

# Interim Report 2010



## **LILANZ 利郎** CHINA LILANG LIMITED 中國利郎有限公司

*(Incorporated in the Cayman Islands with limited liability)*  
(於開曼群島註冊成立之有限公司)  
(Stock Code 股份代號 : 1234)

Classical, Exquisite, Quality



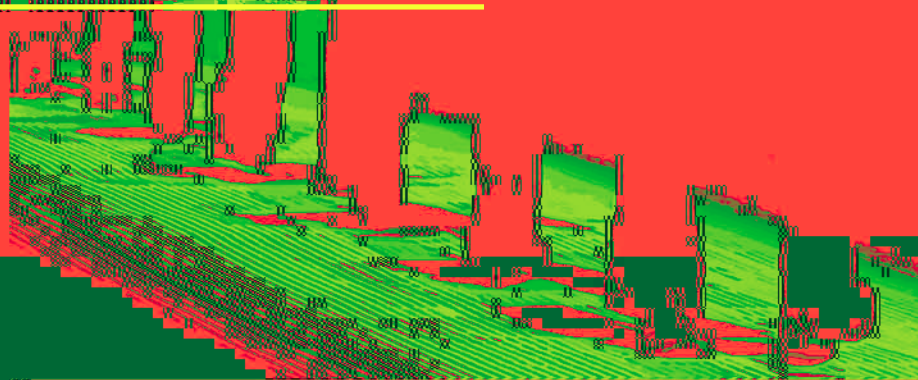
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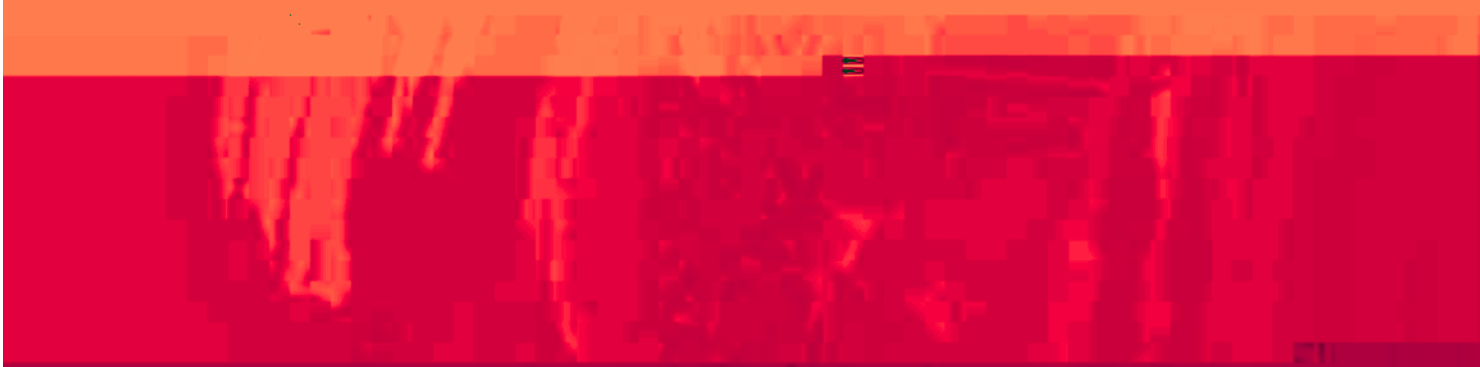
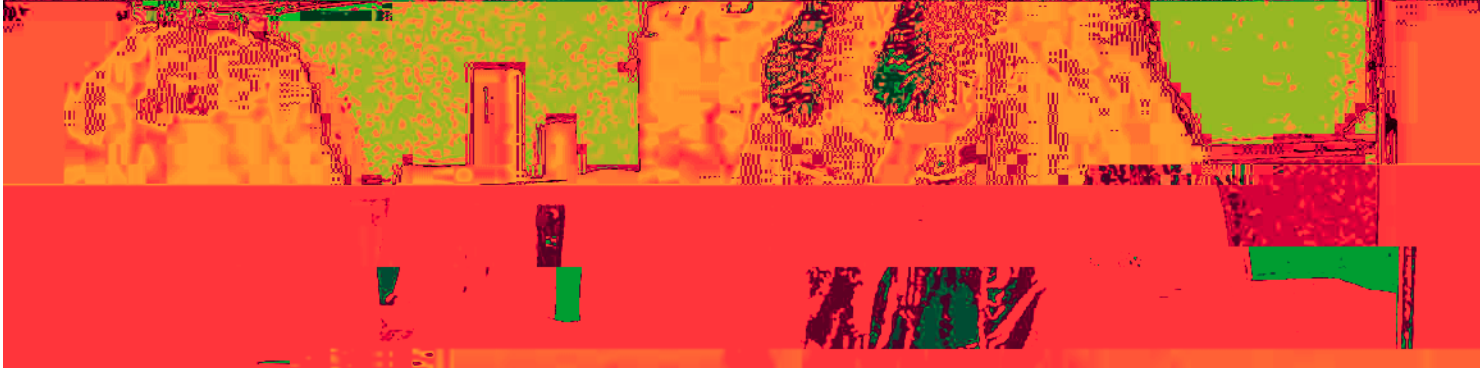
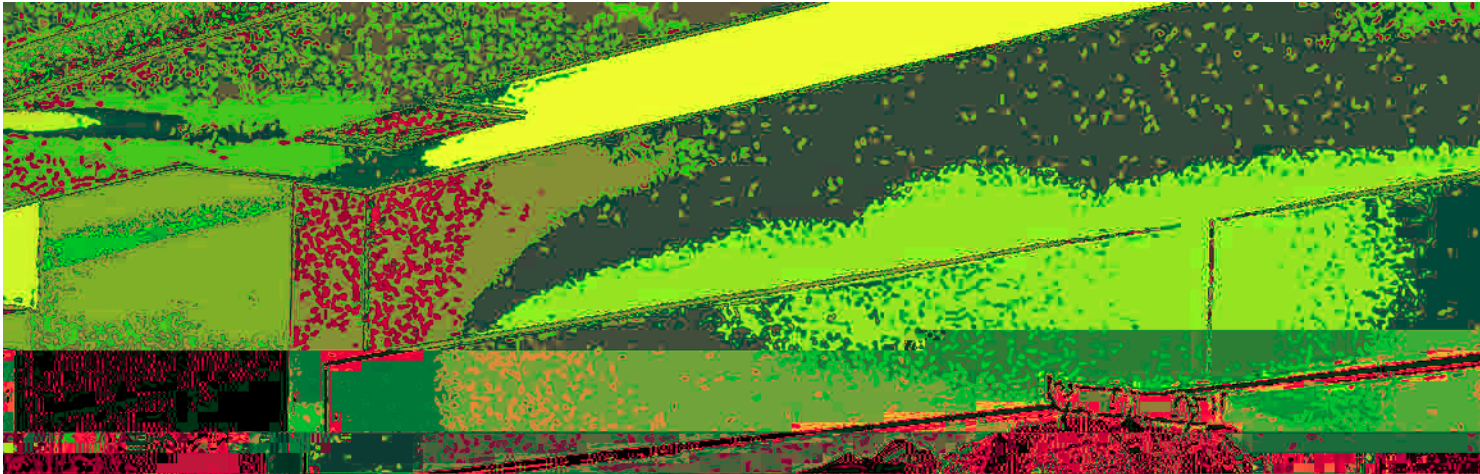


