



Annual Report 2010

LILANZ 利郎

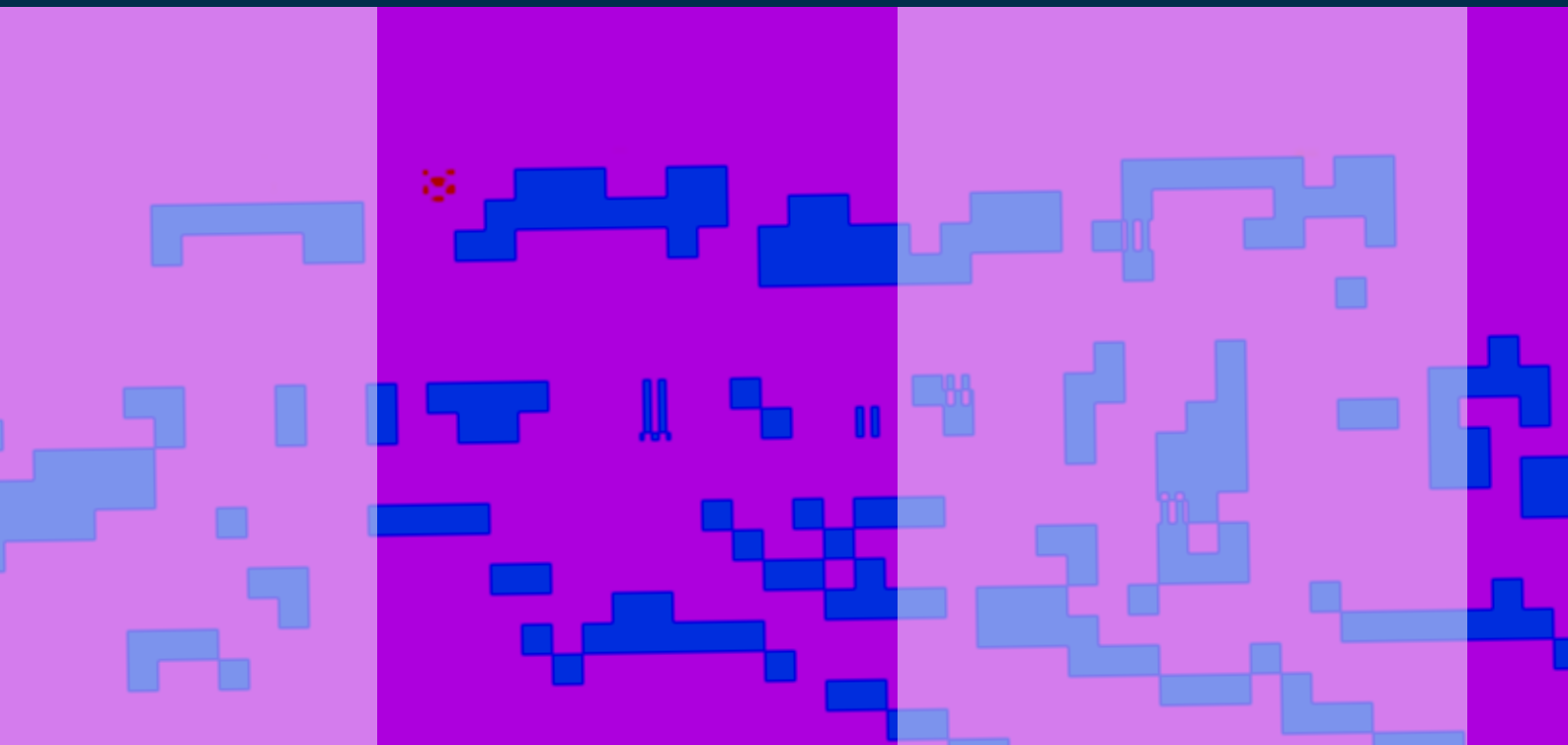
CHINA LILANG LIMITED

中國利郎有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1234)

Simple yet sophisticated



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CORPORATE INFORMATION

BOARD

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

Ms. Ko Yuk Lan

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

AUTHORISED REPRESENTATIVES

Mr. Wang Dong Xing
Ms. Ko Yuk Lan

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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No. 89 Queensway
Hong Kong

HEAD OFFICE IN THE PRC

Lilang Industrial Park
200 Chang Xing Road,
Jinjiang City
Fujian Province
The PRC

SHARE REGISTRARS AND TRANSFER OFFICES

Butterfield Fulcrum Group (Cayman)
Limited

Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Share Registrar

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

LEGAL ADVISER

Chiu & Partners

AUDITOR

KPMG, *Certified Public Accountants*

COMPLIANCE ADVISER

Piper Jaffray Asia Limited

PRINCIPAL BANKERS

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



CHAIRMAN'S STATEMENT

To all shareholders,

I am pleased to present the annual results of China Lilang Limited (the “Company”) and its subsidiaries (collectively the “Group”) for 2010.

The development trend of China’s economy in 2009 persisted into 2010. Urbanization continued progressing and the average income per capita for urban residents increased by 11.3% as compared to 2009. The Twelfth Five Year Plan laid out by the Central Government boosted domestic consumption and triggered a significant increase in domestic retail consumption. Retail spending for clothes, shoes, caps and textiles increased by 24.8% as compared to 2009; thus, presented a huge development opportunity to the Group.

Positive market sentiment, together with the quality products and accurate market positioning of brands “LILANZ” and “L2”, enabled the Group to achieve encouraging performance in the year. The Group’s turnover for the year achieved a year-on-year increase of 31.6% as compared to 2009 to reach RMB2,053.0 million, and profits attributable to equity shareholders also increased by 38.2% to RMB418.7 million. The board of directors proposed a final dividend of RMB12 cents per share, along with the interim dividend of RMB5 cents per share paid, total annual dividend is RMB17 cents per share, with a dividend payout ratio of 48.7%.

CHAIRMAN'S STATEMENT (continued)

During the year, the Group formally launched its sub-brand “L2” in addition to its main brand “LILANZ”. The launch of “L2” represented a milestone for the Group’s multi-brand strategy. “L2” operates under its brand philosophy “fashionable now”, and sells menswear targeting young men of age between 20 and 30. The first “L2” outlet was opened in late July in Hunan, and since then, a total of 80 outlets were opened during the year. Sales for “L2” amounted to RMB41.4 million for the year. We are satisfied with the results “L2” achieved in just a few months time, given that it was a totally new brand. We foresee that “L2” will have a higher contribution to the Group in the future.

During the year, the Group continued to focus on product quality optimization and enhancement of brand position as its major strategy objectives. During the year under review, the Group widely recruited design and research and development talents. The number of members in the research and development team increased to around 150, to provide “LILANZ” and “L2” with more diverse, higher quality materials and more fashionable designs. To satisfy the need for quality fabric with greater creativity, the Group continued to increase the direct involvement in developing unique quality fabric with suppliers to promote product innovation and improve product differentiation. This tactic can also effectively reduce the pressure of fabric and raw materials costs increase. Meanwhile, to meet business growth, the Group continued to increase the proportion of sub-contracting arrangements, which enabled the Group to arrange complicated self-production process more flexibly. As a result, the Group effectively strengthened its control over product quality, conforming to the Group’s principle of placing importance to product quality.

For its brand images, the Group continued to appoint Mr. Chen Dao Ming () and Mr. Daniel Wu () as “LILANZ”’s spokesperson and “L2”’s spokesperson respectively. The two spokespersons, combined with appropriate advertisement placement, enhanced the brand images of both brands to be more outstanding and distinctive. The Group had been actively progressing storefront renovations for its main brand “LILANZ” since 2008, and all of the stores have been renovated by the end of 2010. Further up-grade to the first batch of renovated stores will be carried out in 2011 to further promote the image and style of all stores.

Through enhancements in different aspects, including product design, production, marketing strategy, store image and brand image, the Group has achieved sales growth in high value-added products which are well received by customers during the year. The Group has successfully transferred the impact from cost increase to selling price and strengthened its competitiveness.

Our endeavor in promoting brand image and positioning has been widely recognized by the industry and that a number of honors were awarded to the Group, validating the significant achievements in brand building of the Group. During the year under review, “LILANZ” was awarded the “Leading Chinese Brand in the Industry”, “2010 Annual Great Wall of China Advertising Awards - Consumer’s Most Trusted Public Brand”, “2009-2010 Best Selling Menswear Brand in China Market Research”, “Top 10 Leading Brands of China’s Textiles and Apparel Industry”, “World-reputed Brand”, and “the Best Original Design Award” for China’s contemporary menswear design exhibition. “L2” was selected as “2009-2010 Most Fashionable and Creative Brand in China”, and also “the Brand with Most Business Potential” during the spring-summer Shanghai Fashion Week in 2010. Accredited to the rapid growth of the Group, we were awarded the “2010 China newly-listed Company” by the *Entrepreneur* magazine. I would like to express my heartfelt appreciation to the recognition given to the Group, “LILANZ” and “L2” from all parties.

Looking ahead, the Chinese economy will continue to develop steadily, raising consumers’ demand for better quality products. However, the increasing labor and raw materials costs will bring us certain level of challenges. As one of the leading menswear brands in China, the Group will continue to improve product quality as well as to launch more unique and fashionable products, thereby catering to the market demands. At the same time, we will continue to enhance the brand images of “LILANZ” and “L2”, building them into the most popular menswear brands amongst consumers, as to expand our business and widen our profit margin.

