

LILANZ 利郎

Annual Report

年報 2011

China Lilang Limited
中國利郎有限公司

Stock Code: 1234

(Incorporated in the Cayman Islands with limited liability)

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.

Contents

Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Management Discussion and Analysis	8
Corporate Governance Report	21
Biographical Details of Directors and Senior Management	28
Report of the Directors	33
Independent Auditor's Report	43
Consolidated Statement of Comprehensive Income	45
Consolidated Balance Sheet	46
Balance Sheet	48
Consolidated Statement of Changes in Equity	49
Consolidated Cash Flow Statement	50
Notes to the Financial Statements	51
Five Years Summary	100

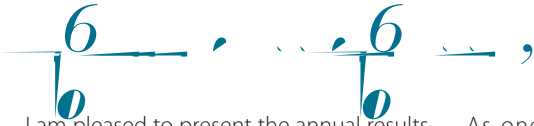
Financial Highlights

	Year ended 31 December		
	2011 (RMB million)	2010 (RMB million)	Changes (%)
Turnover	2,708.0	2,053.0	+31.9
Gross profit	1,055.5	778.0	+35.7
Profit from operations	703.7	479.6	+46.7
Profit attributable to equity shareholders	623.1	418.7	+48.8
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	51.90	34.89	+48.8
— Diluted	51.66	34.72	+48.8
Shareholders' equity per share	181.3	154.9	+17.0
Interim dividend per share	HK11 cents	5.0	approx. +78.3
Special interim dividend per share	HK5 cents	—	N/A
Final dividend per share	HK19 cents	12.0	approx. +28.3
Special final dividend per share	HK6 cents	—	N/A
and renovation subsidies (as a percentage of turnover)	8.2	8.8	-0.6
Average inventory turnover days(2)	45	47	49
Average trade receivables turnover days(3)	63	65	70
Average trade payables turnover days(4)	65	86	96

Notes: (1) the number of days in the year; (2) the number of days in the year; (3) the number of days in the year; (4) the number of days in the year.

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.

Chairman's Statement



I am pleased to present the annual results of China Lilang Limited (the "Company") and its subsidiaries (collectively the "Group" or "China Lilang") for 2011.

2011 marks the beginning of the "Twelfth Five-Year Plan" of the PRC. Facing the precarious global economy and a complex transformation of internal economic structure, the Chinese economy still managed to maintain its momentum and prospered steadily at a relatively high rate. According to the National Bureau of Statistics of China, GDP growth rate reached 9.2% in 2011, representing a decline of 1.1 percentage points as compared to 2010, but is still a relatively high growth rate. During the year, the PRC government curbed the surge in commodities prices, which began early in the year, by implementing proactive macro-control policies. This decelerated the inflation rate during the second half of the year, and thus relieved the pressure of escalating costs.

As one of the leading enterprises of menswear brands in China, China Lilang continued focusing on its core business development and implementing progressive business strategies prudently to achieve encouraging results.

For the year 2011, turnover of the Group increased by 31.9% from last year to RMB2,708.0 million, and profit attributable to shareholders increased by 48.8% to RMB623.1 million. The Directors proposed to sh61ve macro-controwell-tsceisureing et ly e17airman

Chairman's Statement (continued)

China Lilang is dedicated to the operations of its two brands, and has engaged in an assortment of marketing and advertising activities through various channels to promote its brands and products, in order to increase its market penetration rate and market share. During the year under review, the Group has placed both above and below the line advertisements in cities at home and abroad. These advertisements were placed on various media platforms such as CCTV, popular fashion magazines, the internet, and large advertising billboard displays at the Shanghai Hongqiao airport. Meanwhile, in order to generate brand awareness, during the peak travel season, we placed our advertisements on large billboards at the Bangkok airport in Thailand and in Ginza, the shopping district of Tokyo, Japan. These advertisements targeted high spending customers to maximize our brand exposure. In addition to traditional advertising, "LILANZ" and "L2" participated in the "China Fashion Week" in Beijing together for the first time ever in the beginning of the year. Then in November, the Group held a fashion show at "Qi Jiu Guan" of D-PARK Beijing Club — a renowned iconic structure of China's fashion world, to present the unique fashion of "LILANZ". China Lilang introduced its apparels and accessories on numerous catwalks to attract new

customers and promote brand loyalty, thus enhancing the status of China Lilang within the fashion industry.

With respect to the retail network, in addition to the self-operated "LILANZ" flagship store located in the headquarter in Jinjiang City, the Group also plans to open two additional self-operated flagship stores in 2012. One will be located at the Wanda Plaza in Xian City, with an area of approximately 679 square meters, and is expected to open in the second half of 2012.

Moreover, the Group has planned to build new headquarters in Jinjiang City, Fujian Province. The construction work is expected to commence in the second quarter of 2012, and to be completed in 2015. The total amount budgeted for this project is approximately RMB280.0 million.

During the year, the Group has received a number of industry honors. Our core brand "LILANZ" was awarded the "Best Brand Award of China Fashion Week" (中國國際時裝週品牌大獎) and the "China Prime Award — China's Most Trendy Brand of Business Menswear" (中國最時尚商務男裝品牌「華尊獎」). The Group itself was awarded the "China Prime Award — The Most Valuable Listed Company in China's Menswear Industry" (中國男裝行業最具價值上市公司

「華尊獎」). Mr. Wang Yutao, the head designer of our sub-brand "L2", was awarded the "Golden Award — China's Most Honorable Designer" (中國最高設計師獎項「金鼎獎」), the "Golden Award — China's Innovative Designer" (中國先鋒設計師獎「金鼎獎」) and the "China's Innovative Designer Award" (中國先鋒設計師獎). Our business wear collection was honored, since it was named as one of the "China's Top Ten Brand in Business Wear" (中國十大職業裝品牌). These outstanding achievements are the result of the collaboration and commitment of our staff, and we will make preparations and enhance our competitiveness in return for the appreciation and recognition of our peers and customers.

Looking ahead, the global financial crisis will cast shadows over the global market in the short run, bringing challenges to the Chinese economy. In this March, the central government adjusted the target economic growth rate of 2012 to 7.5% but at the same time emphasized the focus on increasing domestic demand to stimulate consumption. We believe that as the domestic economy continues to prosper and people's livelihood improves, capable market players are presented with great opportunities. China Lilang will adhere to its "Simple yet Sophisticated" (簡約而不簡單) fashion philosophy, implement strategies to perfect and enhance our brands, improve our product mix and increase the profit level, to strengthen our leading status in the menswear industry and bring generous return to the shareholders.

Chairman
Wang Dong Xing

14 March 2012

Management Discussion And Analysis

INDUSTRY OVERVIEW

As the European debt crisis aggravated and slowed down economic growth of developed countries, the complicated and ever-changing international economic scene in 2011 posed huge challenges to China's economic growth. During the year, the PRC government tightened its macro-control measures to slow down the inflation rate, which gradually wound down the rapid expansion of the Chinese economy since the beginning of the year. Nonetheless, the national economy continued to prosper steadily in 2011.

In the year 2011, China's GDP reached approximately RMB47.2 trillion, representing a year-on-year increase of 9.2%. Although the macro-control measures led to a structural adjustment in the Chinese economy, rapid urbanization and increased disposable income per capita fuelled the consumption growth in the mid-to-high-end retail market. During the year, total retail sales of garments, hats, footwear and knitwear amounted to RMB795.5 billion, representing a year-on-year increase of 24.2%.

As a leading business casual menswear enterprise in China, China Lilang continued to leverage on the merits of its brands, the individualized product designs and improving channel management to capture the demand of the Chinese consumers for high quality and fashionable products, and sustained a strong and steady business growth during the year. Notwithstanding the impact of a late winter on the sales of the fall/winter collections in 2011, the overall sales volume and average selling price of the Group's products sustained a satisfactory growth.

FINANCIAL REVIEW

For the year ended 31 December 2011, profit attributable to equity shareholders was RMB623.1 million, representing an increase of 48.8% as compared to RMB418.7 million for last year, mainly attributable to the sales growth of "LILANZ" and "L2" and effective cost control.

