months past due	–	883
	<b>8,147</b>	20,900
	<b>685,840</b>	641,480

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 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 and the balances are still considered fully recoverable.

## 21 Amounts due from/(to) subsidiaries

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

## 22 Pledged bank deposits

	The Group	
	2012 RMB'000	2011 RMB'000
Amounts pledged as security for bank loans (note 24)	470,000	–
Amounts pledged as security for bills payable (note 25)	3,939	4,040
	<b>473,939</b>	4,040
Representing:		
Current pledged bank deposits	153,939	4,040
Non-current pledged bank deposits	320,000	–
	<b>473,939</b>	4,040

The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payable.

## 23 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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Fixed deposits with banks within three months to maturity when placed	1,060,800	80,000	–	–
Cash at bank and in hand	181,988	1,160,977	5,424	6,181
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	<b>1,242,788</b>	1,240,977	<b>5,424</b>	6,181
Fixed deposits with banks with more than three months to maturity when placed	100,000	–	–	–
	<b>1,342,788</b>	1,240,977	<b>5,424</b>	6,181

At 31 December 2012, cash and cash equivalents and fixed deposits with banks in the mainland PRC amounted to RMB1,319,151,000 (2011: RMB1,223,863,000). Remittance of funds out of the mainland PRC is subject to exchange restrictions imposed by the PRC government.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 23 Cash and cash equivalents and fixed deposits held at banks (continued)

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

	Note	2012 RMB'000	2011 RMB'000
Profit before taxation		766,797	752,827
Adjustments for:			
— Depreciation	6(b)	22,427	16,466
— Amortisation of lease prepayments	6(b)	814	814
— Amortisation of intangible assets	6(b)	2,201	1,772
— Equity settled share-based payment expense	6(a)	2,298	2,026
— Loss on disposal of property, plant and equipment	6(b)	1,775	666
— Interest expense	5	7,692	428
— Interest income	5	(65,287)	(44,018)
— Foreign exchange loss/(gain)		458	(6,387)
Changes in working capital:			
— Increase in inventories		(55,093)	(43,645)
— Increase in trade and other receivables		(18,366)	(213,320)
— Decrease in pledged bank deposits		101	34,065
— Increase/(decrease) in trade and other payables		18,234	(175,545)
— Decrease in amount due to a related company		—	(330)
Cash generated from operations		684,051	325,819

## 24 Bank loans and facilities

- (a) As at 31 December 2012, bank loans were secured by pledged bank deposits (also see note 22) and were repayable as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within 1 year or on demand	150,180	—	—	—
After 1 year but within 2 years	293,497	—	144,738	—
	443,677	—	144,738	—

## 24 Bank loans and facilities (continued)

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

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Facility amount	<b>1,395,105</b>	1,350,000	<b>144,738</b>	—
Utilised facility amount in respect of:				
— Bank loans	<b>443,677</b>	—	<b>144,738</b>	—
— Bills payable (note 25)	<b>13,130</b>	28,550	—	—

## 25 Trade and other payables

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables	<b>193,084</b>	193,771	—	—
Bills payable (note (a))	<b>13,130</b>	28,550	—	—
Trade and bills payables (note (b))	<b>206,214</b>	222,321	—	—
Receipts in advance	<b>31,509</b>	11,773	—	—
Accrued salaries and wages	<b>14,941</b>	10,029	—	335
Payables for purchase of fixed assets	<b>10,149</b>	11,298	—	—
Retirement benefit contribution payable	<b>25,862</b>	25,744	—	—
VAT payables	<b>9,760</b>	9,008	—	—
Other payables and accruals	<b>61,848</b>	49,273	<b>245</b>	177
	<b>360,283</b>	339,446	<b>245</b>	512

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

(a) Bills payable as at 31 December 2012 and 2011 were secured by pledged bank deposits as disclosed in note 22.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 25 Trade and other payables (continued)

(b) An ageing analysis of trade and bills payables based on invoice date is as follows:

	The Group	
	2012 RMB'000	2011 RMB'000
Within 3 months	163,687	191,323
3 months to 6 months	29,253	18,977
6 months to 1 year	5,069	2,984
Over 1 year	8,205	9,037
	<b>206,214</b>	222,321

## 26 Income tax in the consolidated balance sheet

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

	The Group	
	2012 RMB'000	2011 RMB'000
Provision for PRC corporate income tax for the year (note 7(a))	126,511	94,843
PRC corporate income tax paid for the current year	(92,818)	(66,077)
Current tax payable	<b>33,693</b>	28,766