CHAIRMAN'S STATEMENT (continued)

LILANZ has always adhered to its philosophy “simple yet sophisticated” (), to provide customers with simple but superb apparels and accessories. We believe that the Group’s philosophy of simplicity will give customers a unique brand value and experience. On behalf of the board of directors, I would like to sincerely thank the management team and all the employees for their unfailing dedication and commitment to the Group. I would also like to extend this thanks to all the shareholders for their significant support. Only with the support of these parties can the Group develop so rapidly and materialize into a leader of China’s business casual menswear market.

Chairman

Wang Dong Xing

21 March 2011



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2010, China's economy continued to expand and the retail market remained prosperous. According to the data from the National Bureau of Statistics, China's GDP amounted to RMB39.8 trillion in 2010, representing a growth of 10.3% over 2009 which indicated an acceleration in the pace of growth. Given the booming economy and the increase in income per capita, the national consumption continues to rise and drive overall retail spending. Although the government introduced a number of policies in the second half of the year to control inflation, the consumption growth persisted and the annual total retail sales of consumer goods reached RMB15.5 trillion, representing a year on year increase of 18.4% .

During the year under review, significant increase in raw material prices and the rise of labour costs added pressure on the manufacturing industry. However, as the purchasing power of China citizens increases, the demand for high-end brand name products also intensified, and benefitted the healthy development of branded apparel industry.

Since 2008, the design and position of the Group's products and retail store image have been directed into a more personalized and fashionable style and have been well received by consumers within a few years' time. During the year, the Group capitalized on the market's growing demand for fashionable and premium branded apparel by continuing to actively promote and enhance "LILANZ" brand image and introducing more higher-end products into its product mix, which achieved satisfactory results. At the same time, the Group captured the demand for young men's fashionable apparel in the market by launching sub-brand "L2" during the year, and the initial progress of which has been promising. These strategies have yielded satisfactory results in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)



The Group is pleased to announce that for the year ended 31 December 2010, the profit attributable to equity shareholders was RMB418.7 million, representing an increase of 38.2% as compared to RMB303.0 million for the year ended 31 December 2009. The Board of Directors recommended the payment of a final dividend of RMB12 cents per share. Together with the interim dividend of RMB5 cents per share, the total dividend distributed for the year is 17 cents. The dividend payout ratio is 48.7%.

FINANCIAL REVIEW

Turnover

During the year under review, the Group achieved a rapid growth and recorded a turnover of approximately RMB2,053.0 million, representing an increase of 31.6% as compared to approximately RMB1,559.9 million for last year. Capitalizing on the market's growing demand for fashionable and premium branded apparel, the Group dedicated to improving product quality and product design and further enhanced the product mix for "LILANZ". In doing so, the Group successfully increased the sales mix of products with higher added-value and price point, especially for the fall and winter collections where sales of expensive items such as leather jackets and Nick garments have increased significantly, and raised the average selling price by 23.2% as compared to last year. This reflected the successful enhancement of the brand value of "LILANZ" and the growing confidence consumers have towards "LILANZ" products, which in turn improve the pricing power of our products.

For the year 2010, the turnover of "L2" amounted to approximately RMB41.4 million, accounting for about 2% of the Group's turnover. "L2" was launched last July.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Turnover by Region

Eastern China as well as Central and Southern China continued to be the Group's main turnover contribution regions, accounting for 60.7% of total turnover (2009: 62.1%) in aggregate. Benefiting from the Central Government's "Go West" development plan, South Western China continued the rapid growth momentum in the first half of the year and became the fastest growth area with a considerable growth of 45.2% for the year. North Western China also recorded a high growth rate of 38.0%. Northern China has resumed sales growth after a consolidation of the retail stores in the second half of 2009 and the first half of 2010, and recorded a year-on-year increase of 36.1%.

"L2" also emphasizes the development in Eastern and Central and Southern China. Sales from these regions accounted for approximately 70% of the total turnover of "L2".

Turnover by region for the year was set out below:

Region	For the year ended 31 December				Changes (%)
	2010		2009		
	(RMB' million)	% of turnover	(RMB' million)	% of turnover	
Northern China ⁽¹⁾	106.0	5.2	77.9	5.0	36.1
North Eastern China ⁽²⁾	153.1	7.4	129.2	8.3	18.5
Eastern China ⁽³⁾	756.7	36.9	589.9	37.8	28.3
Central and Southern China ⁽⁴⁾	488.7	23.8	378.4	24.3	29.1
South Western China ⁽⁵⁾	358.9	17.5	247.1	15.8	45.2
North Western China ⁽⁶⁾	189.6	9.2	137.4	8.8	38.0
Total	2,053.0	100.0	1,559.9	100.0	31.6

Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.

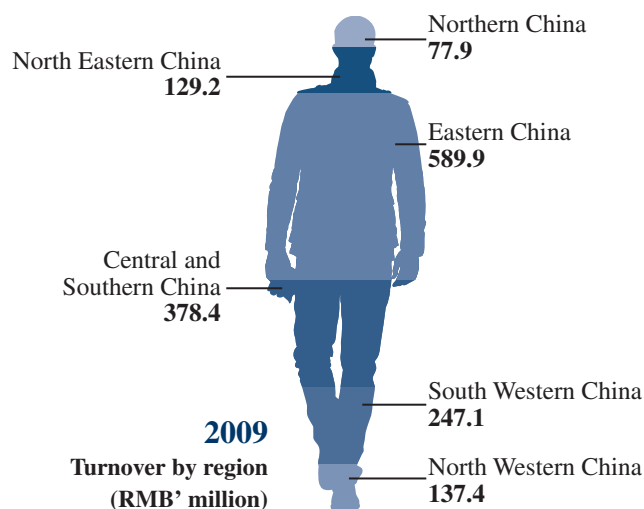
North Eastern China includes Heilongjiang, Jilin and Liaoning.

Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.

Central and Southern China includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.

South Western China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.

North Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Turnover by Product Category

Tops were still the main product category by sales, accounted for 75.3% of total turnover and recorded a year on year increase of 31.4% in sales. Pants follow next, accounted for 15.3% of total turnover and recorded a year on year increase of 29.3% in sales. Sales of suits recorded the most significant sales growth amongst other product categories, which grew 66.7% compared to last year. It was mainly accredited to the well-received casual suits made with diverse fabric that were introduced by the Group during the year.

Turnover by product category, and the corresponding percentage of turnover for the year were set out below:

	For the year ended 31 December				Changes (%)
	2010		2009		
	(RMB' million)	% of turnover	(RMB' million)	% of turnover	
Tops	1,545.2	75.3	1,176.3	75.4	31.4
Pants	314.5	15.3	243.3	15.6	29.3
Suits	124.5	6.1	74.7	4.8	66.7
Accessories	68.8	3.3	65.6	4.2	4.9
	2,053.0	100.0	1,559.9	100.0	31.6

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Sales Volume and Average Selling Price (“ASP”) by Product Category

The average selling price increased by 23.2% this year. Major reasons for the increase were the change in the Group’s product mix with sales of more products with higher added-value and price point and the transfer of the increased costs to selling prices. Along with the enhancement of the Group’s brand image, the Group had less low value-added products in the collections and sold more products with high added-value and price point. Particularly for the category of tops, the average selling price increased by 28.4%. The overall sales volume recorded a 6.9% growth.

Sales volume and average selling price by product category for the year were set out below:

	For the year ended 31 December					
	2010		2009		Changes	
	Sales Volume (unit’000)	ASP (RMB)	Sales Volume (unit’000)	ASP (RMB)	Sales volume (%)	ASP (%)
Tops	6,845	226	6,711	176	2.0	28.4
Pants	2,874	109	2,500	97	15.0	12.4
Suits	330	377	206	364	60.2	3.6
Accessories	723	95	655	100	10.4	-5.0
Overall	10,772	191	10,072	155	6.9	23.2

Cost of Sales

For the year, the costs of the self-production and the outsourced production were approximately proportional to their contributions to total turnover. Self-production accounted for 61.0% of total cost of sales for the year, representing an increase of 8.6 percentage points from approximately 52.4% for last year. The increase was largely due to the Group subcontracting more self-production processes. Subcontracting charges and related costs of auxiliary raw materials amounted to RMB114.9 million for the year as compared to RMB35.6 million for last year. Unlike OEM purchases, the Group provides major raw materials to the sub-contractors for the production of such products. These subcontracting arrangements allow the Group to leverage the expertise and resources of subcontractors, providing the Group with more flexibility in responding to tight schedules. At the same time, it enables the Group to have tighter control of the quality of key raw materials as well as certain key production processes.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

	For the year ended 31 December		2009		Changes (%)
	2010	% of		% of	
	(RMB' million)	cost of sales	(RMB' million)	cost of sales	
Self-production					
Raw materials	581.4	45.6	425.2	42.2	36.7
Direct labour	43.3	3.4	41.8	4.1	3.6
Overhead	38.1	3.0	25.9	2.6	47.1
Subcontracting charges	114.9	9.0	35.6	3.5	222.8
	777.7	61.0	528.5	52.4	47.2
Outsourced production					
OEM purchases	497.3	39.0	480.2	47.6	3.6
Total	1,275.0	100.0	1,008.7	100.0	26.4

Gross Profit Margin

The Group's cost of sales increased by 26.4% to approximately RMB1,275.0 million for the year from approximately RMB1,008.7 million for 2009. The growth of the Group's turnover was higher than that of the cost of sales and thus resulted in an improved gross profit margin. The Group's gross profit margin was 37.9% for the year, an increase of 2.6 percentage points as compared to 35.3% for last year. Gross profit margin growth was mainly contributed by the successful enhancement in brand image and the changes in product mix. In addition, the Group continued to optimize the supply chain and strengthen its partnerships with fabric suppliers to improve the cost efficiency and successfully minimize the escalation of costs of sales.