Simple yet sophisticated



## FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Changes (%)
	2010 (RMB' million)	2009 (RMB' million)	
Turnover	<b>786.8</b>	600.2	+31.1
Gross profit	<b>272.9</b>	176.8	+54.3
Profit from operations	<b>159.6</b>	108.0	+47.8
Profit attributable to equity shareholders	<b>139.9</b>	90.0	+55.6
Free cash inflow	<b>212.0</b>	94.1	+125.3
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	<b>11.7</b>	10.0	+16.6
— Diluted	<b>11.6</b>	N/A	N/A
Shareholders' equity per share	<b>137.3</b>	58.8	+133.4
Interim dividend per share	<b>5.0</b>	—	N/A
	(%)	(%)	(% points)
Gross profit margin	<b>34.7</b>	29.5	+5.2
Operating profit margin	<b>20.3</b>	18.0	+2.3
Net profit margin	<b>17.8</b>	15.0	+2.8
Effective tax rate	<b>12.3</b>	13.3	-1.0
Advertising and promotional expenses (as a percentage of turnover)	<b>8.5</b>	7.3	+1.2
	As at <b>30 June 2010</b>	As at 31 December 2009	
Average inventory turnover days	<b>53</b>	58	
Average trade receivables turnover days	<b>71</b>	66	
Average trade payables turnover days	<b>81</b>	72	





# Management Discussion and Analysis

## INDUSTRY OVERVIEW

China's economy has been growing steadily with continuing urbanization, a rising national income and an expanding retail market. According to the preliminary estimates of the National Bureau of Statistics of China, China's GDP increased by 11.1% in the first half of the year as the urban and rural residential income continued to increase and the residential consumption posed a steady growth. During the same period, the domestic consumption market prospered, such that the total retail sales of consumer goods grew by 18.2% year on year.

The demand for menswear in China has been supported by favorable market fundamentals. China Lilang proceeded to take advantage of the opportunities offered by the market by developing business as scheduled, giving play to brand advantage, solidifying and expanding actively the sales network, improving sales efficiency of outlets and optimizing every link of the supply chain, all of which have yielded satisfactory results. The Group is pleased to announce that for the six months ended 30 June 2010, the profit attributable to equity shareholders was RMB139.9 million, representing an increase of 55.6% as compared to RMB90.0 million for the first half of the year ended 30 June 2009. The Board of Directors recommended the payment of an interim dividend of RMB5 cents per share.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Turnover

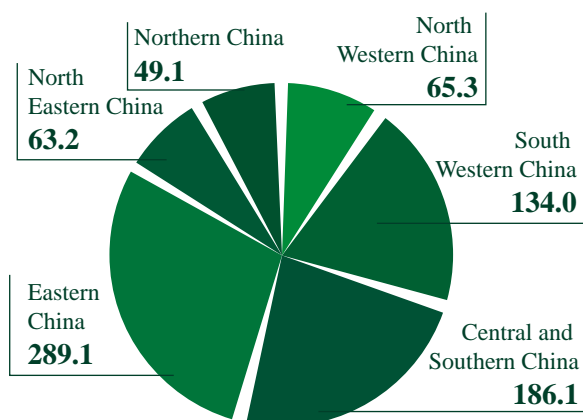
In the first half of 2010, the Group's sales maintained a robust growth with a turnover of approximately RMB786.8 million, representing an increase of 31.1% as compared to approximately RMB600.2 million for the corresponding period last year. During the period, the average selling price of products increased by 15.2% and the sales volume of products increased by 14.1%, which not only reflects that the Group shifted the increased production costs and raised product prices, but also that the Group's enhanced brand recognition and improved product quality, as well as the expansion of its sales network, have all drawn positive market responses which drove the turnover growth.

During the period under review, the mainstream brand "LILANZ" was the major sales contributor of the Group while there was no contribution from the newly launched "L2" brand for the first half of the year.

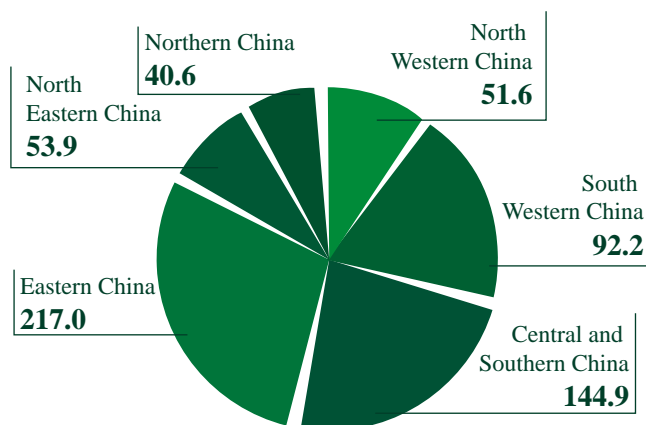
### Turnover by Region

Turnover by region for the period was as follows:

	2010		2009		Changes (%)
	(RMB' million)	% of turnover	(RMB' million)	% of turnover	
Northern China <sup>(1)</sup>	49.1	6.2	40.6	6.8	20.9
North Eastern China <sup>(2)</sup>	63.2	8.0	53.9	9.0	17.3
Eastern China <sup>(3)</sup>	289.1	36.8	217.0	36.2	33.2
Central and Southern China <sup>(4)</sup>	186.1	23.7	144.9	24.1	28.4
South Western China <sup>(5)</sup>	134.0	17.0	92.2	15.3	45.3
North Western China <sup>(6)</sup>	65.3	8.3	51.6	8.6	26.5
<b>Total</b>	<b>786.8</b>	<b>100.0</b>	<b>600.2</b>	<b>100.0</b>	<b>31.1</b>



**January to June 2010  
Turnover by region**  
(RMB' million)



**January to June 2009  
Turnover by region**  
(RMB' million)

## MANAGEMENT DISCUSSION AND ANALYSIS

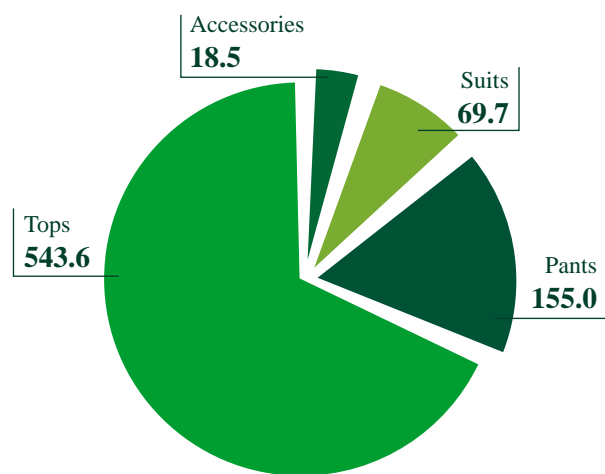
- (1) Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
- (2) North Eastern China includes Heilongjiang, Jilin and Liaoning.
- (3) Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.
- (4) Central and Southern China includes Henan, Hubei, 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.

Eastern China and Central and Southern China continued to be the Group's main turnover contribution regions. Benefiting from the Central Government's "Go West" development plan, sales in South Western China recorded a considerable growth of 45.3% during the period.