## 26 Income tax in the consolidated balance sheet (continued)

### (b) Deferred tax assets and liabilities recognised:

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

(i) *The Group*

	Deferred tax assets/(liabilities) arising from				
	Accrued expenses RMB'000	Cumulative tax losses of subsidiary RMB'000	Inventory provision and others RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2011	4,313	3,763	(45)	(11,351)	(3,320)
(Charged)/credited to consolidated statement of comprehensive income (note 7(a))	(840)	(3,763)	3,430	(37,000)	(38,173)
Effect of change in tax rate (note 7(a))	3,342	–	(15)	–	3,327
At 31 December 2011 and 1 January 2012	<b>6,815</b>	<b>–</b>	<b>3,370</b>	<b>(48,351)</b>	<b>(38,166)</b>
Credited/(charged) to consolidated statement of comprehensive income (note 7(a))	<b>1,261</b>	<b>–</b>	<b>12,810</b>	<b>(22,845)</b>	<b>(8,774)</b>
Released upon distribution of dividends (note 7(a))	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,500</b>	<b>2,500</b>
Effect of change in tax rate (note 7(a))	<b>(2,312)</b>	<b>–</b>	<b>(27)</b>	<b>–</b>	<b>(2,339)</b>
At 31 December 2012	<b>5,764</b>	<b>–</b>	<b>16,153</b>	<b>(68,696)</b>	<b>(46,779)</b>

(ii) *Reconciliation to the consolidated balance sheet*

	The Group	
	2012 RMB'000	2011 RMB'000
Deferred tax assets	21,917	10,185
Deferred tax liabilities	(68,696)	(48,351)
	<b>(46,779)</b>	<b>(38,166)</b>

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 26 Income tax in the consolidated balance sheet (continued)

### (c) Deferred tax liabilities not recognised

The Group is subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits generated since 1 January 2008. As at 31 December 2012, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB702,423,000 (2011: RMB516,698,000) 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 2012 and 2011.

## 27 Employee retirement benefits

### Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 18% to 22% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong. 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\$25,000. Contributions to the scheme vest immediately.

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

## 28 Equity settled share-based transactions

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme (the "Pre-IPO Share Option Scheme") and the Share Option Scheme, which were adopted on 12 September 2008 and 4 September 2009 respectively.

### (a) Pre-IPO Share Option

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 under the Pre-IPO Share Option Scheme at an exercise price of HK\$3.12, being 80% of the initial public offering price. No further option could be granted under the Pre-IPO Share Option Scheme after 4 September 2009.



## 28 Equity settled share-based transactions (continued)

### (a) Pre-IPO Share Option (continued)

(i) *The terms and conditions of the grant are as follows:*

#### Options granted to employees on 4 September 2009:

Number of instruments	Vesting conditions	Contractual life of options
6,540,631	Note (I)	6 years
423,513	Note (II)	7 years
2,646,956	Note (III)	8 years
9,611,100		

Notes:

- (I) 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% 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% 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.
- (II) 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.
- (III) 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.

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

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 January	HK\$3.12	8,160,671	HK\$3.12	8,840,644
Exercised during the year	HK\$3.12	(106,614)	HK\$3.12	(212,782)
Lapsed during the year	–	–	HK\$3.12	(467,191)
Outstanding at 31 December	HK\$3.12	8,054,057	HK\$3.12	8,160,671
Exercisable at 31 December	HK\$3.12	6,158,835	HK\$3.12	3,061,575

The weighted average closing price immediately before dates on which share options were exercised during the year was HK\$5.03 (2011: HK\$9.16).

The share options outstanding at 31 December 2012 had an exercise price of HK\$3.12 (2011: HK\$3.12) and a weighted average remaining contractual life of 3.4 years (2011: 4.4 years).

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 28 Equity settled share-based transactions (continued)

### (b) Share Option Scheme

Pursuant to the Share Option Scheme, the directors of the Company may invite, at their discretion, eligible participants, including employees and 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.