Other Revenue

Other revenue for the year was RMB19.2 million, representing an increase of RMB13.3 million as compared to that for last year. This was mainly attributable to the increase in interest income and governmental grants.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year was RMB224.0 million, representing approximately 10.9% of total turnover, which was comparable to the 10.6% for last year.

Included in selling and distribution expenses were advertising and promotional expenses and renovation subsidies totaling RMB181.2 million for the year. These expenses accounted for approximately 8.8% of the total turnover, representing a slight decrease of 0.2 percentage points from 9.0% for last year. The expense ratio is lower than budgeted, primarily due to lower than expected advertising costs during the period of Guangzhou Asian Games.

Administrative Expenses

The Group's administrative expenses were RMB80.6 million for the year, representing an increase of RMB30.4 million from 2009. The amount accounted for approximately 3.9% of the turnover with a year on year increase of 0.7 percentage points. The increase in administrative expenses was attributable to several key factors including the increase in relevant administrative expenses after listing, the expenses incurred for the development of "L2", as well as the wage rise for PRC staff of about 20% in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Other Operating Expenses

The increase in other operating expenses by RMB1.9 million for the year as compared to 2009 was attributable to foreign exchange losses and increase in charitable donations.

Profit from Operations

Profit from operations rose by 44.2% to RMB488.4 million for the year from RMB338.8 million for last year, which reflected the Group's increased turnover and effective control over cost of sales. Operating margin increased from 21.7% to 23.8%.

Finance Costs

Finance costs decreased from approximately RMB6.4 million for 2009 to approximately RMB0.3 million for the year. This was mainly due to the decrease in interest expense as the Group utilized part of the proceeds from listing to repay all bank loans in early 2010.

Income Tax

The effective income tax rate for the year was 14.2%, representing an increase of 5.4 percentage points compared to 8.8% for 2009. The key reason for the increase is because one of the Group's PRC subsidiaries which enjoyed a tax-free year in 2009, was subject to PRC income tax at a concessionary rate this year. In addition, the Group has also made a provision for deferred tax liability in respect of the withholding tax payable upon distributions of profits by its PRC subsidiaries in the foreseeable future.

Profit Attributable to Equity Shareholders of the Company

For the year ended 31 December 2010, the Group recorded a profit attributable to equity shareholders of approximately RMB418.7 million, an increase of 38.2%. Net profit margin increased 1 percentage point to 20.4% (2009: 19.4%). Earnings per share is approximately RMB34.89 cents, representing a year on year increase of 13.0%.

The sub-brand "L2" recorded a net loss of approximately RMB20.5 million in this first year of launch.

Final dividend

The Board recommended a final dividend of RMB12 cents per ordinary share for the financial year, representing a total payout of about RMB144.1 million. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the final dividend will be paid in cash on or about 12 May 2011 to shareholders whose names appear on the register of members of the Company on 3 May 2011. The dividend shall be paid in Hong Kong dollars based on the mid-market rate for Renminbi as quoted by The Hong Kong Association of Banks on the date of the forthcoming annual general meeting. For information only, the mid-market rate for Renminbi to Hong Kong dollar on the date of this report as quoted by The Hong Kong Association of Banks was RMB1.00: HK\$1.1875. Such exchange rate is for reference only and may differ from the final exchange rate for calculation of the Hong Kong dollars amount of the dividend payable to the shareholders, and no representation is made by any amounts in RMB and HK\$ can be or could have been converted at the relevant dates at the above rate or at any other rates at all. The Company will issue further announcement as to the actual value of the dividend based on the final exchange rate prior to the payment date.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)



BUSINESS REVIEW

Marketing and Promotion

The Group puts great emphasis to the long-term development of its brands, and actively enhances the brands' value through various marketing and promotional activities.

For the main brand, "LILANZ", in addition to the regular promotion and advertising activities, several other advertising drives were made during the year to further strengthen our brand image and exposure. These included a large billboard advertising display at the Shanghai Hongqiao Airport and increased advertising spending in CCTV during the Asian Games in Guangzhou to coincide with the launch of the winter collections. The distributors of the Group also launched regional promotion programs in coordination with business needs, such as offering VIP discount upon the opening of new shops, advertising on road side billboards as well as in regional magazines.

The Group regards its retail stores as an important channel for advertising and enhancing brand image. Since 2008, the Group has, in phases, offered subsidies to the distributors to renovate the layout and design of its retail outlets so as to unify and promote its store image. By the end of 2010, all stores had completed the renovations. Further up-grade to the first batch of renovated stores will be carried out in 2011 to improve the display spacing and to further enhance store image.

"L2" is targeted towards young customers. During the year, promotional activities were mainly on magazines and the internet to ensure effectiveness. Similar to the main brand "LILANZ", the Group also subsidized the distributors for the renovation of "L2" stores to unify the store image.

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

Retail and Distribution Network

The Group continued to optimize the retail and sales network in coordination with its business expansion to improve operational efficiency. Eastern China, and Central and Southern China were still the major sales contribution regions, which accounts for

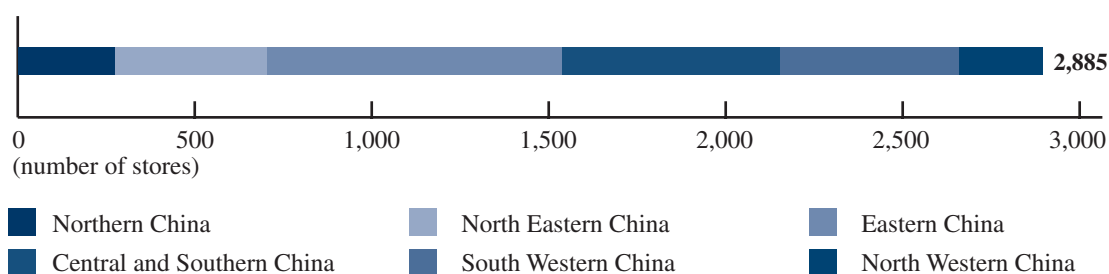
MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The Group places great emphasis on the location of new stores as store location particularly influences brand's positioning and image. After the consolidation of stores in the past few years, the Group's stores now spread across China, covering second-tier, third-tier and fourth-tier cities within 31 provinces, autonomous region and municipalities. Most of the stores are located in the popular commercial area, allowing the Group to implement its image upgrading plan.

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

Region	As of 1 January 2010	Number of stores		As of 31 December 2010
		Store opened during the year	Store closed during the year	
Northern China	227	67	28	266
North Eastern China	337	55	16	376
Eastern China	807	174	122	859
Central and Southern China	562	111	47	626
South Western China	439	100	7	532
North Western China	189	37	0	226
Total	2,561	544	220	2,885

As of 31 December 2010



MANAGEMENT DISCUSSION AND ANALYSIS (continued)



Sales Channel Management

The Group endeavors to strengthen retail management and has embarked on developing software systems since late 2009 with a plan to connect the sales and inventory situation of each retail outlet on-line by the end of 2012. These would enable the Group to obtain sales data more promptly and make improvements directed against different problems. By the end of 2010, the first stage of system development has been completed as planned. The warehouse inventory systems of all “LILANZ” distributors have now been connected online. A system connecting to the inventory systems of some of the stores operated by distributors is also under trial run. The inventory system of all “L2” stores is already connected online.

In order to improve the sales efficiency of a single store, the Group assisted distributors in designing and launching a sales incentive commission plan for the sales staff during the year to encourage higher average sales/volume per sales transaction. Sales of various product lines were also improved via better control in the timing of product launches in different seasons by accelerating the process of shipping and shelving.

Design and Product Development

Fashionable, unique and creative designs not only appeals to consumers, but can also add value to the product and escalate its pricing. The Group deeply understands this concept and is committed to innovative product designs and working with suppliers to develop unique fabrics. The Group also put great emphasis to quality control throughout the production process to ensure that unique, simple yet sophisticated menswear are manufactured through quality tailoring. The Group’s main brand “LILANZ” has a design and development team of over 100 people, and is led by Mr. Ji Wenbo, a renowned designer in China. The product design and development department for the sub-brand “L2” is located at the new product development centre in Shanghai. Its design team comprises approximately 30 members, headed by Mr. Wang Yutao, the winner of “Best Menswear Designer in China” of China Fashion Grand Awards. Furthermore, to nurture design talents, the Group set up a product development centre in Guangzhou in the second half of 2010. At present, there are more than 20 employees under training.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Sales Fairs

The 2011 spring/summer collections sales fairs of “LILANZ” were held in September 2010. The order amount increased 26.5% year on year and both the average selling price and order quantity enjoyed a double-digit growth. Delivery of spring and summer orders began in January 2011. The 2011 autumn sales fair has started on 8 March, which was two weeks earlier than previous years to allow more sufficient time for production arrangement and earlier delivery of products to distributors.