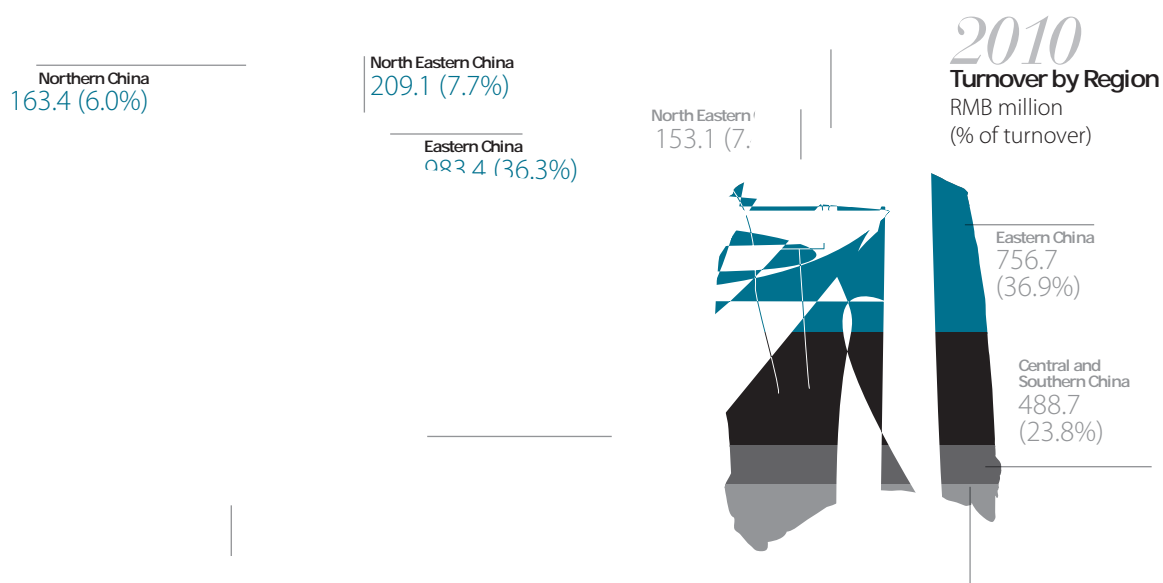
Turnover

During the year under review, turnover increased significantly by 31.9% to approximately RMB2,708.0 million, as compared to RMB2,053.0 million for last year, reflecting the rising consumption power in China which sustained a rapid growth of demand for high quality branded products. Leveraging on the management's market insights, the Group launched fashionable products of high quality in the past few years, which boosted the overall sales amount.

During the year, the average selling price increased by 13.6% from a year ago, while the product sales volume increased by 15.9%. The average selling price of the core brand "LILANZ" went up by 15.5% while the sales volume grew by 11.0%. In the past few years, the Group successfully enhanced the product mix of "LILANZ" by increasing the percentage of products with high added-value and high price point. In the year under review, the Group focused in upgrading the material and quality of specific product categories such as pants and shoes, which helped to drive up the average selling price. In addition, the Group leveraged on its renowned brand name and transferred cost increases to consumers through lifting the selling prices.

The sub-brand "L2" launched in mid-2010 recorded a turnover of RMB129.0 million during the year, an increase of 211.3% over that of last year, accounting for approximately 4.8% of the total turnover. Such increase in income contribution from the sub-brand was in line with the Group's expectation.

Management Discussion And Analysis continued



Cost of Sales

Cost of sales increased by 29.6% to approximately RMB1,652.5 million from approximately RMB1,275.0 million last year.

To sustain sales growth and business development, the Group continued to engage in a combination of self-production, subcontracting arrangement (process outsourcing) as well as outsourced production (OEM purchases) in manufacturing its products, so as to achieve the highest quality, cost efficiency and flexibility in production arrangement.

Self-production accounted for approximately 48.9% of the total cost of sales for the year, as compared to approximately 61.0% for last year. The Group maintained the original production scale during the year, accordingly, the share of self-production decreased year-on-year as sales increased. In addition, sales of accessory products and products of simpler manufacturing procedures such as pants increased, such products were more cost-efficient to be sourced through OEM purchases.

Gross Profit and Gross Profit Margin

Gross profit was RMB1,055.5 million for the year, representing a year-on-year increase of 35.7%. The Group's gross profit margin was 39.0% for the year, an increase of 1.1 percentage points as compared to 37.9% for 2010. The improvement in the gross profit margin was mainly contributed by the successful enhancement in brand value and the upgrade of products, which in turn led to an increase in product average selling price and offset the additional costs from the rising cost of raw materials as well as the new urban construction tax. The Group also continued to strengthen its collaboration with suppliers to improve cost efficiency and successfully mitigated the rising pressure on costs of sales.

Other Revenue

Other revenue had increased by RMB3.0 million to RMB11.6 million from last year, mainly attributable to the increase in government grants.

Management Discussion And Analysis (continued)

Selling and Distribution Expenses

During the year under review, the Group's selling and distribution expenses amounted to RMB274.4 million, accounting for approximately 10.1% of the total turnover, representing a decrease by 0.8 percentage point compared to that of last year mainly due to the economies of scales brought about by the increase in turnover.

Included in the selling and distribution expenses were advertising and promotional expenses and renovation subsidies totaling RMB221.5 million, accounting for approximately 8.2% of the total turnover, representing a slight decrease of 0.6 percentage point from 8.8% last year.

Administrative Expenses

In 2011, administrative expenses were RMB88.6 million, representing an increase of RMB7.6 million from 2010, accounting for approximately 3.3% of the turnover with a year-on-year decrease of 0.6 percentage point.

Profit from Operations

Profit from operations rose by 46.7% to RMB703.7 million for 2011 from RMB479.6 million for 2010, which mainly reflected increased turnover and effective control over cost of sales and operating expenses. The operating margin increased from 23.4% to 26.0%.

Net Finance Income

Net finance income increased by RMB40.6 million from last year to RMB49.1 million, including the increase in interest income by RMB33.4 million, and the foreign exchange gain of RMB5.5 million realized from the renminbi deposit placed by the Group in Hong Kong during the year.

Income Tax

The effective income tax rate for the year was 17.2%, representing an increase of 3 percentage point compared to 14.2% for 2010. In 2011, the Group made provisions for the deferred tax liability in respect of the withholding tax payable upon distributions of profits by its PRC subsidiaries in the foreseeable future, resulting in a higher effective tax rate.

Profit Attributable to Equity Shareholders of the Company

For the year ended 31 December 2011, the Group recorded a profit attributable to equity shareholders of approximately RMB623.1 million, representing an increase of 48.8%. Net profit margin increased by 2.6 percentage point to 23.0% (2010: 20.4%). Earnings per share were approximately RMB51.9 cents, representing an increase of 48.8% over last year.

The sub-brand "L2" recorded a profit after tax of RMB1.7 million (2010: net loss of approximately RMB20.5 million) which was in line with the Group's expectation.

Final Dividends

The Board recommended a final dividend of HK19 cents per ordinary share (2010: RMB12 cents) and a special final dividend of HK6 cents per ordinary share for the financial year (2010: nil), representing a total payout of about HK300.2 million (equivalent to approximately RMB243.3 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 25 May 2012 to shareholders whose names appear on the register of members of the Company on 10 May 2012.

Management Discussion And Analysis (continued)

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 2011
	As of 1 January 2011	Store opened during the year	Store closed during the year	
Northern China	266	43	3	306
North Eastern China	376	49	6	419
Eastern China	859	163	32	990
Central and Southern China	626	116	6	736
South Western China	532	77	32	577
North Western China	226	32	18	240
	2,885	480	97	3,268

The Group endeavors to optimize its retail and sales network in coordination with its business expansion. After the consolidation of stores over the past few years, most of the stores are situated at prime commercial locations by the end of 2011 to achieve better store efficiency. Eastern China as well as Central and Southern China, the two main turnover contribution regions, accounted for 52.8% of the total number of stores of the Group.