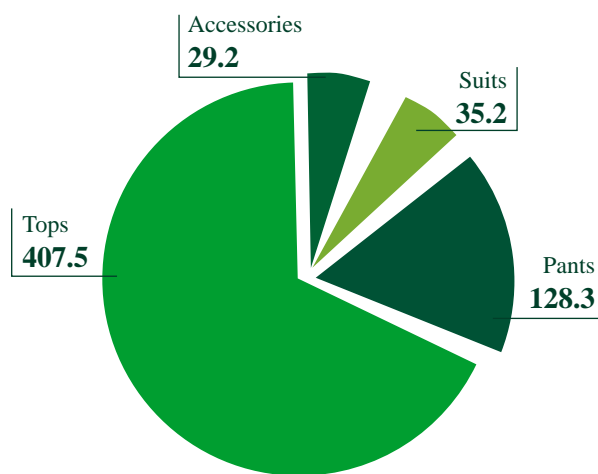
### Turnover by Product Category

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

	Six months ended 30 June				Changes (%)
	2010 (RMB' million)		2009 (RMB' million)		
		% of turnover		% of turnover	
Tops	543.6	69.1	407.5	67.9	33.4
Pants	155.0	19.7	128.3	21.4	20.8
Suits	69.7	8.9	35.2	5.8	98.0
Accessories	18.5	2.3	29.2	4.9	-36.6
	<b>786.8</b>	<b>100.0</b>	600.2	100.0	31.1



**January to June 2010**  
Product category  
(RMB' million)



**January to June 2009**  
Product category  
(RMB' million)

## MANAGEMENT DISCUSSION AND ANALYSIS

Total turnover increased by 31.1% to RMB786.8 million for the period. Sales of suits for the period increased by 98.0% compared to the corresponding period last year. The sharp increase was mainly a result of more casual style business suits with a wider variety of fabric were introduced during the period, which were well received by the market. In addition, the continuous enhancement of brand image also helped to increase sales of corporate uniforms which had more than tripled to RMB16.2 million from RMB4.5 million in last year. In view of the relatively low sales efficiency per square meter, fewer accessory products were launched during the period and sales of accessories reduced by 36.6% and contributed 2.3% of total turnover for the period. Tops continued to be the main contributor of the Group's turnover.

### Sales Volume and Average Selling Price ("ASP") by Product Category

Sales volume and average selling price by product category for the period were analysed as follows:

	Six months ended 30 June				Changes	
	2010		2009		Sales volume (%)	ASP (%)
	Sales Volume (units)	ASP (RMB)	Sales Volume (units)	ASP (RMB)		
Tops	<b>3,522,000</b>	<b>155</b>	2,967,000	138	18.7	12.3
Pants	<b>1,598,000</b>	<b>97</b>	1,394,000	92	14.6	5.4
Suits	<b>174,000</b>	<b>401</b>	97,000	364	79.3	10.2
Accessories	<b>182,000</b>	<b>102</b>	340,000	86	-46.5	18.6
Overall	<b>5,476,000</b>	<b>144</b>	4,798,000	125	14.1	15.2

As the brand image and average sales efficiency per store continued to improve, total sales volume and the overall average ASP recorded a healthy growth of 14.1% and 15.2% respectively.

Total sales volume of apparels and accessories increased from 4,798,000 units in the first half of 2009 to 5,476,000 units in the first half of the year. The average selling price rose by 15.2% to RMB144. The average selling price for various product categories recorded increases ranging from 5.4% to 18.6%. While the average selling price of pants was relatively stable, the average selling price of other product categories recorded a double-digit growth.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Cost of Sales

The Group's cost of sales by self-production and outsourced production for the period was analysed as follows:

	Six months ended 30 June				Changes (%)
	2010 (RMB' million)	% of cost of sales	2009 (RMB' million)	% of cost of sales	
Self-production					
Raw materials	217.6	42.3	134.2	31.7	62.1
Direct labour	22.5	4.4	13.2	3.1	70.5
Overhead	17.8	3.5	11.1	2.6	60.4
Sub-contracting charges	62.5	12.1	5.8	1.4	977.6
	<b>320.4</b>	<b>62.3</b>	164.3	38.8	95.0
Outsourced production					
OEM purchases	193.6	37.7	259.0	61.2	(25.3)
Total	<b>514.0</b>	<b>100.0</b>	423.3	100.0	21.4

In line with the contribution to total turnover, self-production accounted for 62.3% of total cost of sales for the period, increasing from 38.8% for the same period of last year. The increase was mainly due to more sub-contracting services used during the period under review. The Group outsourced more production processes for self-production products to subcontractors resulting in sub-contracting charges, including costs of raw materials provided, of RMB62.5 million being incurred for the period as compared to RMB5.8 million for the corresponding period last year. Unlike OEM purchases, the Group provides major raw materials to the sub-contractors for the production of such products. These sub-contracting arrangements allow the Group to leverage the expertise and resources of sub-contractors and can provide us with more flexibility in responding to tight schedules, while at the same time enabling us to strengthen the control of the quality of key raw materials used as well as certain key production processes of these products.

### Gross Profit Margin

The Group's cost of sales increased by 21.4% to approximately RMB514.0 million from approximately RMB423.3 million for the corresponding period last year. The percentage increase in cost of sales was lower than that of turnover and thus resulted in an improved gross profit margin. The Group's gross profit margin for the first half of the year was 34.7%, representing an increase of 5.2 percentage points as compared to 29.5% for the corresponding period last year. The significant expansion in gross profit margin was mainly attributable to a comparatively lower base of gross profit margin in the corresponding period in 2009 as a result of the Group's conservative pricing approach adopted for the 2009 spring and summer collections in light of the aftermaths of the 2008 financial tsunami that had swept through the global economy. Starting from the second half of 2009, the economy maintained its strong growth momentum and the Group seized the opportunity to adjust the selling price of products in an appropriate degree to reflect the actual demand of the market. At the same time, the Group continued to enhance efficiency through optimizing the materials supply chain and strengthening the cooperation with fabrics suppliers, and managed to successfully contain the increase in average cost of sales.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Other Revenue

Other revenue for the period was RMB11.3 million, representing an increase of RMB10.1 million as compared to that of the corresponding period last year, which was mainly attributable to the government grants received from the local government and the increase in interest income.

### Selling and Distribution Expenses

The Group's selling and distribution expenses for the period was RMB86.2 million, representing an increase of 57.8% as compared to that of the corresponding period last year, which was mainly used to enhance brand recognition and image as a foundation stone for the Group's long-term development.

As a percentage of total turnover, the advertising and promotional expenses increased to 8.5% from 7.3% a year ago. The Group expects that its advertising and promotional expenses in the second half of the year will further increase, but the percentage of overall marketing and promotion to total turnover will maintain at 9% to 11%.

### Administrative Expenses

The Group's administrative expenses for the first half of the year was RMB35.8 million, representing an increase of RMB20.6 million as compared to that of the corresponding period of 2009, which was mainly due to the increased expenses of the Hong Kong office after the listing, and the expenses incurred in setting up the Shanghai subsidiary for the development of "L2".

### Profit from Operations

Profit from operations increased by 47.8% from approximately RMB108.0 million for the corresponding period last year to RMB159.6 million for the first half of 2010, which reflected the Group's increased turnover and gross profit margin. Operating margin increased from 18.0% to 20.3%.