2011 Spring/Summer and Autumn sales fairs for sub-brand “L2” were held in November 2010 and January 2011 respectively and satisfactory sales orders were recorded.

Production and Supply Chain

The Group’s production plants are located in Wuli and Changting in Fujian Province; which together occupy a total construction area of approximately 42,000 square meters. At present, there are a total of 83 production lines in these facilities. For the year ended 31 December 2010, the production plants achieved an average utilization rate of over 90%.

To cater for the rapidly expanding market needs and business development, in addition to outsourcing production (“OEM purchase”), the Group also increased the proportion of subcontracting services. The advantages of subcontracting is that it allows better control on major fabrics used and enhances the flexibility to arrange complicated processes for self-production, effectively improving product quality control and production scheduling.

Starting from early 2009, the Group began purchasing raw material for fabrics directly from producers. These direct purchases accounted for about 60% of the total fabric purchases by the end of 2010. Direct purchasing not only helps to reduce the cost of fabrics and effectively alleviate the impact of soaring raw material costs, more importantly, this enables the Group to collaborate with suppliers in the research and development of unique quality fabrics to aid products innovation and thereby to enhance product differentiation.

To improve production efficiency, the Group has started to reform and adopt “Toyota Production System” in its existing production lines in the first quarter of 2011 and change from “process based” to “product based” production line. The Group believes that such change can effectively improve production efficiency and quality control.

Currently, the Group has about 450 raw material suppliers, subcontractors and outsourced production contractors in total. The Group plans to consolidate its supply chain and strengthen a long-term partnership with sizable and quality suppliers in the coming two years to further enhance the Group’s control over product quality and production arrangement.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS

Following the steady development of China's national economy, continued urbanization and the rising national consumption power, people's mode of consumption continues to change. Consumers now pursue products with better quality and more fashionable; and their sensitivity towards brand image gradually heightens. As Central Government strive to reduce the dependence on exports and support industry with domestic demand, the vast potential of the market will be further released, boosting the development of menswear business. As a leading enterprise of business casual menswear, the Group will continue

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

- Net cash inflows from operating activities amounting to RMB517.6 million, representing improved management of working capital and outstanding operating results.
- Net cash outflows from investing activities amounting to RMB311.4 million, comprising mainly the net increase in fixed deposits held at banks with maturity over three months by RMB267.5 million, capital expenditure for property, plant and equipment, and computer system and software totalling RMB57.9 million.
- Net cash outflows from financing activities amounting to RMB191.6 million, mainly representing the payment of final dividend totalling RMB132.0 million in respect of the year ended 31 December 2009, the payment of interim dividend totalling RMB60.0 million in respect of the year ended 31 December 2010 and the repayment of bank loan of RMB1.0 million.

As at 31 December 2010, total assets of the Group were RMB2,407.9 million of which current assets were RMB2,143.8 million. Total liabilities were RMB547.7 million and total equity amounted to RMB1,860.1 million. There was no outstanding bank loan.

TRADE WORKING CAPITAL TURNOVER

	Year ended 31 December	
	2010 (days)	2009 (days)
Average inventory turnover days	47	58
Average trade and bills receivables turnover days	65	66
Average trade and bills payables turnover days	(86)	(72)
Net trade working capital turnover days	26	52

For the year under review, the Group's average trade working capital cycle decreased to 26 days as compared to 52 days for 2009. This was mainly due to the increase in average trade and bills payables turnover days and the fall in inventory turnover days for the year.

The average trade and bills payables turnover days increased to 86 days for the year from 72 days for 2009 as most of the replenishment orders for the winter collections were delivered in December due to the late winter.

The Group's average inventory turnover days were 47 days for the year as compared to 58 days for 2009. The decrease was attributable to the relatively high inventory level at the beginning of 2009 due to the delay in shipments of some of the 2008 winter products. The inventory turnover days based on the closing inventory balances were at similar level for both years at 52 days for 2010 and 53 days for 2009.

The average trade and bills receivables turnover days for the year were 65 days which was at a similar level as that for 2009. Trade receivable turnover days based on the actual sales in November and December 2010 were 54 days.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PLEDGE OF ASSETS

As at 31 December 2010, deposits with certain banks totalling RMB 38.1 million (2009: RMB34.1 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2010, the Group had total capital commitment of RMB160.9 million, primarily related to the proposed establishment of an operation centre, the development of ERP systems and the facility upgrade in the production plant. The operation centre is currently in planning and design stage.

As at 31 December 2010, the Group had no material contingent liabilities.

FINANCIAL MANAGEMENT POLICIES

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

HUMAN RESOURCES

As at 31 December 2010, the Group had 2,830 staff. Total staff costs for the year amounted to approximately RMB109.0 million (2009: RMB81.3 million).

The Group places great emphasis on recruiting and training quality personnel. Talents are recruited from universities and technical schools and pre-employment and on-going training and development opportunities are provided to staff. Training programs provided cover areas such as sales and production, customer services, quality control, sales fair planning, workplace ethics and other areas relevant to the industry.

The Group offers competitive remuneration packages to employees by reference to market rates, responsibility, job complexity as well as the Group's performance. The Group has also adopted share option schemes to recognize and reward the contribution of the employees to the growth and development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

USE OF PROCEEDS

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited on 25 September 2009 with net proceeds from the global offering of approximately HK\$1,081.3 million (after deducting underwriting commissions and related expenses). As at 31 December 2010, the amount utilized was as follows:

Purposes of net proceeds	Percentage	Amount of net proceeds (HK\$' million)	As at 31 December 2010	
			Amount utilized (HK\$' million)	Remaining balance (HK\$' million)
Expansion of product development studio in Shanghai and development of facilities in Xiamen	15%	162.2	17.6	144.6
The development of sub-brand	15%	162.2	28.4	133.8
Lease and refurbishment of flagship stores for operation by distributors	15%	162.2	—	162.2
Promotional and brand building activities	20%	216.3	193.0	23.3
Expansion of the production plant	5%	54.1	19.8	34.3
The establishment of enterprise resource planning system, development of information technology network and obtainment of the necessary advisory services and system software	10%	108.1	10.5	97.6
Repayment of part of the Group's bank loans	10%	108.1	108.1	—
Working capital and other general purposes	10%	108.1	108.1	—
	100%	1,081.3	485.5	595.8

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to the proposed final dividend for the year, the register of members will be closed from Wednesday, 27 April 2011 to Tuesday, 3 May 2011 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 26 April 2011 for registration.

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.

The Company has adopted its own Code of Corporate Governance, which covered all the code provisions and some of the recommended best practices of the Code on Corporate Governance Practices (the “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 2010.

(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 27 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 are 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.

CORPORATE GOVERNANCE REPORT (continued)

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.

Independence of Independent Non-executive Directors

Currently, the three Independent Non-executive Directors are outstanding executives or experts 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.

Four board meetings had been held with full attendance during the year ended 31 December 2010.

Board Committees

To cover particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has set up two Board Committees, namely Audit Committee and Remuneration 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.

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

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 results.

The Audit Committee had two meetings with full attendance during the year ended 31 December 2010. During the meetings, the Audit Committee has considered the annual results of the Group for the year ended 31 December 2009 and the interim results of the Group for the six months ended 30 June 2010 as well as the reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review.

Remuneration Committee

The Remuneration Committee comprises one Executive Director and two Independent Non-executive Directors, namely Mr. Wang Cong Xing, Mr. Nie Xing and Mr. Chen Tien Tui. Mr. Wang Cong Xing is 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 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 their remuneration are set out in note 7 of the financial statements.

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

The Remuneration Committee held one meeting with full attendance to discuss and approve the terms of appointment of a senior executive during the year ended 31 December 2010.

Appointment and Re-election of Directors

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company. The Board as a whole is responsible for nomination and appointment of directors, monitoring the succession planning of Directors and assessing the independence of Independent Non-executive Directors.

Where vacancies on the Board exist, the Board will carry out selection process and appointment by making reference to skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

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

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

CORPORATE GOVERNANCE REPORT (continued)

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.

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 and that all transactions must comply with the Securities Dealing Code. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year.

Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have 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 Auditors

KPMG has been appointed as the external auditors of the Company. The Audit Committee is responsible for monitoring the independence of the external auditors to ensure objectivity in the financial statements. If non-audit services are required, the Committee will, prior to the execution of contract with the external auditors and the commencement of their duties, consider whether the non-audit services will result in any potential material conflict of interest.

During the year, the fee payable to KPMG in respect of its statutory audit services (including interim review) provided to the Group was RMB1,970,000. There had been no non-audit functions performed by the External Auditors during the year ended 31 December 2010.

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

(C) NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

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

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

- (i) the Independent Non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;
- (ii) the Company will disclose any decisions on matters reviewed by the independent Non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through the annual report or by way of announcement;
- (iii) the Company will disclose in the corporate governance report on how the terms of the non-compete undertaking have been complied with and enforced; and
- (iv) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the non-compete undertaking, he may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Company’s articles of association.

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

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

(D) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

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 financial analysts and institutional investors by means of roadshows, one to one meetings, conference calls and investors conferences to keep them abreast of the Group’s business and development.