(i) *The terms and conditions of the grant are as follows:*

Options offered to employees on 29 November 2011 (the "Date of Offer") and accepted by the employees in December 2011:

No. of instruments: 1,130,000

Contractual life of options: 7 years

Exercise price: HK\$6.63

Vesting conditions: The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of one year period after 29 November 2011, the Date of Offer, and ending on the day falling seven years after the Date of Offer, during which, (a) up to 265,000 options granted may be exercised on or prior to the end of the second year after the Date of Offer; (b) subject to (a), up to 530,000 options granted may be exercised on or prior to the end of the third year after the Date of Offer; (c) subject to (a) and (b), up to 710,000 options granted may be exercised on or prior to the end of the fourth year after the Date of Offer; (d) subject to (a), (b) and (c), up to 890,000 options granted may be exercised on or prior to the end of the fifth year after the Date of Offer; and (e) subject to (a), (b), (c) and (d), 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.

The closing prices of the Company's shares immediately before the Date of Offer and on the Date of Offer were HK\$6.01 and HK\$6.63 respectively.

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

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 January	HK\$6.63	1,130,000	–	–
Granted during the year	–	–	HK\$6.63	1,130,000
Outstanding at 31 December	HK\$6.63	1,130,000	HK\$6.63	1,130,000
Exercisable at 31 December	HK\$6.63	265,000	–	–

The share options outstanding at 31 December 2012 had an exercise price of HK\$6.63 (2011: HK\$6.63) and a weighted average remaining contractual life of 5.9 years (2011: 6.9 years).

## 29 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 changes 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 (note 29(c)) RMB'000	Share premium (note 29(d)(i)) RMB'000	Capital reserve (note 29(d)(iii)) RMB'000	Exchange reserve (note 29(d)(iv)) RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2011		105,775	796,431	4,814	(31,440)	(21,557)	854,023
Changes in equity for 2011:							
Shares issued under share option scheme	29(c)(i)	17	742	(221)	-	-	538
Equity settled share-based payments	29(d)(iii)	-	-	2,026	-	-	2,026
Dividend approved in respect of the previous year	29(b)	-	(144,066)	-	-	-	(144,066)
Dividends declared in respect of the current year	29(b)	-	(155,674)	-	-	-	(155,674)
Total comprehensive income for the year		-	-	-	(24,832)	(112)	(24,944)
At 31 December 2011 and 1 January 2012		<b>105,792</b>	<b>497,433</b>	<b>6,619</b>	<b>(56,272)</b>	<b>(21,669)</b>	<b>531,903</b>
Changes in equity for 2012:							
Shares issued under share option scheme	29(c)(i)	9	367	(109)	-	-	267
Equity settled share-based payments	29(d)(iii)	-	-	2,298	-	-	2,298
Dividend approved in respect of the previous year	29(b)	-	(241,377)	-	-	-	(241,377)
Dividends declared in respect of the current year	29(b)	-	(183,447)	-	-	-	(183,447)
Total comprehensive income for the year		-	-	-	(3,068)	15,525	12,457
At 31 December 2012		<b>105,801</b>	<b>72,976</b>	<b>8,808</b>	<b>(59,340)</b>	<b>(6,144)</b>	<b>122,101</b>

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 29 Capital, reserves and dividends (continued)

### (b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2012 RMB'000	2011 RMB'000
Interim dividend declared and paid of HK13 cents (2011: HK11 cents) per share	125,516	107,026
Special interim dividend declared and paid of HK6 cents (2011: HK5 cents) per share	57,931	48,648
Final dividend proposed after the balance sheet date of HK19 cents (2011: HK19 cents) per share	183,463	183,447
Special final dividend proposed after the balance sheet date of HK6 cents (2011: HK6 cents) per share	57,935	57,930
	<b>424,845</b>	397,051

The final dividend and special final dividend proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(ii) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year of HK19 cents (2011: RMB12 cents) per share	183,447	144,066
Special final dividend in respect of the previous financial year of HK6 cents (2011: RMB nil cents) per share	57,930	–
	<b>241,377</b>	144,066

## 29 Capital, reserves and dividends (continued)

### (c) Share capital

	2012 HK\$'000	2011 HK\$'000
<i>Authorised:</i>		
100,000,000,000 shares of HK\$0.10 each	<b>10,000,000</b>	10,000,000

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

	Note	Number of shares '000	Nominal value of ordinary shares HK\$'000	RMB'000
<i>Issued and fully paid:</i>				
At 1 January 2011		1,200,519	120,052	105,775
Issues of shares on exercise of share options	(i)	213	21	17
At 31 December 2011 and 1 January 2012		<b>1,200,732</b>	<b>120,073</b>	<b>105,792</b>
Issues of shares on exercise of share options	(i)	<b>106</b>	<b>11</b>	<b>9</b>
At 31 December 2012		<b>1,200,838</b>	<b>120,084</b>	<b>105,801</b>