By the end of 2011, the number of distributors and sub-distributors of "LILANZ" were 65 and 1,416 respectively, operating a total of 3,032 "LILANZ" retail outlets (a net increase of 227 stores for the year), of which 1,002 retail outlets were directly operated by distributors and 2,030 retail outlets by their sub-distributors. The retail outlets network could be divided into 2,141 stand-alone stores and 891 concession counters in department stores. The total area of retail outlets was approximately 326,000 square meters (2010: 299,000 square meters), representing a year-on-year increase of 9%.

"L2" was launched in mid-2010 and had 236 retail outlets by the end of December 2011, of which 159 stores were in Eastern China, and Central and Southern China, accounting for 67.4% of the total number of stores. "L2" had 52 distributors (21 of whom were also the distributors of "LILANZ") and 51 sub-distributors. 172 retail outlets were directly operated by distributors and 64 retail outlets by their sub-distributors. The retail outlets network could be divided into 135 stand-alone stores and 101 concession counters in department stores. The total area of retail outlets was approximately 25,300 square meters (2010: 8,200 square meters). A total

Sales Channel Management

The Group endeavors to strengthen retail management and to continuously improve its sales channels. Since late 2009, the Group has embarked on developing software systems with a plan to connect the sales and inventory records of each retail outlet (except those in department stores) online by the end of 2012. These would enable the Group to obtain front-line sales data and address specific problems promptly, and help the research and development of products to meet market needs. As at the end of 2011, about 1,000 "LILANZ" stores were covered. All "L2" stores were connected online.

During the year, the Group also adopted other measures to enhance channel management, such as assisting distributors to revise and adopt a horizontal management structure and to improve regional management accountability so as to strengthen the management of sub-distributors (especially for large sub-distributors), as well as providing training for distributors in respect of retail data analyses.

Marketing and Promotion

One of the most valuable assets of the Group is its brands. Prominent brand image and unique brand identity add value to the Group and its products, allowing it to stand out in the PRC menswear market. The Group develops its marketing strategies with reference to the effectiveness of different advertising channels. During the year, the Group continued to focus on its store image as the core element of its brand promotion, using targeted marketing activities to maximize the promotional effect.

For the core brand "LILANZ", 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 billboards at the Bangkok airport and shopping district in Ginza, Tokyo during the holiday seasons in China, targeting outbound-travelling consumers with high spending power.

Management Discussion And Analysis (continued)

In March 2011, "LILANZ", together with "L2", participated in the China Fashion Week in Beijing for the first time, where the Group officially introduced "L2" as a sub-brand under China Lilang, marking an important milestone in the Group's multi-brand strategy. In November, "LILANZ" participated in the Beijing Fashion Week, and held its fashion show at "Qi Jiu Guan" of D-PARK Beijing Club, the renowned iconic structure of China's Fashion World, to present the Group's fashionable products.

Furthermore, the distributors of the Group also continued to launch regional promotion programs in coordination with business needs, such as offering VIP discounts upon the opening of new shops, as well as advertising on road-side billboards etc.

The Group regards its retail stores as an important channel for advertising and enhancing brand image, and has since 2008 offered subsidies to distributors to renovate the layout and design of their retail outlets in phases, so as to unify and promote the Group's store image. By the end of 2010, all stores had completed the renovations. In 2011, in addition to offering renovation subsidies to newly opened stores, further up-grades to the first batch of renovated stores had been carried out to improve the store layout.

For the sub-brand "L2", promotional strategy focused on advertising in magazines and on the internet to reach its target young consumers. Similar to the core brand "LILANZ", the Group also subsidized the distributors for the renovation of "L2" stores to unify the store image.

In 2011, Mr. Chen Dao Ming (陳道明) continued to be the spokesperson for the "LILANZ" brand to accentuate the brand image.

Design and Product Development

The Group has always put great emphasis on product style and quality, as it believes that product design and quality are the keys to a successful brand. Therefore, the Group continuously designs and develops new products and aims at becoming the forerunner of fashion trends in the business casual menswear market in China through utilizing unique fabrics and innovative product designs.

The Group's core brand "LILANZ" has a design and development team of over 100 staff located in Jinjiang, while the product design and development department of the sub-brand "L2" is located in Shanghai with approximately 35 employees.

There are expert teams of the Group collaborating with suppliers to develop fabrics and with OEM suppliers to develop products. Developing fabrics with suppliers helps to ensure the use of unique fabrics, control costs, promote product quality, and at the same time enhancing product differentiation; while developing products with OEM suppliers helps to expand the product range to meet market demand. As a result of these efforts, sales of pants increased by 51.4% to RMB476.2 million for the year as materials used in such products improved. The Group also successfully developed more footwear products driving sales of accessories up by 69.2% to RMB116.5 million.

Both the design and quality of "LILANZ" products have attracted compliments from its peers. During the 2011 China Fashion Week, "LILANZ" was awarded the "Best Brand Award of China Fashion Week" (中國國際時裝週品牌大獎) as recognition to the Group for its work over the years.

Trade Fairs

The 2012 spring/summer collections trade fair of "LILANZ" was held in September 2011. The total order amount increased by 28.5% year-on-year. Both the average selling price and sales volume enjoyed double-digit growth. The 2012 spring/summer collections trade fair of "L2" was held in August 2011, the total order amount doubled year-on-year. Delivery of the above spring and summer orders commenced in January 2012.

Production and Supply Chain

The Group's production plants are located in Wuli and Changting in Fujian Province, and occupy gross floor area of approximately 42,000 square meters. At present, there are a total of 80 production lines. The production plants achieved an average utilization rate of over 90% in 2011.

The Group began reforming some of its existing production lines in the first quarter of 2011, and adopted the "Toyota Production System". Under this system, the production lines were restructured and switches from "process based" to "product based", which is more suitable for orders of smaller quantities, and can effectively improve production efficiency and facilitate quality control. This system has now been applied to 4 production lines.

To cater for the rapidly expanding market demands and business development, in addition to outsourcing production, the Group also engaged subcontracting arrangement (process outsourcing) to allow better control over fabrics used in production and greater flexibility to arrange complicated manufacturing processes to be done by self-production.

The consolidation of the Group's supply chain commencing in late 2010 has achieved satisfactory results and successfully reduced the average number of suppliers to an optimal level of 3 to 5 sizable and quality suppliers per product category, thus strengthening quality control and production scheduling.

PROSPECTS

In 2012, uncertainties will continue to dominate in the domestic and global economic environment. Economic growth of developed countries is expected to remain slow, and China will be affected. The Group believes that notwithstanding the lower GDP growth target revealed by the central government, as the Chinese economy continues to prosper steadily, the national income will continue to rise and the urbanization will continue to speed up, the purchasing power of fashionable and branded high-quality products will be sustained. As a leading enterprise of business and casual menswear focusing in tiers three and four cities in China, the Group is cautiously optimistic towards future developments.

The Group will continue to implement its strategy in store opening. For "LILANZ", as store rentals in some regions are showing signs of retreat, the Group will seize the opportunity and slightly raises the target number of new stores in 2012 to 250-300. The Group will also continue to pursue the target of opening 10-20 mega stores per year in major cities to promote its brand. For "L2", the store opening target will maintain at about 150 in 2012.

In addition to the self-operated "LILANZ" flagship stores located in the headquarters in Jinjiang City, the Group plans to open two additional self-operated flagship stores in 2012. For this purpose, the Group has entered into an agreement in late 2011 to acquire a 679 square meters store to be located at Wanda Plaza being built in a prime commercial location in Xian City. Construction work of the plaza is expected to be completed in the second quarter of 2012, and the store is scheduled to open in the second half of 2012.

At the same time, the Group will launch the third generation store front design for "LILANZ" in the second half of 2012 to further enhance its brand image. The Group plans to upgrade all stores in 3 years.