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. Shareholders are welcome to attend Shareholders’ meeting where they can raise questions directly to the Board and the management on both operational and governance matters.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Dong Xing (王冬星先生), aged 50, 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 () from the Economics College of Peking University () in 2004 and an EMBA programme organised by Lingnan College, Sun Yat-sen University () in 2009. 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 () and standing vice chairman of the Jinjiang City Sewing and Apparel Association (). He is also vice chairman of the Jinjiang Committee of China Democratic National Construction Association (), vice president of the Jinjiang Qingyang Chamber of Commerce (), council chairman of the Jinjiang Qingyang Foreign Investment Enterprise Association () and standing committee member of the Jinjiang Chamber of Commerce (()).

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Mr. Wang Liang Xing (王良星先生), aged 48, 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 () from the School of Continuing Education of Tsinghua University () and an EMBA programme organised by Xiamen University (). He is currently attending a China CEO Programme CEO organized by Cheung Kong Graduate School of Business (). 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 () and a supervisor of the Garment Association of the PRC (). He was one of 50 persons honoured with a 2005 PRC Enterprises Trademark Award (2005 50) and was accredited as the "Brand China People of the Year 2010" (2010).

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 42, 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 () from the School of Continuing Education of Tsinghua University () 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 controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Cai Rong Hua (蔡榮華先生), aged 42, 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 () from the School of Continuing Education of Tsinghua University () 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Mr. Hu Cheng Chu (胡誠初先生), aged 66, 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 () from the School of Continuing Education of Tsinghua University (). He is currently the vice chairman of the Quanzhou Association of Professional Managers () and a supervisor of the Association of China Brand Managers of the Brand China Industry Union (). 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 2009-2010 10) and the top 10 brand manager in China for the year 2010 2010 .

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 48, 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 () in 2000 and a diploma programme for chief executive officers of enterprises () from the Faculty of Economics at Peking University () 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.

Mr. Pan Rong Bin (潘榮彬先生), aged 37, 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 working 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 () from the School of Continuing Education of Tsinghua University (), the PRC in 2006. From 2001 to 2005, Mr. Pan was a representative in the Nanping Municipal People's Congress, Fujian Province (). Since 1995 to 2007, he was a member of the Chinese People's Political Consultative Conference of Jianyang City, Fujian Province (). He was honoured with the Award for the Model of Labour in Quanzhou City, Fujian Province () 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent non-executive Directors

Dr. Lu Hong Te (呂鴻德博士), aged 50, 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 () (stock code: 1711) and Aiptek International Inc. () (stock code: 6225), the shares of which are listed on the Taiwan Stock Exchange, and Firich Enterprises Co., Ltd. () (stock code: 8076) and Lanner Electronics Inc. () (stock code: 6245), the shares of which are traded in the Gre Tai Securities Market () in Taiwan. He is also an independent non-executive director of three other companies, namely Capxon International Electronic Company Limited () (stock code: 469), Anta Sports Products Limited () (Stock code: 2020) and China SCE Property Holdings Limited () (Stock code: 1966), the shares of which are listed on the Stock Exchange.

Mr. Chen Tien Tui (陳天堆先生), aged 62, 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 (stock code: 539), the shares of which are listed on the Stock Exchange. He has over 29 years experience in the textile industry.

Mr. Nie Xing (聶星先生), aged 46, 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 () 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 () in December 2000. He is the executive director and vice president of China Green (Holdings) Limited () (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 52, 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 () 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 () at the Paris - China Fashion Week () during Les Années Chine - France () and was awarded the Eighth China Fashion Design "Golden Award" () by the China Fashion Association (). Mr. Ji was invited to present his own range of designs during the International Fashion Week of Pusan, Korea () in 2006 and showcase menswear collections with the theme of "Lilang — Ji Wen Bo" () 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Ms. Ko Yuk Lan (高玉蘭女士), aged 49, 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 20 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.

Mr. Yu James (余致力先生), aged 35, is the group financial controller. He has more than ten years of experience in auditing, advisory business services and finance management. Mr. Yu graduated from The California State University with a Bachelor's Degree in Accountancy. He became a member of The American Institute of Certified Public Accountants on 20 October 2001. Prior to joining the Group on 18 August 2008, he worked in the Assurance and Advisory Business Services department of Ernst & Young, Certified Public Accountants, and at CLP Holdings Limited and Shenzhen International Group Holdings Limited, both of which are companies listed on the main board of the Stock Exchange.

Mr. Lin Yi-Chieh (林易杰先生), aged 34, is the head of the strategic planning department of the Group. He obtained a master's degree in business administration from Xiamen University () 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 34, is the head of the production department of the Group. She completed a programme in fine chemical engineering at Fujian Radio and TV University () in 1998 and an advanced programme of excellent corporate operation and management () from the School of Continuing Education of Tsinghua University () in 2006. She completed a programme in project management and a master programme in business administration for senior managers () at Xiamen University (). Ms. Shi joined the Group on 1 August 1998 and has been the head of production department of the Group since November 2008.

Mr. Zhang Yu Feng (章宇峰先生), aged 40, 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 () with a bachelor degree in professional trade and economics in 1992 and completed an EMBA core course from Chung Kong Business School () in 2006. From 1992 to 2007, he had worked in S. C. Johnson & Son, Inc. () as sales representative and branch office manager, worked in Coty Inc. ()

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Mr. Chen Wei Jin (陳維進先生), aged 41, is the head of the group ordering department of the Group. He graduated from Zhangzhou Normal University () with a professional diploma in administration in July 2000 and completed an advanced programme of excellent corporate operation and management () from the School of Continuing Education of Tsinghua University () in February 2006. From 1989 to 2004, he served as the general manager of Jinjiang Weixin Knitters Factory (). From 1996 to 2004, he also worked in the Jinjiang branch office of the China Life Insurance Company Limited () as the general manager of the sales department, where he was recognised as Pioneer of Sales and Marketing () 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 29, 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 () in June 2000 and an advanced programme of excellent corporate operation and management () from the School of Continuing Education of Tsinghua University () 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 35, is the deputy financial controller of the Group. He completed an advanced programme of excellent corporate operation and management () from the School of Continuing Education of Tsinghua University (), a programme in financial management at the Adult Education College of Huaqiao University (), and an advanced programme in financial leadership development () at Commerce College of Huaqiao University (). He is currently attending a programme in finance at the Fujian Agriculture and Forestry University Continuing Education School (). 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 2010.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

The principal activities of the Group are manufacturing and wholesaling of branded menswear and related accessories in the PRC. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2010 Percentage of the group's total		2009 Percentage of the group's total	
	Sales	Purchases	Sales	Purchases
The largest customer	14.5%		13.4%	
Five largest customers in aggregate	36.0%		35.2%	
The largest supplier		4.7%		5.0%
Five largest suppliers in aggregate		19.2%		18.2%

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 94 of the annual report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 44 to 93 of the annual report.

REPORT OF THE DIRECTORS (continued)

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB418,728,000 (2009: RMB302,994,000) 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 RMB5 cents per ordinary share (2009: RMB nil cents per ordinary share) was paid on 14 October 2010. The Directors now recommend the payment of a final dividend of RMB12 cents per ordinary share (2009: RMB11 cents per ordinary share) in respect of the year ended 31 December 2010.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB1,432,000 (2009: RMB391,000).

NON-CURRENT ASSETS

Details of acquisitions and other movements of non-current assets (including fixed assets, construction in progress, investment property, lease prepayments and intangible assets) are set out in notes 11 to 14 to the consolidated financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2010 are set out in note 22 to the consolidated financial statements.

SHARE CAPITAL

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the 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 2010 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 2010.

REPORT OF THE DIRECTORS (continued)

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 27 to 32 of the annual report.

In accordance with article 105(A) of the Company's articles of association, Mr. Wang Liang Xing, Mr. Cai Rong Hua, Mr. Pan Rong Bin and Dr. Lu Hong Te will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

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

CONFIRMATION OF INDEPENDENCE

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

REPORT OF THE DIRECTORS (continued)

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

As at 31 December 2010, 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)	25.5%
Mr. Wang Liang Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	25.5%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	25.5%
Mr. Cai Rong Hua	The Company	Beneficial owner	7,200,000 shares (L)	0.60%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US\$1.00 each (L)	8%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.37%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US\$1.00 each (L)	5%
Mr. Wang Ru Ping	The Company	Beneficial owner	2,700,000 shares (L)	0.22%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3%
Mr. Pan Rong Bin	The Company	Beneficial owner	2,700,000 shares (L)	0.22%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3%

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 Hu Cheng Chu, 3% by each of Wang Ru Ping and Pan Rong Bin, 2% by Mr. Chen Wei Jin, 1% by each of Mr. Wang Qiao Xing and Ms. Chen Yu Hua and 0.5% by Mr. Xu Tian Min.

REPORT OF THE DIRECTORS (continued)

Save as disclosed above, as at 31 December 2010, 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 2010, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.10%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	68,500,000 shares (L) (Note 3)	5.71%

Notes:

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

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

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

Tenancy Agreements 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 following tenancy agreements were entered into between the Group as lessee and Jinlang Fujian as landlord in respect of the premises of the Company’s headquarters at Lilang Industrial Park, 200 Chang Xing Road (formally known as Lilang Industrial Park, Nanhuan Road, Qingyang District), Jinjiang City, Fujian Province (the “Premises”):

- (1) a tenancy agreement dated 26 May 2008 (“2008 Tenancy Agreement”) for the lease of a piece of land with a site area of approximately 7,418 sq.m. together with two buildings erected thereon, with an aggregate gross floor area of approximately 17,095 sq.m. for a term commencing from 1 March 2008 and ending on 31 December 2010. The leased area has been used by the Group for office, retail outlet and staff dormitory purposes. The quarterly rent payable by the Group to Jinlang Fujian under the 2008 Tenancy Agreement was RMB329,750 (exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the premises).
- (2) a tenancy agreement dated 1 March 2009 (“2009 Tenancy Agreement”) for the lease of a piece of land with a site area of approximately 2,865 sq.m. together with several floors of a building erected thereon, with an aggregate gross floor area of approximately 10,972 sq.m. for a term commencing from 1 March 2009 and ending on 31 December 2010. The leased area is used by the Group as office. The quarterly rent payable by the Group to Jinlang Fujian under the 2009 Tenancy Agreement was RMB213,945 (exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the premises).