### Finance Costs

The finance costs decreased from RMB4.3 million for the first half of 2009 to approximately RMB0.1 million for the first half of the year, which was mainly attributable to the decrease in interest expense as the Group utilized the proceeds from listing to repay all the bank loans.

### Profit attributable to Equity Shareholders

For the six months ended 30 June 2010, the Group's profit attributable to equity shareholders was approximately RMB139.9 million, representing an increase of 55.6%. The net profit margin increased by 2.8 percentage points to 17.8% (the first half of 2009: 15.0%). Earnings per share were approximately RMB11.7 cents, representing an increase of 16.6% as compared to the corresponding period last year.

### Interim Dividend

The Board of Directors recommended the payment of an interim dividend of RMB5 cents per ordinary share for the financial year, making it a total payout of RMB60.0 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Marketing and Promotion

The Group attaches great importance to the long-term development of brands, and enhances brand value vigorously through various marketing and promotion activities. As the recognition of the mainstream brand “LILANZ” is on the rise, the Group’s marketing and promotional strategy at the present stage focuses on the enhancement of brand image by promoting the core philosophy and value of “LILANZ” brand, with an aim to penetrate into all consumer classes.

In the first half of the year, the Group invested moderately in advertising and promotion according to this strategic direction. In addition, the Group continued to consider the store image and design as an important tool to enhance brand image of “LILANZ” and subsidized the renovation of the layout and design of some of its outlets to unify and promote store image, such that consumers can sense the simple yet sophisticated and unique brand philosophy of “LILANZ” from the store image.

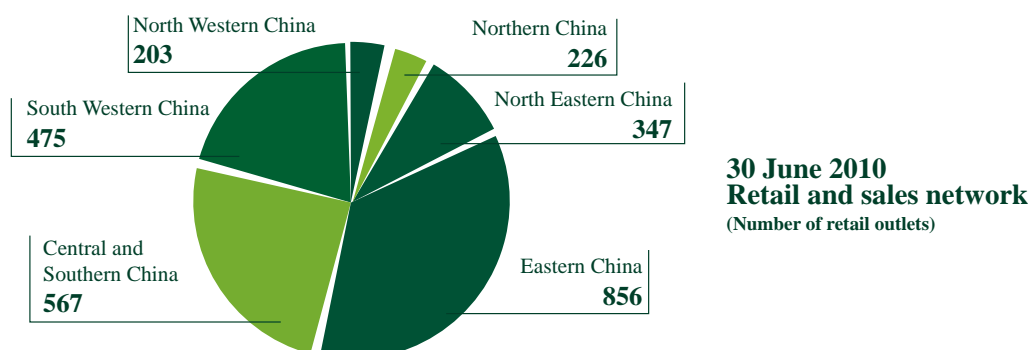
The Group continued to implement its spokesperson strategy and retained Mr. Chen Dao Ming ( ) as the spokesperson for “LILANZ” brand and Mr. Daniel Wu ( ) as the spokesperson for the Group’s new “L2” brand. The two spokespersons possess distinguished characteristics and represent the respective philosophy of the two brands, accentuating the brand image.

### Retail and Distribution Network

Changes in numbers of retail outlets in various regions during the period were as follows:

	As of 1 January 2010	Number of retail outlets* Opened during the period	Closed during the period	As of 30 June 2010
Northern China	227	11	12	226
North Eastern China	337	14	4	347
Eastern China	807	66	17	856
Central and Southern China	562	42	37	567
South Western China	439	36	0	475
North Western China	189	14	0	203
<b>Total</b>	<b>2,561</b>	<b>183</b>	<b>70</b>	<b>2,674</b>

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



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to optimize the retail and sales network to match up business expansion and augment operational efficiency. As of 30 June 2010, the Group has 59 distributors and the distributors have 1,263 sub-distributors.

As of 30 June 2010, 2,674 retail outlets were operated by those 59 distributors and 1,263 sub-distributors in 31 provinces, autonomous regions and municipalities in China, outnumbering the figure at the end of 2009 by 113. Benefited from the “Go West” development plan of the PRC, the number of outlets opened in South Western and North Western regions recorded a greater increase. The number of outlets in the Eastern region still accounted for over 30% of the Group’s total store count.

The retail outlets can be divided into 1,850 stand-alone stores and 824 concessions in department stores, of which 901 retail outlets are directly operated by the distributors and 1,773 retail outlets are operated by their sub-distributors. The total area of retail outlets is about 289,000 square meters.

### Sales Channel Management

The Group has made efforts to strengthen retail management, and started to embark on developing software systems since late last year with plans to connect the sales and inventory situation of each distributor outlet on-line, such that the Group can obtain sales data more promptly and make improvements directed against different problems. The Group aims to connect the inventory systems of all distributors on-line by the end of the year, and to cover all the distribution outlets after three years.

In addition, in order to improve the sales efficiency of individual retail outlet, the Group has assisted distributors in designing and launching a sales incentive commission plan for the sales staff to encourage the raise of invoiced value for each customer. Sales of various product lines are also improved by better control of the timing of launching products in different seasons through speeding up the process of shipment and slotting of products. During the period, the average purchases of our products by each retail outlet was RMB301,000, representing an increase of 24% as compared to the corresponding period last year.

### Design and Product Development

The Group believes that product design and quality are keys to brand success. The Group develops unique fabrics jointly with suppliers of raw materials to produce menswear of exquisite simplicity with high quality tailoring techniques. Through emphasizing on unique fabrics and innovative product design, the Group endeavors to lead the fashion trends in business casual menswear market in China.

The design and product development team for “LILANH02(erage)](v)1,’s total20(finesss. ,to thri prod the sa6e di1metpeoplat h12(ed1 T

## MANAGEMENT DISCUSSION AND ANALYSIS



“LILANZ” holds sales fairs three times a year to showcase its fall, winter, and spring/summer collections to its existing and prospective distributors and to receive orders. The sales fairs for our fall, winter, and spring/summer collections are usually held in April, June, and September respectively.

The first sales fair for sub-brand “L2” was held in Shanghai in mid-May, and has recorded satisfactory sales orders. The sales fair featured a complete product series including “L2” fall and winter collections, footwear and accessories. The style and positioning of our products showcased was well received by the distributors as they had a better understanding and realization of the brand philosophy. The distributors expressed their confidence in “L2” and their hope of creating and sharing “L2” together with the Company.

### Production and Supply Chain

The Group’s production plants are located in Wuli and Changting in Fujian Province; which occupy a total construction area of approximately 42,000 square meters. At present, there are a total of 82 production lines in those production facilities. For the first half of the year ended 30 June 2010, the production plants reached an average utilization rate of over 90%.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the period, in addition to outsourcing production (“OEM purchase”), the Group also increased the proportion of sub-contracting services. It is advantageous to the Group as it allows better control on the major fabrics used and enhances the flexibility to arrange complicated processes for self production. It would effectively intensify the control of product quality to conform with the Group’s principle of taking product quality seriously.

The quality of fabrics is one of the keys to success for menswear products. Therefore, the Group continued to strengthen the control over the raw material supply chain actively. Starting from early 2009, the Group began to purchase raw material of fabrics directly from producers. In addition to reducing the cost of fabrics and effectively alleviating the impact of soaring prices of cotton that may have on costs, what is more important for direct purchase is that the Group can cooperate directly with suppliers in the R&D of unique quality fabrics to aid the Group’s products innovation, and to enlarge brand differences. The Group has actively scouted out new suppliers and the number of new suppliers of raw materials was around 100 during the period.