As one of the leading enterprises of business and casual menswear, China Lilang leverages on the Group's devotion towards its brands,

Management Discussion And Analysis (continued)

LIQUIDITY AND FINANCIAL RESOURCES

	Year ended 31 December	
	2011 RMB million	2010 RMB million
Net cash generated from operating activities	233.6	517.6
Capital expenditure	(157.5)	(57.9)
Free cash inflow	76.1	459.7
Cash and bank balances (including pledged bank deposits)	1,245.0	1,461.2

As at 31 December 2011, the Group's cash and cash equivalents amounted to RMB1,241.0 million, representing an increase of RMB393.5 million as compared with the cash and cash equivalents balance of RMB847.5 million as at 31 December 2010. This was mainly attributable to:

- Net cash inflows from operating activities amounting to RMB233.6 million. The Group reduced the use of bills, which have longer repayment terms, for the payments to suppliers for the spring/summer collections of 2012 to obtain more favorable prices. This decreased the trade and bills payables balance at year end by RMB154.2 million as compared with last year. In addition, the delay of the delivery of certain winter products due to the late winter in 2011 also resulted in a higher trade receivables balance at year end. Based on the actual sales amount in November and December 2011, turnover days of trade receivables remained at 60 days.
- Net cash inflows from investing activities amounting to RMB461.8 million, comprising mainly the net decrease in fixed deposits held at banks with maturity over 3 months of RMB575.6 million, less capital expenditure for the additions of fixed assets such as property, plant and equipment, and computer system and software totalling RMB37.1 million, the payments of RMB85.4 million for the purchase of a retail outlet in Xian to be used as a self-operated flagship store, and the deposit of RMB35.0 million for land use rights in respect of the proposed new headquarters.
- Net cash outflows from financing activities amounting to RMB299.6 million, mainly representing the payment of final dividend totalling RMB144.1 million in respect of the year ended 31 December, 2010, the interim dividend and the special interim dividend totalling RMB155.7 million in respect of the year ended 31 December 2011.

As at 31 December 2011, total assets of the Group were RMB2,594.7 million, of which RMB2,185.0 million was attributed to current assets. Total liabilities were RMB417.5 million and total equity amounted to RMB2,177.2 million. There was no outstanding bank loan.

TRADE WORKING CAPITAL TURNOVER DAYS

	Year ended 31 December	
	2011 (Days)	2010 (Days)
Average inventory turnover days	45	47
Average trade and bills receivables turnover days	63	65
Average trade and bills payables turnover days	(65)	(86)
Average net trade working capital turnover days	43	26

During the year under review, the Group's average trade working capital turnover days increased from 26 days in 2010 to 43 days this year. This was primarily due to the average trade and bills payables turnover days for the year reduced by 21 days. The Group reduced the use of bills for the payments to suppliers for the spring/summer collections of 2012 to obtain more favorable prices. Accordingly, the average trade and bills payables turnover days reduced to 65 days.

The average inventory turnover days and average trade and bills receivables turnover days were 45 days and 63 days respectively, which were at a similar level as those for 2010. The trade receivables turnover days based on the actual sales amount in November and December was 60 days (2010: 54 days).

PLEDGE OF ASSETS

As at 31 December 2011, deposits with certain banks totalling RMB4.0 million (2010: RMB38.1 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 31 December 2011, the Group had total capital commitments of RMB296.5 million, mainly related to the construction of a new headquarters, development of ERP system and upgrades of facilities in the production plant. These capital commitments are expected to be financed by internal resources of the Group.

As disclosed in the Company's 2011 interim report, the Group planned to build a new headquarters comprising a new design and product development studio, a training centre, a sales centre, a new headquarters building and a management staff dormitory building (the "New Headquarters") in Jinjiang, Fujian where the headquarters of the Group is currently situated. Total capital expenditure budget for the New Headquarters amounted to approximately RMB280.0 million and the outstanding commitment at 31 December 2011 amounted to approximately RMB237.6 million. As of the date of this report, the site of the New Headquarters has been secured and construction work is expected to commence in the second quarter of 2012 and to be completed in 2015.

As at 31 December 2011, the Group had no material contingent liabilities.

Management Discussion And Analysis (continued)

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 2011, the Group had 3,100 staff. Total staff costs for the year under review amounted to approximately RMB129.8 million (2010: RMB109.0 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 Wednesday, 2 May 2012 to Thursday, 3 May 2012 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2012 annual general meeting ("2012 AGM"). In order to qualify for attending and voting at the 2012 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 Monday, 30 April 2012.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2012 AGM, the register of members will be closed from Wednesday, 9 May 2012 to Thursday, 10 May 2012 (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 Tuesday, 8 May 2012.

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 has adopted its own Code of Corporate Governance, which covered all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company had complied with all the code provisions of the CG Code throughout the year ended 31 December 2011 except that the Chairman of the Board did not attend the annual general meeting held during the year as required by the CG Code due to an unexpected overseas trip.

(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 three Independent Non-executive Directors, whose biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 28 to 32.

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. 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 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.

Each of the Directors is given comprehensive training on corporate governance matters and regulatory requirements on securities transactions by directors of listed issuers on appointment to the Board. The Company will continue to provide ongoing training for the Directors to ensure that they have proper understanding of the Group's operations and business and that they are fully aware of the regulatory requirements.

Chairman and Chief Executive Officer

The Chairman of the Board, Mr. Wang Dong Xing, is responsible for the overall management of the Board and ensuring that good corporate governance practices and procedures are established. 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.

Corporate Governance Report (continued)

Independence of Independent Non-executive Directors

Currently, the three 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 a written 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 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.

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.

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. Chen Tien Tui. 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 2011. During the meetings, the Audit Committee had considered the annual report of the Group for the year ended 31 December 2010 and the interim report of the Group for the six months ended 30 June 2011 as well as the reports prepared by the external auditor relating to accounting and internal control issues and major findings in the course of 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. Details of Directors' and senior management's remuneration are set out in notes 8 to 10 of the financial statements.

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

During the year ended 31 December 2011, the Remuneration Committee held one meeting to discuss and approve the bonus (if any) for the year ended 31 December 2010 and salary adjustments (if any) for the year ended 31 December 2011 of Executive Directors and senior management.

(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.

Corporate Governance Report (continued)

Meetings

The attendance of individual Directors at board meetings, Audit Committee meetings and Remuneration Committee meeting held during the year ended 31 December 2011 are set out below:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
No. of meetings held during the year ended 31 December 2011	6	2	1
Executive Directors			
Mr. Wang Dong Xing	5	N/A	N/A
Mr. Wang Liang Xing	5	N/A	N/A
Mr. Wang Cong Xing	6	N/A	1
Mr. Cai Rong Hua	3	N/A	N/A
Mr. Hu Cheng Chu	5	N/A	N/A
Mr. Wang Ru Ping	5	N/A	N/A
Mr. Pan Rong Bin	5	N/A	N/A
Independent Non-executive Directors			
Dr. Lu Hong Te	3	2	N/A
Mr. Chen Tien Tui	4	1	1
Mr. Nie Xing	4	2	1

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"). A copy of the Securities Dealing Code is provided to all Directors on their appointment. Reminders will be issued to the Directors prior to the respective Board meetings to approve the Company's interim results and annual results to remind the Directors that they are not allowed to deal in the Company's securities during the periods specified in the Securities Dealing Code. 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.

(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 Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

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 RMB2,249,000. Fees payable to KPMG for internal control review for the year amounted to RMB360,000.

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.

Corporate Governance Report (continued)

(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 to the Board 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 or via email to ir@lilanz.com.hk. Shareholders may also raise enquiries to the Board on both operational and governance matters via email to ir@lilanz.com.hk or by raising questions at the general meetings of the Company.

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 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.

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.

Biographical Details Of Directors And Senior Management

DIRECTORS

Executive Directors

Mr. Wang Dong Xing (王冬星先生), aged 51, 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) in 2004 and an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院) in 2009. He is currently attending 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) and standing committee member of the Jinjiang Chamber of Commerce (晉江市工商聯(總商會)).