During the year ended 31 December 2010, total rental paid or payable by the Group under the 2008 Tenancy Agreement and 2009 Tenancy Agreement amounted to RMB2,174,780 which did not exceed the annual caps for these transactions.

The Group entered into a new tenancy agreement with Jinlang Fujian for the lease of a substantial part of the aforesaid premises on 15 December 2010 details of which were disclosed in the Company’s announcement dated 15 December 2010.

Opinion from the Independent Non-executive Directors and auditors on the continuing connected transactions

The Directors (including Independent Non-executive Directors) have reviewed the continuing connected transactions and confirmed that these transactions were 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 agreements governing them 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 transactions 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 transactions disclosed above in accordance with Rule 14A.38 of the Listing Rules.

REPORT OF THE DIRECTORS (continued)

DIRECTORS' INTERESTS IN CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

During the year, save as disclosed in note 29 to the financial statements and in the paragraph headed “Continuing Connected Transactions” 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 2010.

EQUITY-SETTLED SHARE BASED PAYMENTS

Share Option Schemes

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 the options granted are set out below:

Name or category of participant	As at 1 January 2010	Options granted by the Company Number of underlying shares				As at 31 December 2010	Exercise period
		Granted	Exercised	Cancelled	Lapsed		
Employees	6,540,631	—	518,995	—	145,583	5,876,053	Note 1
Employees	423,513	—	—	—	105,878	317,635	Note 2
Employees	2,646,956	—	—	—	—	2,646,956	Note 3
	9,611,100		518,995	—	251,461	8,840,644	

Notes:

- The outstanding options at 31 December 2010 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 1,399,519 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 3,318,033 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.
- The outstanding options at 31 December 2010 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 30% of the options granted may be exercised on or prior to the end of the third year after the Listing Date; (b) subject to (a), up to 60% of the options granted may be exercised on or prior to the end of the fourth year after the Listing Date; and (c) subject to (a) and (b), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.
- These options are exercisable 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.

The numbers of shares to be issued upon the exercise of the outstanding options under the Pre-IPO Share Option Scheme are 8,840,644 (representing 0.74% of the issued share capital of the Company) and 8,832,703 (representing 0.74% of the issued share capital of the Company) as at 31 December 2010 and the date of approval of this report respectively.

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.

REPORT OF THE DIRECTORS (continued)

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 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), 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.

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

RETIREMENT SCHEMES

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 44 to 93, which comprise the consolidated and company balance sheets as at 31 December 2010, 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.

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 2010 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

21 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	3	2,053,007	1,559,874
Cost of sales		(1,275,015)	(1,008,738)
Gross profit		777,992	551,136
Other revenue	4	19,228	5,888
Selling and distribution expenses		(224,015)	(165,705)
Administrative expenses		(80,603)	(50,232)
Other operating expenses		(4,187)	(2,291)
Profit from operations		488,415	338,796
Finance costs	5(a)	(311)	(6,387)
Profit before taxation	5	488,104	332,409
Income tax	6(a)	(69,376)	(29,415)
Profit attributable to equity shareholders of the Company		418,728	302,994
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")		(14,164)	(1,191)
Total comprehensive income for the year		404,564	301,803
Earnings per share	10		
Basic (cents)		34.89	30.87
Diluted (cents)		34.72	30.85

The notes on pages 50 to 93 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).

CONSOLIDATED BALANCE SHEET

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	11	180,061	151,420
Investment property	12	30,035	30,963
Lease prepayments	13	38,233	39,047
Intangible assets	14	7,737	—
Deferred tax assets	16(b)	8,031	1,060
		264,097	222,490
Current assets			
Inventories	17	181,549	146,342
Trade and other receivables	18	500,838	458,379
Amount due from a related company	19	—	214
Current tax recoverable	16(a)	221	793
Pledged bank deposits	20	38,105	34,065
Fixed deposits held at banks with maturity over three months	21	575,594	308,070
Cash and cash equivalents	21	847,457	844,051
		2,143,764	1,791,914
Current liabilities			
Bank loans	22	—	1,000
Trade and other payables	23	508,973	359,435
Amount due to a related company	19	330	—
Current tax payable	16(a)	26,344	11,139
		535,647	371,574
Net current assets		1,608,117	1,420,340
Total assets less current liabilities		1,872,214	1,642,830
Non-current liabilities			
Deferred tax liabilities	16(b)	11,351	—
Retention payables		726	726
		12,077	726
Net assets		1,860,137	1,642,104

CONSOLIDATED BALANCE SHEET (continued)

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	26(c)	105,775	105,731
Reserves		1,754,362	1,536,373
Total equity		1,860,137	1,642,104

Approved and authorised for issue by the board of directors on 21 March 2011

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 50 to 93 form part of these financial statements.

BALANCE SHEET

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	15	139,505	139,505
Current assets			
Trade and other receivables	18	1,051	3,423
Amount due from a subsidiary	19	462,609	502,739
Fixed deposits held at banks with maturity over three months	21	250,000	264,060
Cash and cash equivalents	21	6,582	176,188
		720,242	946,410
Current liabilities			
Trade and other payables	23	3,487	2,304
Amount due to a subsidiary	19	2,237	2,237
		5,724	4,541
Net current assets			
		714,518	941,869
Net assets			
		854,023	1,081,374
Capital and reserves			
	26(a)		
Share capital		105,775	105,731
Reserves		748,248	975,643
Total equity			
		854,023	1,081,374

Approved and authorised for issue by the board of directors on 21 March 2011

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 50 to 93 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company					Retained profits	Total equity
		Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve		
		(note 26(c)) RMB'000	(note 26(d)(i)) RMB'000	(note 26(d)(ii)) RMB'000	(note 26(d)(iii)) RMB'000	(note 26(d)(iv)) RMB'000		
At 1 January 2009		176	139,329	31,764	22,180	136	245,710	439,295
Changes in equity for 2009:								
Profit for the year		—	—	—	—	—	302,994	302,994
Other comprehensive income		—	—	—	—	(1,191)	—	(1,191)
Total comprehensive income		—	—	—	—	(1,191)	302,994	301,803
Capitalisation issue	26(c)(ii)	79,123	(79,123)	—	—	—	—	—
Shares issued under placing and public offering, net of issuing expenses	26(c)(iii)	26,432	926,321	—	—	—	—	952,753
Equity settled share-based payments	26(d)(iii)	—	—	—	1,293	—	—	1,293
Dividends declared or approved during the year	26(b)	—	—	—	—	—	(53,040)	(53,040)
Appropriation to statutory reserve		—	—	32,695	—	—	(32,695)	—
At 31 December 2009 and 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		—	—	—	—	(14,164)	—	(14,164)
Total comprehensive income		—	—	—	—	(14,164)	418,728	404,564
Shares issued under share option schemes	26(c)(iv)	44	1,904	—	(580)	—	—	1,368
Equity settled share-based payments	26(d)(iii)	—	—	—	4,101	—	—	4,101
Dividend approved in respect of the previous year	26(b)	—	(132,000)	—	—	—	—	(132,000)
Dividend declared in respect of the current year	26(b)	—	(60,000)	—	—	—	—	(60,000)
Appropriation to statutory reserve		—	—	46,367	—	—	(46,367)	—
At 31 December 2010		105,775	796,431	110,826	26,994	(15,219)	835,330	1,860,137

The notes on pages 50 to 93 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash generated from operations	21(b)	566,867	408,620
Income tax paid		(49,219)	(21,565)
Net cash generated from operating activities		517,648	387,055
Investing activities			
Payment for purchase of property, plant and equipment		(49,050)	(25,124)
Payment for purchase of investment property		(569)	(554)
Payment for purchase of intangible assets		(8,300)	—
Proceeds from disposal of property, plant and equipment		4,393	473
Interest income received		9,607	1,042
Increase in fixed deposits held at banks with maturity over three months		(267,524)	(308,070)
Net cash used in investing activities		(311,443)	(332,233)
Financing activities			
Proceeds from bank loans		—	250,000
Repayment of bank loans		(1,000)	(389,000)
Repayment to shareholders		—	(18,471)
Proceeds from issue of shares, net of issuing expenses	26(a)	—	952,753
Proceeds from issue of shares under share option scheme	26(a)	1,368	—
Interest expense paid		(7)	(6,576)
Dividends paid	26(b)	(192,000)	(53,040)
Net cash (used in)/generated from financing activities		(191,639)	735,666
Net increase in cash and cash equivalents		14,566	790,488
Cash and cash equivalents at 1 January		844,051	53,567
Effect of foreign exchange rate changes		(11,160)	(4)
Cash and cash equivalents at 31 December		847,457	844,051

The notes on pages 50 to 93 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and related interpretations promulgated by the International Accounting Standards Board (the “IASB”).