### PROSPECTS

With the accelerated course of urbanization, the increasingly affluent urban consumers in China have also started to change their consumption patterns. They pursue higher quality and more fashionable products, and are more sensitive to brand image and positioning. The Group remains fully confident in the development of China’s menswear market, and will continue to enhance brand image and product quality, coupled with an effort to bring about better consumption experience for consumers in order to seize opportunities of market development.

In respect of products, the Group will adhere to the direction of design innovation and quality enhancement, and will continue to optimize product design and production. The Group will continue to strengthen the cooperation with fabric producers to jointly develop more fashionable and premium quality fabrics with an aim to provide products of higher quality-price ratio and enlarge product differentiations while reducing the impact of rising costs. Meanwhile, the Group will also embark on improving the retail management system as planned to address market needs more promptly, and to achieve better results.

Along with the segmentation of menswear market and in order to accommodate a diversity of different needs in the market, the Group has launched sub-brand “L2” that targets the menswear market for consumers aged between 20 and 30, hoping to develop “L2” into another successful brand in addition to “LILANZ”. The first “L2” store commenced operation in late July in Hunan and the target is to have 100 “L2” stores opened nationwide by the end of the year 2010.

With respect to the brand “LILANZ”, the Group will continue to optimize the sales network and its management, enhance the effectiveness of individual outlet and expand the sales network nationwide through distributors as planned. The Group is confident of attaining the goal of opening 300 outlets for the full year.

With respect to capacity expansion, the Group has planned to add a new production line to the plant at Wuli for producing men’s suits. The newly added facility will produce suit products of smaller production quantity, but higher degree of complexity and innovation. Total investment of the production line is estimated to be RMB8.7 million. It is expected to commence production in the fourth quarter with a daily production capacity of 300 suits upon completion.

## MANAGEMENT DISCUSSION AND ANALYSIS

As one of the leading menswear brands in China, the Group will continue to develop products catered to market trend, adopt innovative design, and uphold the insistence on product quality, while strive for better performance in order to reward shareholders, employees and customers for their support.

### LIQUIDITY AND FINANCIAL RESOURCES

	Six months ended 30 June	
	2010 (RMB' million)	2009 (RMB' million)
Operating cash inflow	230.7	106.4
Capital expenditure	(18.7)	(12.3)
Free cash inflow	212.0	94.1
Cash and bank balances (including pledged bank deposits)	1,256.3	122.0

As at 30 June, 2010, cash and cash equivalents of the Group amounted to RMB914.7 million (placement of fixed deposits held at banks with maturity over 3 months totalling RMB320.8 million was regarded as an investing activity in the condensed consolidated cash flow statement), representing an increase of RMB70.6 million as compared with the total cash balance of RMB844.1 million as at 31 December, 2009. The increase was attributable to:

- Cash inflows from operating activities amounting to RMB230.7 million, representing improved management of working capital and outstanding operating results.
- Cash outflows from investing activities amounting to RMB23.6 million, comprising mainly the net increase in placement of fixed deposits held at banks with maturity over three months by RMB12.7 million, capital expenditure for property, plant and equipment and construction in progress totalling RMB18.7 million.
- Cash outflows from financing activities amounting to RMB133.0 million, mainly representing the repayment of bank loan of RMB1.0 million and the payment of final dividend totalling RMB132.0 million in respect of the year ended 31 December 2009.

As at 30 June, 2010, total assets of the Group were RMB2,015.3 million of which current assets were RMB1,775.8 million. Total liabilities were RMB368.2 million and total equity amounted to RMB1,647.2 million. In addition, there were no outstanding bank loans.

### WORKING CAPITAL RATIOS

During the period under review, the Group's overall trade working capital cycle decreased by 9 days to 43 days as compared to 52 days for the year ended 31 December 2009.

The Group's average inventory turnover days was 53 days for the period, improved by 5 days as compared to 58 days for the year ended 31 December 2009. This was primarily due to the relatively low inventory balance at the beginning of the year. Inventory balance increased to RMB154.5 million at 30 June 2010 from RMB146.3 million at last year end to prepare for the autumn and winter sales seasons which together generally account for about 70% of the Group's total annual sales. Delivery of the autumn products has started in June.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's average trade receivables turnover days for the six months ended 30 June 2010 was 71 days. The turnover days based on the actual sales in May and June 2010 was 62 days which was in line with the average credit terms granted to distributors.

The Group's average trade payables turnover days increased by 9 days to 81 days as compared to 72 days for the year ended 31 December, 2009. This is in line with the increase in inventory balance as noted above.

### PLEDGE OF ASSETS

As at 30 June, 2010, deposits with certain banks with a total amount of RMB20.9 million (31 December 2009: RMB34.1 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

### CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June, 2010, the Group has total capital commitment of RMB141.9 million, primarily related to the proposed establishment of an operation centre in Xiamen; the opening of flagship stores; and an additional production line and facility upgrade in the production plant in Wuli. The operation centre proposed to be built in Xiamen is currently in planning and design stage.

As at 30 June, 2010, the Group had no material contingent liabilities.

### FINANCIAL MANAGEMENT POLICIES

The Group continues to control financial risks in a prudent manner and proactively adopts internationally recognized corporate management standards to safeguard the interests of shareholders. The functional currency of the Company is the Hong Kong Dollar and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly 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 30 June 2010, the Group had 3,350 staff. Total staff costs for the period amounted to approximately RMB47.3 million (2009: RMB26.9 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. Our training programs cover areas such as sales and production, customer service, quality control, sales fairs planning, workplace ethics and other areas relevant to the industry.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### USE OF PROCEEDS

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited on 25 September 2009 with net proceeds from the global offering of approximately HK\$1,081.3 million (after deducting underwriting commissions and related expenses). The amount utilized as of 30 June 2010 was as follows:

Purposes of net proceeds	Percentage	Amount of net proceeds (HK\$' million)	As at 30 June 2010	
			Amount utilized (HK\$' million)	Remaining balance (HK\$' million)
Expansion of product development studio in Shanghai and development of facilities in Xiamen	15%	162.2	12.3	149.9
The development of sub-brand (L2)	15%	162.2	16.6	145.6
Lease and refurbishment of flagship stores for operation by distributors	15%	162.2	—	162.2
Promotional and brand building activities	20%	216.3	60.2	156.1
Expansion of the production plant in Jinjiang City Technology and Industry Park	5%	54.1	7.0	47.1
The establishment of enterprise resource planning system, development of information technology network and obtainment of the necessary advisory services and system software	10%	108.1	10.1	98.0
Repayment of part of the Group's bank loans	10%	108.1	108.1	—
Working capital and other general corporate purposes	10%	108.1	108.1	—
	100%	1,081.3	322.4	758.9

The Directors intend to apply the remaining net proceeds in the manner as set out in the prospectus of the Company dated 11 September 2009.