(i) *Issues of shares on exercise of share options*

During the year, pursuant to the Company's Pre-IPO Share Option Scheme (note 28), options were exercised to subscribe for 106,614 ordinary shares (2011: 212,782 ordinary shares) in the Company at a consideration of RMB267,000 (2011: RMB538,000) of which RMB9,000 (2011: RMB17,000) was credited to share capital and the balance of RMB258,000 (2011: RMB521,000) was credited to the share premium account. RMB109,000 (2011: RMB221,000) has also been transferred from the capital reserve to the share premium account in accordance with the policy set out in note 1(o)(ii).

### (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.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 29 Capital, reserves and dividends (continued)

### (d) Nature and purpose of reserves (continued)

#### (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.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase paid-in capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

#### (iii) Capital reserve

The capital reserve comprises the following:

- (i) Fair value of design consultancy services contributed by the then shareholders and fair rental value of properties owned by the then shareholders but occupied by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange amounting to RMB1,143,000.
- (ii) Capitalisation of a loan from then 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 that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(o)(ii).

#### (iv) Exchange reserve

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

### (e) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$6,849,000 (2011: HK\$515,412,000).

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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

## 30 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 banks 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, individual 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 240 days from the date of billing. The Group will also obtain deposits from customers prior to delivery of goods when credit limits granted are temporarily exceeded.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 7.9% (2011: 9.0%) and 15.2% (2011: 19.7%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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 20.

At 31 December 2012, the Group had endorsed bank acceptance bills to its suppliers totalling RMB249,390,000, which were derecognised as financial assets. The transferees have recourse to the Group in case of default by the issuing banks. In such cases, the Group would have to repurchase these bank acceptance bills at face value. Because these bank acceptance bills mature within six months from issue, the Group's maximum loss in case of default is RMB249,390,000 before these bills mature by 30 June 2013.

The Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

#### (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.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 30 Financial risk management and fair value (continued)

### (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 its 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 tables present the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, 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.

#### The Group

	2012				2011			
	Contractual undiscounted cash outflow			Balance sheet carrying amount	Contractual undiscounted cash outflow			Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 5 years	Total		Within 1 year or on demand	More than 1 year but less than 5 years	Total	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Bank loans	151,482	307,078	458,560	443,677	-	-	-	-
Trade and other payables	360,283	-	360,283	360,283	339,446	-	339,446	339,446
Retention payables	-	910	910	910	-	972	972	972
	511,765	307,988	819,753	804,870	339,446	972	340,418	340,418

#### The Company

	2012				2011			
	Contractual undiscounted cash outflow			Balance sheet carrying amount	Contractual undiscounted cash outflow			Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 5 years	Total		Within 1 year or on demand	More than 1 year but less than 5 years	Total	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Bank loans	-	151,300	151,300	144,738	-	-	-	-
Trade and other payables	245	-	245	245	512	-	512	512
Amount due to a subsidiary	2,237	-	2,237	2,237	2,237	-	2,237	2,237
	2,482	151,300	153,782	147,220	2,749	-	2,749	2,749



## 30 Financial risk management and fair value (continued)

### (c) Interest rate risk

The Group's interest rate risk arises primarily from pledged bank deposits, bank deposits, cash at bank and bank loans. The Group's and the Company's interest rate profiles as monitored by management is set out in (i) below.

#### (i) Interest rate profile

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:

	<b>The Group</b>			
	2012		2011	
	Effective interest rate	Amount RMB'000	Effective interest rate	Amount RMB'000
<i>Fixed rate instruments:</i>				
Pledged bank deposits	4.11%	473,939	3.10%	4,040
Bank deposits	2.90%	1,160,800	1.49%	80,000
		<b>1,634,739</b>		84,040
<i>Variable rate instruments:</i>				
Cash at bank and in hand	0.35%	181,988	0.49%	1,160,977
Bank loans	3.18%	(443,677)	–	–
Total instruments		<b>1,373,050</b>		1,245,017

	<b>The Company</b>			
	2012		2011	
	Effective interest rate	Amount RMB'000	Effective interest rate	Amount RMB'000
<i>Variable rate instruments:</i>				
Cash at bank and in hand	0.19%	5,424	0.17%	6,181
Bank loans	2.68%	(144,738)	–	–
Total instruments		<b>(139,314)</b>		6,181

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 30 Financial risk management and fair value (continued)

### (c) Interest rate risk (continued)

#### (ii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis point in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB2,856,000 (2011: increased/decreased by RMB10,144,000). 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 2011.