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 49, 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 43, 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 43, 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) in 2006. 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 67, 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 49, 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 38, 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), the PRC in 2006. From 2001 to 2005, Mr. Pan was a representative in the Nanping Municipal People's Congress, Fujian Province (福建省南平市人民代表大會). Since 1995 to 2007, he was a member of the Chinese People's Political Consultative Conference of Jianyang City, Fujian Province (中國人民政治協商會議福建省建陽市委員會). He was honoured with the Award for the Model of Labour in Quanzhou City, Fujian Province (福建省泉州市勞動模範) in May 2006. 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 51, 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 four companies in Taiwan, namely Everlight Chemical Industrial Corporation (台灣永光化學工業股份有限公司) (stock code: 1711) and Aiptek International Inc. (台灣天瀚科技股份有限公司) (stock code: 6225), the shares of which are listed on the Taiwan Stock Exchange, and Firich Enterprises Co., Ltd. (台灣伍豐科技股份有限公司) (stock code: 8076) and Lanner Electronics Inc. (台灣立端科技股份有限公司) (stock code: 6245), the shares of which are traded in the Gre Tai Securities Market (證券櫃檯買賣中心) in Taiwan. He is also an independent non-executive director of three other companies, namely Capxon International Electronic Company Limited (凱普松國際電子有限公司) (stock code: 469), Anta Sports Products Limited (安踏體育用品有限公司) (stock code: 2020) and China SCE Property Holdings Limited (中駿置業控股有限公司) (stock code: 1966), the shares of which are listed on the Stock Exchange.

Mr. Chen Tien Tui (陳天堆先生), aged 63, 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), 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 47, 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.

SENIOR MANAGEMENT

Mr. Ji Wen Bo (計文波先生), aged 53, is the chief fashion designer of the Group's core brand "LILANZ". He joined the Group as a design consultant in 2001 and acted as chief fashion designer of the Group's core brand "LILANZ" since January 2007. He is a senior designer and engineer, having completed a programme in professional craftsmanship and art at Changchun University (長春大學) during the years between 1980 and 1982. In 1998, Mr. Ji was elected as one of the Ten Best Fashion Designers in the PRC and was recognised as the top national menswear designer for 2001, 2002 and 2003 by the organising committee of the China Fashion Week. In 2004, he presented a series of menswear with the theme of Oriental Spirit — Chinese Charisma (東方神 — 中國魅力) at the Paris — China Fashion Week (巴黎 — 中國時裝週) during Les Annees Chine — France (中法文化年) and was awarded the Eighth China Fashion Design "Golden Award" (金頂獎) by the China Fashion Association (中國服裝設計師協會). Mr. Ji was invited to present his own range of designs during the International Fashion Week of Pusan, Korea (韓國釜山國際時裝週) in 2006 and as the first fashion designer from Asia, showcase menswear collections with the theme of "Lilang — Ji Wen Bo" (利郎 — 計文波) in the "Milan Menswear Show" (Milano Moda Uomo) of Italy in 2007. In 2008, Mr. Ji also participated in fashion shows in Japan and Taiwan.

Ms. Ko Yuk Lan (高玉蘭女士), aged 50, 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 35, 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 35, 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 41, 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".

Biographical Details Of Directors And Senior Management (continued)

Mr. Zhuang Zhi Han (庄志函先生), aged 42, 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 is currently attending a EMBA programme in Xiamen University. 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.

Mr. Chen Wei Jin (陳維進先生), aged 42, 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 30, 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 36, is the deputy financial controller 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), 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 programme in finance 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 2011.

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

Report Of The Directors (continued)

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB623,138,000 (2010: RMB418,728,000) 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 HK11 cents (2010: RMB5 cents) per ordinary share and a special interim dividend of HK5 cents (2010: RMB nil cents) per ordinary share was paid on 16 October 2011. The Directors now recommend the payment of a final dividend of HK19 cents (2010: RMB12 cents) per ordinary share and a special final dividend of HK6 cents (2010: RMB nil cents) per ordinary share in respect of the year ended 31 December 2011.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB1,249,000 (2010: RMB1,432,000).

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 2011 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 2011.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Wang Dong Xing (*Chairman*)

Mr. Wang Liang Xing

Mr. Wang Cong Xing

Mr. Cai Rong Hua

Mr. Hu Cheng Chu

Mr. Wang Ru Ping

Mr. Pan Rong Bin

Independent Non-Executive Directors

Dr. Lu Hong Te

Mr. Chen Tien Tui

Mr. Nie Xing

Details of the Directors' biographies have been set out on pages 28 to 32 of the annual report.

Report Of The Directors (continued)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, 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	7,200,000 shares (L)	0.60%
	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:

- The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.
- 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 2011, 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 2011, 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	68,500,000 shares (L) (Note 3)	5.70%
FIL Limited	Investment manager	73,043,000 shares (L)	6.08%

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 2011, 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.

Report Of The Directors (continued)

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:

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 2011, 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 2011.

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.

Report Of The Directors (continued)

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

Name or category of participants	Options granted by the Company Number of underlying shares					As at	Exercise period
	As at 1 January 2011	Granted	Exercised	Cancelled	Lapsed	31 December 2011	
Employees	5,876,053	—	(212,782)	—	(255,434)	5,407,837	Note 1
Employees	317,635	—	—	—	(211,757)	105,878	Note 2
Employees	2,646,956	—	—	—	—	2,646,956	Note 3
	8,840,644	—	(212,782)	—	(467,191)	8,160,671	

Notes:

1. The outstanding options at 31 December 2011 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 1,325,700 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 3,029,812 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 2011 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 2011 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 8,160,671 (representing 0.68% of the issued share capital of the Company) as at 31 December 2011 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.

Report Of The Directors (continued)

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

Name or category of participants	Options granted by the Company Number of underlying shares					As at 31 December 2011	Exercise period	Exercise price
	As at 1 January 2011	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 2011 and the date of approval of this report.

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, 14 March 2012

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 45 to 99, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 2011 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

14 March 2012

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Turnover	3	2,707,995	2,053,007
Cost of sales		(1,652,527)	(1,275,015)
Gross profit		1,055,468	777,992
Other revenue	4	11,630	8,583
Selling and distribution expenses		(274,442)	(224,015)
Administrative expenses		(88,556)	(80,908)
Other operating expenses		(369)	(2,004)
Profit from operations		703,731	479,648
Net finance income	5	49,096	8,456
Profit before taxation	6	752,827	488,104
Income tax	7(a)	(129,689)	(69,376)
Profit attributable to equity shareholders of the Company	11	623,138	418,728
Other comprehensive income for the year			
Exchange differences on translation of financial statements of subsidiaries outside the mainland of the People's Republic of China (the "PRC")		(8,893)	(14,164)
Total comprehensive income for the year		614,245	404,564
Earnings per share	12		
Basic (cents)		51.90	34.89
Diluted (cents)		51.66	34.72

The notes on pages 51 to 99 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 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	29(c)	105,792	105,775
Reserves		2,071,414	1,754,362
Total equity		2,177,206	1,860,137

Approved and authorised for issue by the board of directors on 14 March 2012

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 51 to 99 form part of these financial statements.

Balance Sheet

At 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	18	139,505	139,505
Current assets			
Trade and other receivables	21	—	1,051
Amount due from a subsidiary	22	388,966	462,609
Fixed deposits held at banks with maturity over three months	24	—	250,000
Cash and cash equivalents	24	6,181	6,582
		395,147	720,242
Current liabilities			
Trade and other payables	26	512	3,487
Amount due to a subsidiary	22	2,237	2,237
		2,749	5,724
Net current assets		392,398	714,518
Net assets		531,903	854,023
Capital and reserves			
	29(a)		
Share capital		105,792	105,775
Reserves		426,111	748,248
Total equity		531,903	854,023

Approved and authorised for issue by the board of directors on 14 March 2012

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 51 to 99 form part of these financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2011

(Expressed in Renminbi)