# REVIEW REPORT OF THE AUDITORS



## REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA LILANG LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim financial report set out on pages 19 to 37 which comprises the consolidated balance sheet of China Lilang Limited (the “Company”) as of 30 June 2010 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

#### KPMG

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

23 August 2010

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010 — unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
<b>Turnover</b>	3	<b>786,823</b>	600,176
Cost of Sales		<b>(513,952)</b>	(423,341)
<b>Gross profit</b>		<b>272,871</b>	176,835
Other revenue		<b>11,335</b>	1,227
Selling and distribution expenses		<b>(86,242)</b>	(54,662)
Administrative expenses		<b>(35,770)</b>	(15,183)
Other operating expenses		<b>(2,545)</b>	(183)
<b>Profit from operations</b>		<b>159,649</b>	108,034
Finance costs		<b>(110)</b>	(4,295)
<b>Profit before taxation</b>	4	<b>159,539</b>	103,739
Income tax	5	<b>(19,590)</b>	(13,775)
<b>PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b>		<b>139,949</b>	89,964
<b>Earnings per share</b>	6		
Basic (cents)		<b>11.7</b>	10.0
Diluted (cents)		<b>11.6</b>	N/A

The notes on pages 25 to 37 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(b).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 — unaudited  
(Expressed in Renminbi)

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Profit for the period</b>	<b>139,949</b>	89,964
<b>Other comprehensive income for the period</b>		
Exchange differences on translation of financial statements of subsidiaries outside PRC net of nil tax	(5,251)	19
<b>Total comprehensive income for the period</b>	<b>134,698</b>	89,983

The notes on pages 25 to 37 form part of this interim financial report.

# CONSOLIDATED BALANCE SHEET

At 30 June 2010 — unaudited  
(Expressed in Renminbi)

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	7	164,701	151,420
Investment property		30,499	30,963
Lease prepayments	8	38,640	39,047
Deferred tax assets	14(b)	5,660	1,060
		<b>239,500</b>	222,490
<b>Current assets</b>			
Inventories	9	154,454	146,342
Trade and other receivables	10	364,046	458,379
Amount due from a related company	17(b)	214	214
Current tax recoverable	14(a)	793	793
Pledged bank deposits	11	20,877	34,065
Fixed deposits held at banks with maturity over three months	12	320,790	308,070
Cash and cash equivalents	12	914,671	844,051
		<b>1,775,845</b>	1,791,914
<b>Current liabilities</b>			
Bank loans		—	1,000
Trade and other payables	13	354,816	359,435
Current tax payable	14(a)	12,618	11,139
		<b>367,434</b>	371,574
<b>Net current assets</b>		<b>1,408,411</b>	1,420,340
<b>Total assets less current liabilities</b>		<b>1,647,911</b>	1,642,830
<b>Non-current liabilities</b>			
Payables for construction in progress		726	726
<b>NET ASSETS</b>		<b>1,647,185</b>	1,642,104

# CONSOLIDATED BALANCE SHEET

At 30 June 2010 — unaudited  
(Expressed in Renminbi)

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
<b>CAPITAL AND RESERVES</b>			
Share capital	15(a)	105,731	105,731
Reserves		1,541,454	1,536,373
<b>TOTAL EQUITY</b>		<b>1,647,185</b>	1,642,104

The notes on pages 25 to 37 form part of this interim financial report.

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

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

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

Hong Kong, 23 August 2010

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 — unaudited  
(Expressed in Renminbi)

	Attributable to equity shareholders of the company							
	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity	
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
		(Note 15(a))						
Balance as at 1 January 2009		176	139,329	31,764	22,180	136	245,710	439,295
Appropriation to statutory reserve		—	—	9,847	—	—	(9,847)	—
Total comprehensive income for the period		—	—	—	—	19	89,964	89,983
Balance as at 30 June 2009		176	139,329	41,611	22,180	155	325,827	529,278
<b>Balance as at 1 January 2010</b>		105,731	986,527	64,459	23,473	(1,055)	462,969	1,642,104
Equity settled share-based payment		—	—	—	2,383	—	—	2,383
Dividends approved in respect of the previous year	15(b)	—	(132,000)	—	—	—	—	(132,000)
Appropriation to statutory reserve		—	—	17,198	—	—	(17,198)	—
Total comprehensive income for the period		—	—	—	—	(5,251)	139,949	134,698
<b>Balance as at 30 June 2010</b>		105,731	854,527	81,657	25,856	(6,306)	585,720	1,647,185

The notes on pages 25 to 37 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 — unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
Net cash generated from operating activities		230,706	106,383
Net cash used in investing activities*		(23,643)	(11,540)
Net cash used in financing activities		(133,007)	(54,130)
Net increase in cash and cash equivalents		74,056	40,713
Cash and cash equivalents at 1 January	12	844,051	53,567
Effect of foreign exchange rate changes		(3,436)	—

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 23 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 Annual Financial Statements, except for the accounting policy changes that are expected to be reflected in the 2010 Annual Financial Statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those that were applied to the 2009 Annual Financial Statements.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes which do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 Annual Financial Statements.

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company. It has also been reviewed by the Company’s auditors, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 18.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2010.

The financial information relating to the six months ended 30 June 2009 that is included in the interim financial

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Revised IFRS 3, *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*

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

The developments resulted in changes in accounting policies but none of these changes in policies have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of such previous transactions.
- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 3. TURNOVER

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

## 4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Finance costs:		
Interest on bank borrowings wholly repayable within one year	6	4,169
Bank charges	104	126
	<b>110</b>	4,295
Staff costs (note (i)):		
Contribution to defined contribution retirement plans	1,379	4,378
Salaries, wages and other benefits	43,565	22,498
Share-based compensation	2,383	—
	<b>47,327</b>	26,876
Amortisation of lease prepayments (note (i))	407	420
Auditors' remuneration	894	34
Cost of inventories (note (i))	513,952	423,341
Depreciation (note (i))	7,037	5,228
Loss on disposal of property, plant and equipment	1,251	79
Operating lease charges in respect of properties (note (i))	3,997	2,670

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 5. INCOME TAX IN CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
<b>Current tax</b>		
Provision for PRC income tax for the period	24,190	11,776
Under-provision for PRC income tax in respect of prior period	—	7
	<b>24,190</b>	11,783
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(4,600)	1,992
	<b>19,590</b>	13,775

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and 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 six months ended 30 June 2010 and 2009.
- (iii) In accordance with the relevant PRC income tax laws, regulations and implementation guidance note, certain subsidiaries in the PRC are entitled to tax concessions and tax relief whereby the profits of these subsidiaries are taxed at preferential income tax rates. Taxation for the Group’s PRC subsidiaries are calculated using the income tax rates applicable to these subsidiaries.

In addition, the Group is subject to withholding tax at the rate of 10%, unless reduced by a tax treaty, on distributions of profits generated after 31 December 2007 from the Group’s PRC subsidiaries. As all of the Group’s PRC subsidiaries are directly and wholly owned by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from these PRC subsidiaries in the foreseeable future in respect of the profits generated after 31 December 2007.

## 6. EARNINGS PER SHARE

- (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to ordinary equity shareholders of the Company for the period of RMB139,949,000 (Six months ended 30 June 2009: RMB89,964,000) and the weighted average number of shares of 1,200,000,000 (2009: 900,000,000) ordinary shares in issue during the period.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 6. EARNINGS PER SHARE (continued)

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 June 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB 139,949,000 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, calculated as follows:

	Six months ended 30 June 2010 '000 (Unaudited)
Weighted average number of ordinary shares	1,200,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	5,575
Weighted average number of ordinary shares (diluted)	1,205,575

No disclosure of diluted earnings per share for the period ended 30 June 2009 has been made as there were no potential dilutive shares outstanding during the period.