### (d) Currency risk

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

### (e) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2011 and 2012.

## 31 Commitments

### (a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment, land use rights and computer system and software outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	2012 RMB'000	2011 RMB'000
Contracted for	8,077	7,717
Authorised but not contracted for	249,140	288,734
	257,217	296,451

## 31 Commitments (continued)

### (b) Operating lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012 RMB'000	2011 RMB'000
Within one year	1,732	1,774
After one year to five years	–	1,784
	<b>1,732</b>	3,558

During the years ended 31 December 2011 and 2012, the Group entered into lease agreements for properties in Hong Kong and mainland China. The leases typically run for an initial period of one to five years, certain leases could be terminated by one to three months written notice during the term, and with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

## 32 Material related party transaction

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

During the year ended 31 December 2012, the directors are of the view that the following parties 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 Company
Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")	Effectively 33.3%, 33.3% and 33.4% owned by Wang Dong Xing, Wang Liang Xing and Wang Cong Xing respectively

### Recurring transaction

	2012 RMB'000	2011 RMB'000
Lease of land and properties — Jinlang Fujian	<b>3,031</b>	3,031

The above related party transaction constituted continuing connected transaction as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing connected transaction" of the Report of the Directors.

# Notes To The Financial Statements (continued)

(Expressed in Renminbi)

## 33 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 and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. Intangible assets except for those with indefinite lives are amortised on 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 and amortisation expenses for future periods are 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.

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.

### 33 Significant accounting estimates and judgements (continued)

#### (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.

#### (e) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at each balance sheet date.

#### (f) Bank acceptance bills

As set out in note 30(a)(i), the Group considers that the credit risk associated with bank acceptance bills issued by major banks in the PRC to be insignificant. The Group monitors the credit risk of issuing banks. The judgement to derecognise bank acceptance bills upon discounting or endorsement is reviewed when the credit risk of issuing banks deteriorates significantly.

### 34 Immediate and ultimate controlling party

At 31 December 2012, 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.

# Five Years Summary

(Expressed in Renminbi)

	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
<b>Turnover</b>	1,135,684	1,559,874	2,053,007	2,707,995	<b>2,793,370</b>
Profit from operations	169,105	337,317	479,648	703,731	<b>709,398</b>
Net finance income/(costs)	(9,612)	(4,908)	8,456	49,096	<b>57,399</b>
Profit before taxation	159,493	332,409	488,104	752,827	<b>766,797</b>
Income tax	(5,361)	(29,415)	(69,376)	(129,689)	<b>(140,000)</b>
<b>PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b>	154,132	302,994	418,728	623,138	<b>626,797</b>
<b>Earnings per share</b>					
Basic (cents)	17.13	30.87	34.89	51.90	<b>52.20</b>
Diluted (cents)	N/A	30.85	34.72	51.66	<b>52.04</b>
<b>Assets and liabilities</b>					
Non-current assets	210,382	222,490	264,097	409,739	<b>774,687</b>
Net current assets	232,443	1,420,340	1,608,117	1,816,790	<b>1,970,422</b>
<b>Total assets less current liabilities</b>	442,825	1,642,830	1,872,214	2,226,529	<b>2,745,109</b>
Non-current liabilities	3,530	726	12,077	49,323	<b>363,103</b>
<b>NET ASSET</b>	439,295	1,642,104	1,860,137	2,177,206	<b>2,382,006</b>
<b>Capital and reserves</b>					
Share capital	176	105,731	105,775	105,792	<b>105,801</b>
Reserves	439,119	1,536,373	1,754,362	2,071,414	<b>2,276,205</b>
<b>TOTAL EQUITY</b>	439,295	1,642,104	1,860,137	2,177,206	<b>2,382,006</b>

The Company was incorporated on 2 January 2008 and became the holding company of the subsidiaries through a reorganisation in preparation of the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited in September 2009. The consolidated financial statements of the Group for the year ended 31 December 2008 had been prepared as if the Group had been in existence throughout the year presented, or since the respective dates of incorporation or establishment of the group companies.