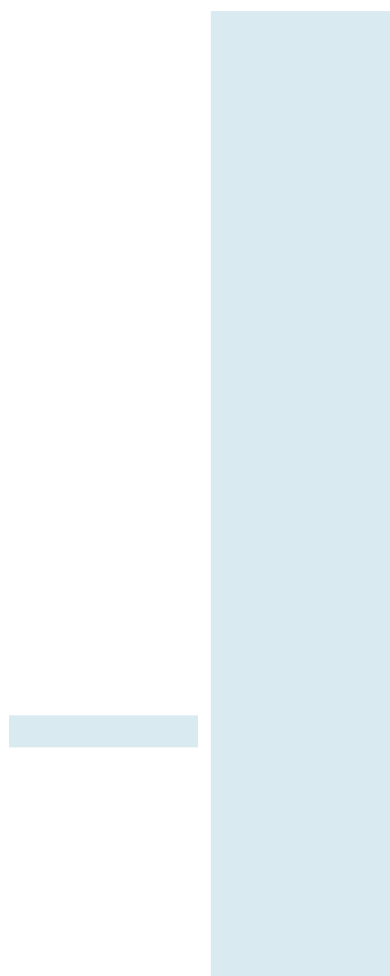
Note	Attributable to equity shareholders of the Company					Retained profits	Total equity
	Share capital (note 29(c)) RMB'000	Share premium (note 29(d)(i)) RMB'000	Statutory reserve (note 29(d)(ii)) RMB'000	Capital reserve (note 29(d)(iii)) RMB'000	Exchange reserve (note 29(d)(iv)) RMB'000		
At 1 January 2010	105,731	986,527	64,459	23,473	(1,055)	462,969	1,642,104
Changes in equity for 2010:							
Profit for the year	—	—	—	—	—	418,728	418,728
Other comprehensive income for the year	—	—	—	—	(14,164)	—	(14,164)
Total comprehensive income for the year	—	—	—	—	(14,164)	418,728	404,564
Shares issued under share option schemes	29(c)(i)	44	1,904	—	(580)	—	1,368
Equity settled share-based payments	29(d)(iii)	—	—	—	4,101	—	4,101
Dividends approved in respect of the previous year	29(b)	—	(132,000)	—	—	—	(132,000)
Dividend declared in respect of the current year	29(b)	—	(60,000)	—	—	—	(60,000)
Appropriation to statutory reserve	—	—	46,367	—	—	(46,367)	—
At 31 December 2010 and 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	105,792	497,433	176,431	28,799	(24,112)	1,392,863	2,177,206

The notes on pages 51 to 99 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in Renminbi)



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.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 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 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.
- Plant and machinery 10 years
- Leasehold improvements shorter of 5 years or remaining term of the lease
- Motor vehicles 5 years
- Office equipment 5 years
- Furniture and fixtures 5 years

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

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

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 measured 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 carried 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 and loss as an integral part of the aggregate net lease payments made.

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 carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the 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.

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
- investment in subsidiaries.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated 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 year 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 year 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 year 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.

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 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.

(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.

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Translation of foreign currencies (continued)

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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

- (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 wholesales 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 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:

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

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

The impacts of other developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to IFRSs (2010) related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. This development has had no material impact on the Group's financial statements.

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 2011 and 2010. The amount of sales to this customer amounted to approximately RMB356,714,000 for the year (2010: RMB297,317,000).

4 OTHER REVENUE

	2011 RMB'000	2010 RMB'000
Government grants	11,263	7,847
Others	367	736
	11,630	8,583

Government grants of RMB11,263,000 (2010: RMB7,847,000) 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

	2011 RMB'000	2010 RMB'000
Interest income	44,018	10,645
Net foreign exchange gain/(loss)	5,506	(2,183)
Interest on bank borrowings	(428)	(6)
	49,096	8,456

Interest income and net foreign exchange loss were included as other revenue and other operating expenses respectively in the 2010 annual report. From 2011 onwards, these items are presented within net finance income to better reflect their nature. Bank charges were presented within finance costs in the 2010 annual report. From 2011 onwards, this item is included as administrative expenses to better reflect its nature.

The comparative amounts for the year ended 31 December 2010 have been reclassified accordingly.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2011 RMB'000	2010 RMB'000
(a) Staff costs (note (i)):		
Salaries, wages and other benefits	126,043	103,023
Contributions to defined contribution retirement plans	1,743	1,847
Equity settled share-based payment expense (note 28)	2,026	4,101
	129,812	108,971
(b) Other items:		
Amortisation of lease prepayments	814	814
Amortisation of intangible assets	1,772	963
Depreciation (note (i))	16,466	14,182
Auditor's remuneration	2,207	2,007
Cost of inventories (note (i))	1,652,527	1,275,015
Loss on disposal of property, plant and equipment	666	1,318
Operating lease rental in respect of properties (note (i))	9,150	7,568
Research and development costs (notes (i) and (ii))	20,843	15,688
Subcontracting charges (notes (i) and (iii))	126,508	114,940

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION (continued)

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 RMB220,373,000 (2010: RMB189,371,000) included in items disclosed above.
- (ii) Research and development costs include salaries, wages and other benefits totaling RMB12,480,000 (2010: RMB8,650,000) for employees in the design, research and development 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.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

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

	2011 RMB'000	2010 RMB'000
Profit before taxation	752,827	488,104
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	188,806	123,923
Tax effect of non-deductible expenses	2,456	4,370
Tax effect of non-taxable income	(1,464)	(1,023)
Tax effect of tax concessions	(93,782)	(66,362)
Effect on deferred tax balances at the beginning of the year resulting from a change in tax rate (note 19(b))	(3,327)	—
Under-provision in prior year	—	161
Tax effect of unused tax losses not recognised	—	477
Withholding tax effect of undistributed profits retained by PRC subsidiaries (note 19(b))	37,000	7,830
Actual tax expense	129,689	69,376

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	2011 Total RMB'000
Executive Directors					
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
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Chen Tien Tui	200	—	—	—	200
Nie Xing	200	—	—	—	200
Total	600	5,460	78	—	6,138

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	2010 Total RMB'000
Executive Directors					
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
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Chen Tien Tui	200	—	—	—	200
Nie Xing	200	—	—	—	200
Total	600	5,460	78	—	6,138

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 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2010: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining two (2010: three) individuals are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	2,107	2,233
Discretionary bonuses	494	373
Contributions to retirement benefit schemes	23	14
Share-based compensation	652	828
Total	3,276	3,448

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS (continued)

The emoluments of the two (2010: three) individuals with the highest emoluments are within the following bands:

2011 Number of individuals	2010 Number of
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Notes To The Financial Statements (continued)

(Expressed in Renminbi)

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company for the year includes a loss of RMB112,000 (2010: RMB10,355,000) which has been dealt with in the financial statements of the Company.

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 RMB623,138,000 (2010: RMB418,728,000) and the weighted average number of ordinary shares in issue of 1,200,597,000 (2010: 1,200,119,000).

Weighted average number of ordinary shares

	2011 '000	2010 '000
Issued ordinary shares at 1 January	1,200,519	1,200,000
Effect of share options exercised	78	119
Weighted average number of ordinary shares	1,200,597	1,200,119

(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 RMB623,138,000 for the year (2010: RMB418,728,000) 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)

	2011 '000	2010 '000
Weighted average number of ordinary shares	1,200,597	1,200,119
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	5,749	6,065
Weighted average number of ordinary shares (diluted)	1,206,346	1,206,184

13 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Sub-total RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:									
At 1 January 2010	100,655	12,492	35,258	3,199	15,242	3,407	170,253	2,444	172,697
Additions	2,569	2,962	7,714	2,969	3,436	1,608	21,258	26,331	47,589
Transfer from construction in progress	—	2,447	1,948	—	735	—	5,130	(5,130)	—
Disposals	(318)	(276)	(8,339)	(27)	(500)	—			

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

14 INVESTMENT PROPERTY

	The Group	
	2011 RMB'000	2010 RMB'000
Cost:		
At 1 January	31,195	31,195
Additions	279	—
At 31 December	31,474	31,195
Accumulated depreciation:		
At 1 January	1,160	232
Charge for the year	927	928
At 31 December	2,087	1,160
Net book value	29,387	30,035

The investment property is located in the PRC under a medium-term lease.

15 LEASE PREPAYMENTS

	The Group	
	2011 RMB'000	2010 RMB'000
Cost:		
At 1 January and at 31 December	40,848	40,848
Accumulated amortisation:		
At 1 January	2,615	1,801
Charge for the year	814	814
At 31 December	3,429	2,615
Net book value:		
At 31 December	37,419	38,233

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2011, the remaining period of the land use rights ranges from 44 to 46 years.