## 7. PROPERTY, PLANT AND EQUIPMENT

	2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
Net book value, as at 1 January	148,976	115,809
Additions	18,018	10,611
Transfer from construction in progress	2,447	22,587
Disposals (net carrying amount)	(5,645)	(450)
Exchange adjustment (net carrying amount)	(3)	(1)
Depreciation charge for the period	(6,573)	(4,865)
Sub-total	157,220	143,691
Construction in progress	7,481	2,891
Net book value, as at 30 June	164,701	146,582

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

### 7. PROPERTY, PLANT AND EQUIPMENT (continued)

Movements of the construction in progress during the six months ended 30 June 2010 were as follows:

	2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
As at 1 January	2,444	20,014
Additions	7,484	5,464
Transfer to property, plant and equipment	(2,447)	(22,587)
As at 30 June	7,481	2,891

### 8. LEASE PREPAYMENTS

Lease prepayments represent prepayments of land use rights on leasehold land located in the PRC. The Group is granted land use rights for a period of 50 years.

### 9. INVENTORIES

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Raw materials	86,256	19,797
Work in progress	574	—
Finished goods	67,624	126,545
	154,454	146,342

As at 30 June 2010, raw materials included materials totalling RMB35,721,000 (31 December 2009: RMB13,122,000) held by sub-contractors.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 10. TRADE AND OTHER RECEIVABLES

	<b>30 June 2010 RMB'000 (Unaudited)</b>	31 December 2009 RMB'000 (Audited)
Trade receivables	<b>309,755</b>	406,603
Bills receivables	<b>4,000</b>	—
	<b>313,755</b>	406,603
Prepayments to suppliers	<b>34,100</b>	38,264
Prepaid advertising expenses and renovation subsidies	<b>3,770</b>	4,006
VAT recoverable	<b>5,160</b>	—
Other deposits, prepayments and receivables	<b>7,261</b>	9,506
	<b>364,046</b>	458,379

All of the trade and other receivables are expected to be recovered within one year. An ageing analysis of the trade receivables and bills receivables is as follows:

	<b>30 June 2010 RMB'000 (Unaudited)</b>	31 December 2009 RMB'000 (Audited)
Current	<b>283,555</b>	393,064
Less than 1 month past due	<b>12,509</b>	11,524
1-3 months past due	<b>13,934</b>	2,002
More than 3 months past due	<b>3,757</b>	13
	<b>313,755</b>	406,603

The Group normally grants a credit period of 90 to 180 days to its trade customers.

## 11. PLEDGED BANK DEPOSITS

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

### 12. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS

	<b>30 June 2010 RMB'000 (Unaudited)</b>	31 December 2009 RMB'000 (Audited)
Fixed deposits with banks within three months to maturity when placed	375,349	224,755
Cash at bank and in hand	539,322	619,296
Cash and cash equivalents in the consolidated balance sheet and the condensed consolidated cash flow statement	914,671	844,051
Fixed deposits with banks with more than three months to maturity when placed	320,790	308,070
	<b>1,235,461</b>	1,152,121

### 13. TRADE AND OTHER PAYABLES

	<b>30 June 2010 RMB'000 (Unaudited)</b>	31 December 2009 RMB'000 (Audited)
Trade payables	145,286	133,612
Bills payable	92,220	113,550
Receipts in advance	237,506	247,162
Accrued salaries and wages	26,832	26,816
Payables for purchase of fixed assets	9,820	10,830
Retirement benefit contribution payable	13,715	6,871
VAT payables	25,678	25,237
Other payables and accruals	7,864	15,245
	33,401	27,274
	<b>354,816</b>	359,435

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 13. TRADE AND OTHER PAYABLES (continued)

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. An ageing analysis of the Group's trade and bills payables based on the invoice date is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Within 3 months	210,361	218,414
3 months to 6 months	13,643	21,372
Over 6 months	13,502	7,376
	<b>237,506</b>	<b>247,162</b>

## 14. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Provision for PRC income tax	24,190	31,014
PRC income tax paid	(11,572)	(20,668)
	<b>12,618</b>	<b>10,346</b>
Balance of PRC income tax relating to prior year	(793)	—
	<b>11,825</b>	<b>10,346</b>
Representing:		
Current tax recoverable	(793)	(793)
Current tax payable	12,618	11,139
	<b>11,825</b>	<b>10,346</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 14. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

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

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

	Depreciation allowances less than/ (in excess of) depreciation charges RMB'000	Accrued expenses RMB'000	Others RMB'000	Future benefit of tax losses RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
<i>Deferred tax assets/(liabilities) arising from:</i>						
At 1 January 2009	27	3,827	40	—	(4,440)	(546)
(Charged)/credited to profit or loss (note 5)	46	416	7	—	(2,461)	(1,992)
At 30 June 2009 — audited	73	4,243	47	—	(6,901)	(2,538)
At 1 January 2010	(15)	4,596	—	—	(3,521)	1,060
Credited to profit or loss (note 5)	—	1,230	—	3,370	—	4,600
At 30 June 2010 — unaudited	(15)	5,826	—	3,370	(3,521)	5,660

### (c) Deferred tax assets not recognised

As at 30 June 2010, the Group has not recognised deferred tax assets in respect of cumulative tax losses of a PRC subsidiary carried forward of RMB873,000 (31 December 2009: RMB Nil) which will expire within 5 years under the current tax legislation. The cumulative tax losses have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

### (d) Deferred tax liabilities not recognised

As at 30 June 2010, deferred tax liabilities of RMB25,414,000 (31 December 2009: RMB18,236,000) in respect of temporary differences relating to undistributed profits of RMB508,273,000 (31 December 2009: RMB364,726,000) of certain PRC subsidiaries were not recognised as the Company controls the dividend policy of these subsidiaries and the Directors have determined that these profits are not likely to be distributed in the foreseeable future.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 15. SHARE CAPITAL AND DIVIDENDS

### (a) Share capital

	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
<i>Authorised:</i>		
100,000,000,000 ordinary shares of HK\$0.1 each	<b>10,000,000</b>	10,000,000
	<b>RMB'000</b>	RMB'000
<i>Issued and fully paid:</i>		
1,200,000,000 ordinary shares of HK\$0.1 each	<b>105,731</b>	105,731

### (b) Dividends

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

	<b>Six months ended 30 June 2010 RMB'000</b>	2009 RMB'000
Interim dividend declared and payable after the interim period of RMB5 cents per ordinary share (2009: RMB nil cent per share)	<b>60,000</b>	—

The interim dividend has not been recognised as a liability as at 30 June 2010.

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

	<b>Six months ended 30 June 2010 RMB'000</b>	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, of RMB11 cents per ordinary share (2009: RMB nil cent per share)	<b>132,000</b>	—

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 15. SHARE CAPITAL AND DIVIDENDS (continued)

### (c) Equity settled share-based transactions

The Company has two share option schemes, namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme, which were adopted on 12 September 2008 and 4 September 2009 respectively. Details of the number and weighted average exercise price of share options of these two share option schemes are as follows:

	Pre-IPO Employee Share Option Scheme		Share Option Scheme	
	Exercise price	No. of options	Exercise price	No. of options
Outstanding at 1 January and 30 June 2010	HK\$3.12	9,611,100	N/A	—

The share option outstanding at 30 June 2010 had a weighted average remaining contractual life of 5.8 years. No options were granted or exercised under the share option schemes during the six months ended 30 June 2010 and 2009.