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange 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 2010 comprise the Company and its subsidiaries.

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

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

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

Judgements made by management on the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

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

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 under operating leases, payments under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit and loss as an integral part of the aggregate net lease payments made.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(i) Impairment of current and non-current receivables (continued)

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.

(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).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— Recognition of impairment losses

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

— Reversals of impairment losses

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

(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)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 thereafter 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.

(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 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).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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

—

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition (continued)

(iii) Government grants

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

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

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

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

The impact of the majority of the revisions to IFRS 3 and IAS 27 do not have a material effect on the Group's financial statements for the current or comparative periods as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current year.

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, value added taxes ("VAT") and other sales taxes.

The Group has one customer with whom transactions have exceeded 10% of the Group's turnover for each of the years ended 31 December 2010 and 2009. The amount of sales to this customer amounted to approximately RMB297,317,000 for the year (2009: RMB208,605,000).

4 OTHER REVENUE

	2010 RMB'000	2009 RMB'000
Interest income from bank deposits	10,645	1,042
Government grants	7,847	4,675
Others	736	171
	19,228	5,888

Government grants of RMB7,847,000 (2009: RMB4,675,000) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2010 RMB'000	2009 RMB'000
(a) Finance costs:		
Interest on bank borrowings	6	6,109
Bank charges	305	278
	311	6,387
(b) Staff costs (note (i)):		
Salaries, wages and other benefits	103,023	74,973
Contributions to defined contribution retirement plans	1,847	4,990
Equity settled share-based payment expense (note 25)	4,101	1,293
	108,971	81,256
(c) Other items:		
Amortisation of lease prepayments (note (i))	814	828
Amortisation of intangible assets	963	—
Depreciation (note (i))	14,182	10,977
Auditor's remuneration	2,007	1,465
Cost of inventories (note (i))	1,275,015	1,008,738
Loss on disposal of property, plant and equipment	1,318	112
Operating lease rental in respect of properties (note (i))	7,568	5,989
Research and development costs (notes (i) and (ii))	15,688	7,453
Subcontracting charges (notes (i) and (iii))	114,940	35,617

Notes:

- (i) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, depreciation, amortisation of lease prepayments and operating lease rental in respect of properties included in items disclosed above.
- (ii) Research and development costs include salaries and other benefits totaling RMB8,650,000 (2009: RMB6,186,000) for employees in the design, research and development department, which are included in the staff costs as disclosed in note 5(b).
- (iii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	2010 RMB'000	2009 RMB'000
Current tax		
Provision for PRC income tax for the year	64,835	31,014
Under-provision for PRC income tax in respect of prior year	161	7
	64,996	31,021
Deferred tax		
Origination and reversal of temporary differences (notes 16(b))	4,380	(1,606)
	69,376	29,415

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2010 and 2009.
- (iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, certain subsidiaries in the PRC are entitled to tax concessions whereby the profits of these subsidiaries are taxed at preferential income tax rates. Taxation for the Group’s PRC subsidiaries are calculated using the relevant income tax rates applicable to the subsidiaries.
- (iv) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interests of the PRC company. As all of the Group’s PRC subsidiaries are directly owned by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of the PRC dividend withholding tax. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated after 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

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

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	488,104	332,409
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	123,923	84,458
Tax effect of non-deductible expenses	4,370	2,824
Tax effect of non-taxable income	(1,023)	(113)
Tax effect of tax concessions	(66,362)	(57,761)
Under-provision in prior year	161	7
Tax effect of unused tax losses not recognized	477	—
Withholding tax effect of undistributed profits retained by PRC subsidiaries (note 16(b))	7,830	—
Actual tax expense	69,376	29,415

7 DIRECTORS' REMUNERATION

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

Year ended 31 December 2010

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<i>Executive Directors</i>					
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
<i>Independent Non-executive Directors</i>					
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)

7 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2009

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

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining three (2009: three) individuals are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other emoluments	2,233	1,823
Discretionary bonuses	373	323

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS (continued)

The emoluments of the three (2009: three) individuals with the highest emoluments are within the following bands:

	2010 <i>Number of individuals</i>	2009 <i>Number of individuals</i>
Nil to HK\$1,000,000 (Nil to RMB850,000)	—	2
HK\$1,000,001 to HK\$1,500,000 (RMB850,001 to RMB1,275,000)	2	1
HK\$1,500,001 to HK\$2,000,000 (RMB1,275,001 to RMB1,700,000)	1	—

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NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

10 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB418,728,000 for the year (2009: RMB302,994,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2010 '000	2009 '000
Weighted average number of ordinary shares at 31 December	1,200,119	981,370
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 25)	6,065	696
Weighted average number of ordinary shares (diluted) at 31 December	1,206,184	982,066

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Office equipment	Furniture and fixtures	Sub-total	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:									
At 1 January 2009	80,377	7,475	26,795	3,165	6,640	2,400	126,852	20,014	146,866
Additions	342	1,490	7,182	279	5,356	1,007	15,656	11,273	26,929
Transfer from construction in progress	19,979	3,530	1,974	—	3,360	—	28,843	(28,843)	—
Disposals	(43)	—	(693)	(245)	(114)	—	(1,095)	—	(1,095)
Exchange adjustment	—	(3)	—	—	—	—	(3)	—	(3)
At 31 December 2009 and 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)	(171)	(9,631)	—	(9,631)
Exchange adjustment	—	(31)	—	—	(5)	(4)	(40)	(10)	(50)
At 31 December 2010	102,906	17,594	36,581	6,141	18,908	4,840	186,970	23,635	210,605
Accumulated depreciation:									
At 1 January 2009	1,940	901	5,470	878	1,513	341	11,043	—	11,043
Charge for the year	2,283	2,243	3,165	177	2,339	538	10,745	—	10,745
Written back on disposals	(1)	—	(235)	(210)	(64)	—	(510)	—	(510)
Exchange adjustment	—	(1)	—	—	—	—	(1)	—	(1)
At 31 December 2009 and at 1 January 2010	4,222	3,143	8,400	845	3,788	879	21,277	—	21,277
Charge for the year	2,556	2,996	3,527	417	2,957	801	13,254	—	13,254
Written back on disposals	—	(68)	(3,489)	(2)	(335)	(65)	(3,959)	—	(3,959)
Exchange adjustment	—	(26)	—	—	(1)	(1)	(28)	—	(28)
At 31 December 2010	6,778	6,045	8,438	1,260	6,409	1,614	30,544	—	30,544
Net book value:									
At 31 December 2010	96,128	11,549	28,143	4,881	12,499	3,226	156,426	23,635	180,061
At 31 December 2009	96,433	9,349	26,858	2,354	11,454	2,528	148,976	2,444	151,420

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

- (a) The Group's buildings are located in the PRC under medium-term leases.
- (b) Construction in progress comprises costs incurred on buildings and plant and equipment not yet completed at the respective balance sheet dates.

12 INVESTMENT PROPERTY

	2010 RMB'000	2009 RMB'000
Cost:		
At 1 January	31,195	30,072
Additions	—	1,123
At 31 December	31,195	31,195
Accumulated depreciation:		
At 1 January	232	—
Charge for the year	928	232
At 31 December	1,160	232
Net book value	30,035	30,963

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

The building ownership certificates of the investment property have not been obtained as of 31 December 2010. The Directors of the Company are of the opinion that the Group will be able to obtain the relevant ownership certificates by the end of 2011.

The fair value of the investment property as at 31 December 2010, as determined based on the valuation by a professional valuer on an open market value basis with reference to recent market transactions of similar properties, is estimated to be approximately RMB38,912,000 (2009: RMB35,973,000) assuming that the building ownership certificates have been obtained and the property could be freely transferred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

13 LEASE PREPAYMENTS

	2010 RMB'000	2009 RMB'000
Cost:		
At 1 January and at 31 December	40,848	40,848
Accumulated amortisation:		
At 1 January	1,801	973
Charge for the year	814	828
At 31 December	2,615	1,801
Net book value:		
At 31 December	38,233	39,047

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2010, the remaining period of the land use rights ranges from 45 to 47 years.