16 INTANGIBLE ASSETS

	The Group	
	2011 RMB'000	2010 RMB'000
Cost:		
At 1 January	8,700	—
Additions	1,887	8,700
Transfer from construction in progress (note 13)	139	—
At 31 December	10,726	8,700
Accumulated amortisation:		
At 1 January	963	—
Charge for the year	1,772	963
	2,735	963
Net book value:		
At 31 December	7,991	7,737

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

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

17 DEPOSITS FOR PURCHASES OF FIXED ASSETS AND LAND USE RIGHTS

	The Group	
	2011 RMB'000	2010 RMB'000
Purchase of property (note (a))	85,424	—
Deposit for land use rights (note (b))	35,000	—
	120,424	—

- (a) The Group has entered into an agreement for the purchase of a retail outlet with a gross area of approximately 679 sq. m. in a shopping mall being developed in Xian, Shaanxi Province, the PRC for a consideration of RMB85,424,000. The development is expected to be completed by the end of June 2012. The retail outlet is planned to be used as the Group's self-operated flagship store.

The amount will be transferred to fixed assets upon the completion of the development and the transfer of title to the Group.

- (b) 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, which is expected to be in the third quarter of 2012.

18 INVESTMENTS IN SUBSIDIARIES

	2011 RMB'000	2010 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%	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. ("Lilang Shanghai") (note (b))	The PRC	HK\$65,000,000	100%	—	100%	Wholesaling of menswear and accessories

Notes:

- (a) All entities established in the PRC are wholly foreign owned enterprises.
- (b) Registered capital of Lilang Shanghai is HK\$120,000,000. The balance of HK\$55,000,000 is expected to be contributed in the second quarter of 2012.

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

19 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2011 RMB'000	2010 RMB'000
Provision for PRC income tax	94,843	64,835
PRC income tax paid	(66,077)	(38,491)
	28,766	26,344
Balance of PRC income tax recoverable relating to prior year	—	(221)
	28,766	26,123
Representing:		
Current tax recoverable	—	(221)
Current tax payable	28,766	26,344
	28,766	26,123

19 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 arising from				Total RMB'000
	Accrued expenses RMB'000	Cumulative tax losses of subsidiary RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Others RMB'000	
At 1 January 2010	4,596	—	(3,521)	(15)	1,060
(Charged)/credited to consolidated statement of comprehensive income (note 7(a))	(283)	3,763	(7,830)	(30)	(4,380)
At 31 December 2010 and 1 January 2011	4,313	3,763	(11,351)	(45)	(3,320)
(Charged)/credited to consolidated statement of comprehensive income (note 7(a))	(840)	(3,763)	(37,000)	3,430	(38,173)
Effect of change in tax rate (note 7(a))	3,342	—	—	(15)	3,327
At 31 December 2011	6,815	—	(48,351)	3,370	(38,166)

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

19 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

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

(ii) Reconciliation to the consolidated balance sheet

	The Group	
	2011 RMB'000	2010 RMB'000
Deferred tax assets	10,185	8,031
Deferred tax liabilities	(48,351)	(11,351)
	(38,166)	(3,320)

(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 2011, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB516,698,000 (2010: RMB659,320,000) 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 2011 and 2010.

20 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2011 RMB'000	2010 RMB'000
Raw materials	37,389	49,462
Work-in-progress	589	—
Finished goods	187,216	132,087
	225,194	181,549

As at 31 December 2011, raw materials included materials totalling RMB20,857,000 (2010: RMB42,237,000) were 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	
	2011 RMB'000	2010 RMB'000
Cost of inventories sold	1,646,680	1,275,015
Write-down of inventories	5,847	—
	1,652,527	1,275,015

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade receivables	639,560	451,241	—	—
Bills receivable	1,920	60	—	—
Trade and bills receivables (notes (a), (b) and (c))	641,480	451,301	—	—
Prepayments to suppliers	65,031	36,578	—	—
Prepaid advertising expenses	884	1,112	—	—
VAT deductible	335	4,545	—	—
Other deposits, prepayments and receivables	7,061	7,302	—	1,051
	714,791	500,838	—	1,051

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

(a) Ageing analysis

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

	The Group	
	2011 RMB'000	2010 RMB'000
Within 3 months	578,614	420,120
3 months to 6 months	53,098	31,181
6 months to 1 year	9,768	—
	641,480	451,301

Trade and bills receivables are due within 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 the prospect of recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 1(i)(i)). For the year ended 31 December 2011, the Group did not record any impairment losses in respect of trade and bills receivables (2010: RMB Nil).

21 TRADE AND OTHER RECEIVABLES (continued)

(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	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	620,580	442,869
Less than 1 month past due	18,357	7,978
1 to 3 months past due	1,660	454
More than 3 months past due	883	—
	20,900	8,432
	641,480	451,301

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.

22 AMOUNTS DUE FROM/(TO) SUBSIDIARIES AND A RELATED COMPANY

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

23 PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 26). The pledged bank deposits will be released upon the settlement of relevant bills payable.

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

24 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	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Fixed deposits with banks within three months to maturity when placed	80,000	646,249	—	—
Cash at bank and in hand	1,160,977	201,208	6,181	6,582
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	1,240,977	847,457	6,181	6,582
Fixed deposits with banks with more than three months to maturity when placed	—	575,594	—	250,000
	1,240,977	1,423,051	6,181	256,582

At 31 December 2011, cash and cash equivalents and fixed deposits with banks in the mainland PRC amounted to RMB1,223,863,000 (2010: RMB1,118,093,000). Remittance of funds out of the mainland PRC is subject to exchange restrictions imposed by the PRC government.

24 CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS (continued)

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

	Note	2011 RMB'000	2010 RMB'000
Profit before taxation		752,827	488,104
Adjustments for:			
— Depreciation	6(b)	16,466	14,182
— Amortisation of lease prepayments	6(b)	814	814
— Amortisation of intangible assets	6(b)	1,772	963
— Equity settled share-based payment expense	6(a)	2,026	4,101
— Loss on disposal of property, plant and equipment	6(b)	666	1,318
— Interest expense	5	428	6
— Interest income	5	(44,018)	(10,645)
— Foreign exchange gain		(6,387)	(2,982)
Changes in working capital:			
— Increase in inventories		(43,645)	(35,207)
— Increase in trade and other receivables		(213,320)	(41,421)
— Decrease in amount due from a related company		—	214
— Decrease/(increase) in pledged bank deposits		34,065	(4,040)
— (Decrease)/increase in trade and other payables		(175,545)	151,130
— (Decrease)/increase in amount due to a related company		(330)	330
Cash generated from operations		325,819	566,867

25 BANK LOANS AND FACILITIES

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

	The Group	
	2011 RMB'000	2010 RMB'000
Facility amount	1,350,000	1,250,000
Utilised facility amount in respect of:		
— Bills payable (note 26)	28,550	156,680

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade payables	193,771	219,802	—	—
Bills payable (note (a))	28,550	156,680	—	—
Trade and bills payables (note (b))	222,321	376,482	—	—
Receipts in advance	11,773	29,560	—	—
Accrued salaries and wages	10,029	12,665	335	—
Payables for purchase of fixed assets	11,298	5,280	—	—
Retirement benefit contribution payable	25,744	25,629	—	—
VAT payables	9,008	358	—	—
Other payables and accruals	49,273	58,999	177	3,487
	339,446	508,973	512	3,487

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 2011 and 2010 were secured by pledged bank deposits as disclosed in note 23.

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

	The Group	
	2011 RMB'000	2010 RMB'000
Within 3 months	191,323	348,373
3 months to 6 months	18,977	16,422
6 months to 1 year	2,984	4,675
Over 1 year	9,037	7,012
	222,321	376,482

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\$20,000. 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.