## 16. COMMITMENTS

### (a) Operating leases

As at 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Within 1 year	1,829	1,602
After 1 year but within 5 years	630	—
	<b>2,459</b>	1,602

### (b) Capital commitments

As at 30 June 2010, capital commitments not provided for in the interim financial report are as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Contracted for	12,192	1,787
Authorised but not contracted for	129,702	145,408
	<b>141,894</b>	147,195

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 17. MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2010, the directors are of the view that the following parties were related parties of the Group:

<i>Name of party</i>	<i>Relationship</i>
Wang Dong Xing, Wang Liang Xing and Wang Cong Xing	Directors and Controlling Shareholders of the Group
Jinlang (Fujian) Investments Co., Ltd. (“Jinlang Fujian”)	Effectively 33.3%, 33.3% and 33.4% owned by Wang Dong Xing, Wang Liang Xing and Wang Cong Xing respectively

### (a) Transactions with related parties

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
<b>Recurring transactions</b>		
Lease of land and properties — Jinlang Fujian	1,087	945
<b>Non-recurring transactions</b>		
Cash advances to a shareholder of the Company — Wang Cong Xing	—	19,909

The Directors are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business.

### (b) Balance with related party

As at 30 June 2010, the Group had the following balance with related party:

	30 June	31 December
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
<b>Amount due from a related company</b>		
— Jinlang Fujian	214	214

The amount due from the related party is unsecured, interest-free and has no fixed terms of repayment. There was no provision for impairment loss made against this amount at 30 June 2010 and 31 December 2009.

### (c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors, was as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Short-term employee benefits	2,981	2,189
Contributions to defined contribution retirement benefit scheme	17	99
Equity settled share-based payments	815	—
	3,813	2,288

## OTHER INFORMATION

### DISCLOSURE OF INTERESTS

Director's and chief executives' interests and short positions in shares, underlying shares and debentures.

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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)	25.5%
Mr. Wang Liang Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	25.5%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	25.5%
Mr. Cai Rong Hua	The Company	Beneficial owner	7,200,000 shares (L)	0.60%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US\$1.00 each (L)	8%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.38%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US\$1.00 each (L)	5%
Mr. Wang Ru Ping	The Company	Beneficial owner	2,700,000 shares (L)	0.23%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3%
Mr. Pan Rong Bin	The Company	Beneficial owner	2,700,000 shares (L)	0.23%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3%

## OTHER INFORMATION

Notes:

1. The letter “L” denotes the Directors’ long position in the shares of our Company or the relevant associated corporation.
2. Xiao Sheng International is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8% by Mr. Cai Rong Hua, 5% by Hu Cheng Chu, 3% by each of Wang Ru Ping and Pan Rong Bin, 2% by Mr. Chen Wei Jin, 1% by each of Mr. Wang Qiao Xing and Ms. Chen Yu Hua and 0.5% by Mr. Xu Tian Min.

Save as disclosed above, as at 30 June, 2010, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

### Interests and short positions of substantial shareholders

As at 30 June, 2010, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.13%
Ming Lang Investments Limited (“Ming Lang Investments”)	Beneficial owner	68,500,000 shares (L) (Note 3)	5.71%

Notes:

- (1) The letter “L” denotes the person’s long position in the shares of our Company.
- (2) These shares were held by Xiao Sheng International. Xiao Sheng International is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8% by Mr. Cai Rong Hua, 5% by Hu Cheng Chu, 3% by each of Wang Ru Ping and Pan Rong Bin, 2% by Mr. Chen Wei Jin, 1% by each of Mr. Wang Qiao Xing and Ms. Chen Yu Hua and 0.5% by Mr. Xu Tian Min.
- (3) These shares were held by Ming Lang Investments. Ming Lang Investments is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8% by Mr. Cai Rong Hua, 5% by Hu Cheng Chu, 3% by each of Wang Ru Ping and Pan Rong Bin, 2% by Mr. Chen Wei Jin, 1% by each of Mr. Wang Qiao Xing and Ms. Chen Yu Hua and 0.5% by Mr. Xu Tian Min.

Save as disclosed above, as at 30 June 2010, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## OTHER INFORMATION

### SHARE OPTION SCHEMES

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

Details of the share option schemes are set out in the 2009 Annual Report of the Company.

#### 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 at the exercise price of HK\$3.12, being 80% of the final offer price under the initial public offering. Details of movement of the options during the period are set out below:

Name or category of participant	As at 1 January 2010	Options granted by the Company Number of underlying shares			As at 30 June 2010	Exercise price per share	Date of grant	Exercise period
		Granted	Cancelled	Lapsed				
Employees	6,540,631	—	—	—	6,540,631	HK\$3.12	4 September 2009	Note 1
Employees	423,513	—	—	—	423,513	HK\$3.12	4 September 2009	Note 2
Employees	2,646,956	—	—	—	2,646,956	HK\$3.12	4 September 2009	Note 3

Notes:

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

As at 30 June 2010, the number of shares to be issued upon the exercise of the outstanding options under the Pre-IPO Share Option Scheme is 9,611,100, representing 0.80% of the issued share capital of the Company as at that date.

#### Share Option Scheme

No share option was outstanding or granted by the Company during the period.

## OTHER INFORMATION

### CORPORATE GOVERNANCE

The Company has adopted its own Code of Corporate Governance, which covered all the code provisions and some of the recommended best practices of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules. The Company periodically reviews its corporate governance practices and had complied with all provisions of the Code during the six months ended 30 June 2010.

The Company has adopted the Model Code as the Company’s code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, who confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2010.

### REVIEW OF INTERIM RESULTS

The Company has established an Audit Committee in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive directors. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The interim results of the Group for the six months ended 30 June 2010 have not been audited but they have been reviewed by KPMG, the auditors of the Company, and the Audit Committee.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2010.

### CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements to the proposed interim dividend, the register of members will be closed from Tuesday, 5 October 2010 to Friday, 8 October 2010 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company’s share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 4 October 2010 for registration.

### APPRECIATION

I would like to thank our fellow directors for their contribution and support throughout the period, and our management and staff for their dedication and hard work.

I would like to express our sincere appreciation to our shareholders, customers and suppliers as well as our business associates for their continuing support.

By Order of the Board  
**WANG DONG XING**  
*Chairman*

Hong Kong, 23 August 2010

## OTHER INFORMATION

### BOARD

#### Executive Directors

Mr. Wang Dong Xing (*Chairman*)  
Mr. Wang Liang Xing (*Chief Executive Officer*)  
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

### SHARE INFORMATION

Listing date: 25 September, 2009  
Board lot size: 1,000 shares  
Number of shares in outstanding: 1,200,000,000 shares (As at 30 June 2010)

### STOCK CODES:

Hong Kong Stock Exchange	1234
Reuters	1234.HK
Bloomberg	1234.HK

### DIVIDENDS

Final dividend in 2009	RMB11 cents
Interim dividend in 2010	RMB5 cents

### IR CONTACT

**If you have any inquiries, please contact:**

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