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

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.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Pre-IPO Share Option (continued)

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

	2011		2010	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 January	HK\$3.12	8,840,644	HK\$3.12	9,611,100
Exercised during the year	HK\$3.12	(212,782)	HK\$3.12	(518,995)
Lapsed during the year	HK\$3.12	(467,191)	HK\$3.12	(251,461)
Outstanding at 31 December	HK\$3.12	8,160,671	HK\$3.12	8,840,644
Exercisable at 31 December	HK\$3.12	3,061,575	HK\$3.12	1,399,519

The weighted average closing price immediately before dates on which share options were exercised during the year was HK\$9.16 (2010: HK\$11.84).

The share options outstanding at 31 December 2011 had an exercise price of HK\$3.12 (2010: HK\$3.12) and a weighted average remaining contractual life of 4.4 years (2010: 5.3 years).

(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

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share Option Scheme (continued)

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

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:

	2011		2010	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 January	—	—	—	—
Granted during the year	HK\$6.63	1,130,000	—	—
Exercised during the year	—	—	—	—
Lapsed during the year	—	—	—	—
Outstanding at 31 December	HK\$6.63	1,130,000	—	—
Exercisable at 31 December	—	—	—	—

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

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share Option Scheme (continued)

(iii) Fair value of share options and assumptions

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

Fair value of share options granted during the year and assumptions

Fair value at measurement date	HK\$3.01
Share price	HK\$6.63
Exercise price	HK\$6.63
Expected volatility	71.55%
Expected option life	7 years
Expected dividends	4.19%
Risk-free interest rate	0.89%

The expected volatility is based on the historic volatility since the initial public offering of the Company's shares on 25 September 2009. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no market conditions associated with the share option grants.

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

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)(ii)) RMB'000	Exchange reserve (Note 29(d)(iv)) RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2010		105,731	986,527	1,293	(975)	(11,202)	1,081,374
Changes in equity for 2010:							
Shares issued on exercise of share options	29(c)(i)	44	1,904	(580)	—	—	1,368
Equity settled share-based payments	29(d)(iii)	—	—	4,101	—	—	4,101
Dividend approved in respect of the previous year	29(b)	—	(132,000)	—	—	—	(132,000)
Dividend declared in respect of the current year	29(b)	—	(60,000)	—	—	—	(60,000)
Total comprehensive income for the year		—	—	—	(30,465)	(10,355)	(40,820)
At 31 December 2010 and 1 January 2011		105,775	796,431	4,814	(31,440)	(21,557)	854,023
Changes in equity for 2011:							
Shares issued on exercise of share options	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		105,792	497,433	6,619	(56,272)	(21,669)	531,903

29 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

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

	2011 RMB'000	2010 RMB'000
Interim dividend declared and paid of HK11 cents (2010: RMB5 cents) per share	107,026	60,000
Special interim dividend declared and paid of HK5 cents (2010: HK nil cent) per share	48,648	—
Final dividend proposed after the balance sheet date of HK19 cents (2010: RMB12 cents) per share	184,884	144,066
Special final dividend proposed after the balance sheet date of HK6 cents (2010: RMB nil cents) per share	58,384	—
	398,942	204,066

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:

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year of RMB12 cents (2010: RMB11 cents) per share	144,066	132,000

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

29 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

	2011 HK\$'000	2010 HK\$'000
<i>Authorised:</i>		
100,000,000,000 shares of HK\$0.10 each	10,000,000	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 2010		1,200,000	120,000	105,731
Issues of shares on exercise of share options	(i)	519	52	44
At 31 December 2010 and 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		1,200,732	120,073	105,792

(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 212,782 ordinary shares (2010: 518,995 ordinary shares) in the Company at a consideration of RMB538,000 (2010: RMB1,368,000) of which RMB17,000 (2010: RMB44,000) was credited to share capital and the balance of RMB521,000 (2010: RMB1,324,000) was credited to the share premium account. RMB221,000 (2010: RMB580,000) 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).

29 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserve

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

29 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$515,412,000 (2010: HK\$879,140,000). After the balance sheet date the directors proposed a final dividend of HK19 cents (2010: RMB12 cents) and a special final dividend of HK6 cents (2010: RMB nil cents) per ordinary share, amounting to HK\$300,183,000 (equivalent to approximately RMB243,268,000 (2010: RMB144,062,000)). These dividends have not been recognised as liabilities at the balance sheet date.

(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 180 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 rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 9.0% (2010: 9.0%) and 19.7% (2010: 24.3%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(a) Credit risk (continued)

(i) Trade and other receivables (continued)

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 21.

(ii) Deposits with banks

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

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash requirements. The Group's policy is to regularly monitor 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

	2011				2010			
	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	
Trade and other payables	339,446	—	339,446	339,446	508,973	—	508,973	508,973
Amount due to a related party	—	—	—	—	330	—	330	330
Retention payables	—	972	972	972	—	726	726	726
	339,446	972	340,418	340,418	509,303	726	510,029	510,029

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Liquidity risk (continued)

The Company

	2011				2010			
	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	
Trade and other payables	512	—	512	512	3,487	—	3,487	3,487
Amount due to a subsidiary	2,237	—	2,237	2,237	2,237	—	2,237	2,237
	2,749	—	2,749	2,749	5,724	—	5,724	5,724

(c) Interest rate risk

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

(i) Interest rate profile

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

	The Company			
	2011 Effective interest rate	Amount RMB'000	2010 Effective interest rate	Amount RMB'000
<i>Fixed rate instruments:</i>				
Bank deposits	N/A	—	2.32%	250,000
<i>Variable rate instruments:</i>				
Cash at bank and in hand	0.17%	6,181	0.12%	6,582
Total instruments		6,181		256,582

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis point in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB10,144,000 (2010: RMB1,767,000). 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 2010.

(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 2010 and 2011.

Notes To The Financial Statements (continued)

(Expressed in Renminbi)

31 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant, equipment, and computer system and software outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	2011 RMB'000	2010 RMB'000
Contracted for	7,717	4,275
Authorised but not contracted for	288,734	156,579
	296,451	160,854

(b) Operating lease commitments

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011 RMB'000	2010 RMB'000
Within one year	1,774	1,656
After one year to five years	1,784	204
	3,558	1,860

During the year ended 31 December 2010 and 2011, 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 2011, 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

(a) Recurring transaction

	2011 RMB'000	2010 RMB'000
Lease of land and properties —Jinlang Fujian	3,031	2,175

(b) Balance with a related party

As at the balance sheet date, the Group had the following balance with a related party:

	2011 RMB'000	2010 RMB'000
Amount due to a related company —Jinlang Fujian	—	330

The amount due to a related party as at 31 December 2010 represented a payable in respect of an operating lease.

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.

(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.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
Amendments to IAS 1	Presentation of financial statements — Presentation of items of other comprehensive income	1 July 2012
IFRS 10	Consolidated financial statements	1 January 2013
IAS 27	Separate financial statements (2011)	1 January 2013

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

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2011, 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)

	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000
Turnover	885,921	1,135,684	1,559,874	2,053,007	2,707,995
Profit from operations	106,596	169,105	337,317	479,648	703,731
Net finance income/(costs)	(8,865)	(9,612)	(4,908)	8,456	49,096
Profit before taxation	97,731	159,493	332,409	488,104	752,827
Income tax	(1,225)	(5,361)	(29,415)	(69,376)	(129,689)
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS	96,506	154,132	302,994	418,728	623,138
Earnings per share					
Basic (cents)	10.72	17.13	30.87	34.89	51.90
Diluted (cents)	N/A	N/A	30.85	34.72	51.66
Assets and liabilities					
Non-current assets	143,172	210,382	222,490	264,097	409,739
Net current assets	143,613	232,443	1,420,340	1,608,117	1,816,790
Total assets less current liabilities	286,785	442,825	1,642,830	1,872,214	2,226,529
Non-current liabilities	141,212	3,530	726	12,077	49,323
NET ASSET	145,573	439,295	1,642,104	1,860,137	2,177,206
Capital and reserves					
Share capital	98	176	105,731	105,775	105,792
Reserves	145,475	439,119	1,536,373	1,754,362	2,071,414
TOTAL EQUITY	145,573	439,295	1,642,104	1,860,137	2,177,206

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 years ended 31 December 2007 and 2008 had been prepared as if the Group had been in existence throughout the years presented, or since the respective dates of incorporation or establishment of the group companies.