14 INTANGIBLE ASSETS

	2010 RMB'000	2009 RMB'000
Cost:		
At 1 January	—	—
Additions	8,700	—
At 31 December	8,700	—
Accumulated amortisation:		
At 1 January	—	—
Charge for the year	963	—
	963	—
Net book value:		
At 31 December	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)

15 INVESTMENTS IN SUBSIDIARIES

	2010 RMB'000	2009 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. ("Lilang China") (note (b))	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 (c))	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 China is HK\$600,000,000. The balance of HK\$300,000,000 is required to be contributed on or before 29 September 2011.
- (c) Registered capital of Lilang Shanghai is HK\$200,000,000. The balance of HK\$135,000,000 is required to be contributed on or before 30 November 2011.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

16 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	2010 RMB'000	2009 RMB'000
Provision for PRC income tax	64,835	31,014
PRC income tax paid	(38,491)	(20,668)
Balance of PRC income tax recoverable relating to prior year	26,344 (221)	10,346 —
	26,123	10,346
Representing:		
Current tax recoverable	(221)	(793)
Current tax payable	26,344	11,139
	26,123	10,346

(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

<i>Deferred tax asset and liability arising from:</i>	Accrued expenses RMB'000	Cumulative tax losses of subsidiary RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	3,827	—	(4,440)	67	(546)
(Charged)/credited to consolidated statement of comprehensive income (note 6(a))	769	—	919	(82)	1,606
At 31 December 2009 and 1 January 2010	4,596	—	(3,521)	(15)	1,060
(Charged)/credited to consolidated statement of comprehensive income (note 6(a))	(283)	3,763	(7,830)	(30)	(4,380)
At 31 December 2010	4,313	3,763	(11,351)	(45)	(3,320)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

16 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	
	2010 RMB'000	2009 RMB'000
Deferred tax assets	8,031	1,060
Deferred tax liabilities	(11,351)	—
	(3,320)	1,060

(c) Deferred tax assets not recognised

As at 31 December 2010, the Group has not recognised deferred tax assets in respect of cumulative tax losses of a subsidiary carried forward of RMB1,905,000 (2009: RMB Nil) which will expire within 5 years under the current tax legislation. The cumulative tax losses have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognised

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 2010, deferred tax liabilities of RMB32,966,000 (2009: RMB18,236,000) in respect of temporary differences relating to such undistributed profits of RMB659,320,000 (2009: RMB364,726,000) 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 2010 and 2009.

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2010 RMB'000	2009 RMB'000
Raw materials	49,462	19,797
Goods in transit	393	—
Finished goods	131,694	126,545
	181,549	146,342

As at 31 December 2010, raw materials included materials totalling RMB42,237,000 (2009: RMB13,122,000) that were held by sub-contractors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

17 INVENTORIES (continued)

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

	The Group	
	2010 RMB'000	2009 RMB'000
Cost of inventories sold	1,275,015	1,005,653
Write-down of inventories	—	3,085
	1,275,015	1,008,738

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade receivables	451,241	406,603	—	—
Bills receivable	60	—	—	—
Trade and bills receivables (notes (a), (b) and (c))	451,301	406,603	—	—
Prepayments to suppliers	36,578	38,264	—	—
Prepaid advertising expenses	1,112	4,006	—	—
VAT deductible	4,545	—	—	—
Other deposits, prepayments and receivables	7,302	9,506	1,051	3,423
	500,838	458,379	1,051	3,423

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

(a) Ageing analysis

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

	The Group	
	2010 RMB'000	2009 RMB'000
Within 3 months	420,120	373,992
3 months to 6 months	31,181	32,076
6 months to 1 year	—	535
	451,301	406,603

Further details on the Group's credit policy are set out in note 27(a).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

18 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the prospect of recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 1(i)(i)). For the year ended 31 December 2010, the Group did not record any impairment losses in respect of trade and bills receivables (2009: RMB Nil).

(c) Trade and bills receivables that are not impaired

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

	The Group	
	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	442,869	393,064
Less than 1 month past due	7,978	11,524
1 to 3 months past due	454	2,002
More than 3 months past due	—	13
	8,432	13,539
	451,301	406,603

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.

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

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

20 PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 23). The pledged bank deposits will be released upon the settlement of relevant bills payable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

21 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Deposits with banks within three months to maturity when placed	646,249	224,755	—	—
Cash at banks and in hand	201,208	619,296	6,582	176,188
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	847,457	844,051	6,582	176,188
Deposits with banks with more than three months to maturity when placed	575,594	308,070	250,000	264,060
	1,423,051	1,152,121	256,582	440,248

At 31 December 2010, cash and cash equivalents in the mainland PRC amounted to RMB1,118,093,000 (2009: RMB565,895,000). Remittance of funds out of the mainland PRC is subject to exchange restrictions imposed by the PRC government.

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

	Note	2010 RMB'000	2009 RMB'000
Profit before taxation		488,104	332,409
Adjustments for:			
— Depreciation	5(c)	14,182	10,977
— Amortisation of lease prepayments	5(c)	814	828
— Amortisation of intangible assets		963	—
— Equity settled share-based payment expense	5(b)	4,101	1,293
— Loss on disposal of property, plant and equipment	5(c)	1,318	112
— Interest expense	5(a)	6	6,109
— Interest income	4	(10,645)	(1,042)
— Foreign exchange gain		(2,982)	(1,185)
Changes in working capital:			
— (Increase)/decrease in inventories		(35,207)	25,145
— Increase in trade and other receivables		(41,421)	(74,631)
— Decrease in amount due from a related company		214	6
— (Increase)/decrease in pledged bank deposits		(4,040)	8,136
— Increase in trade and other payables		151,130	100,463
— Increase in amount due to a related company		330	—
Cash generated from operations		566,867	408,620

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

22 BANK LOANS

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

	The Group	
	2010 RMB'000	2009 RMB'000
Facility amount	1,250,000	818,000
Utilised facility amount in respect of:		
— Bank loans	—	1,000
— Bills payable (note 23)	156,680	113,550
	156,680	114,550

As at 31 December 2009, bank loans of RMB1,000,000 were repayable within one year and were secured by corporate guarantees granted by subsidiaries of the Group.

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade payables	219,802	133,612	—	—
Bills payable (note (a))	156,680	113,550	—	—
Trade and bills payables (note (b))	376,482	247,162	—	—
Receipts in advance	29,560	26,816	—	—
Accrued salaries and wages	12,665	10,830	—	—
Payables for purchase of fixed assets	5,280	6,871	—	—
Retirement benefit contribution payable	25,629	25,237	—	—
VAT payables	358	15,245	—	—
Other payables and accruals	58,999	27,274	3,487	2,304
	508,973	359,435	3,487	2,304

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

(a) Bills payable as at 31 December 2010 and 2009 were secured by pledged bank deposits as disclosed in note 20.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

23 TRADE AND OTHER PAYABLES (continued)

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

	The Group	
	2010 RMB'000	2009 RMB'000
Within 3 months	348,373	218,414
3 months to 6 months	16,422	21,372
6 months to 1 year	4,675	3,593
Over 1 year	7,012	3,783
	376,482	247,162

24 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.

25 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.

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)

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

The Share Option Scheme shall remain in force for a period of 10 years ending on 3 September 2019. 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. The exercise price of options under the Share Option Scheme shall be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of:

- (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer for the grant, which must be a business day;
 - (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of offer; and
 - (iii) the nominal value of a share.
- (a) The terms and conditions of the grant of options that existed during the years are as follows:

- (i) Pre-IPO Share Option Scheme

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

(i) Pre-IPO Share Option Scheme (continued)

Notes: (continued)

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

(ii) Share Option Scheme

At 31 December 2010, no options had been granted under the Share Option Scheme.

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

	2010		2009	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 January	HK\$3.12	9,611,100	—	—
Exercised during the year	HK\$3.12	(518,995)	—	—
Lapsed during the year	HK\$3.12	(251,461)	—	—
Granted during the year	—	—	HK\$3.12	9,611,100
Outstanding at 31 December	HK\$3.12	8,840,644	HK\$3.12	9,611,100
Exercisable at 31 December	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\$11.84 (2009: not applicable).

The share options outstanding at 31 December 2010 had an exercise price of HK\$3.12 (2009: HK\$3.12) and a weighted average remaining contractual life of 5.3 years (2009: 6.3 years).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions

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

Fair value of share options and assumptions

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of 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 26(c)) RMB'000	Share premium (Note 26(d)(i)) RMB'000	Exchange reserve (Note 26(d)(iv)) RMB'000	Capital reserve (Note 26(d)(iii)) RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2009		176	139,329	—	—	—	139,505
Capitalisation issue	26(c)(ii)	79,123	(79,123)	—	—	—	—
Shares issued under placing and public offering, net of issuing expenses	26(c)(iii)	26,432	926,321	—	—	—	952,753
Equity settled share-based payments		—	—	—	1,293	—	1,293
Dividends declared or approved during the year	26(b)	—	—	—	—	(53,040)	(53,040)
Total comprehensive income for the year		—	—	(975)	—	41,838	40,863
At 31 December 2009 and 1 January 2010		105,731	986,527	(975)	1,293	(11,202)	1,081,374
Shares issued on exercise of share options		44	1,904	—	(580)	—	1,368
Equity settled share-based payments		—	—	—	4,101	—	4,101
Dividend approved in respect of the previous year	26(b)	—	(132,000)	—	—	—	(132,000)
Dividend declared in respect of the current year	26(b)	—	(60,000)	—	—	—	(60,000)
Total comprehensive income for the year		—	—	(30,465)	—	(10,355)	(40,820)
At 31 December 2010		105,775	796,431	(31,440)	4,814	(21,557)	854,023

(b) Dividends

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

	2010 RMB'000	2009 RMB'000
Interim dividend declared and paid of RMB5 cents (2009: RMB nil cents) per share	60,000	—
Dividends declared and paid during the year	—	53,040
Final dividend proposed after the balance sheet date of RMB12 cents (2009: RMB11 cents) per share	144,062	132,000
	204,062	185,040

Dividends declared and paid during 2009 represented dividends declared prior to the listing of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends (continued)

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

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB11 cents (2009: RMBNil cent) per share	132,000	—
	132,000	—

(c) Share capital

	2010 HK\$'000	2009 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 2009	(i)	2,000	200	176
Capitalisation issue	(ii)	898,000	89,800	79,123
Issues of shares under placing and public offering	(iii)	300,000	30,000	26,432
At 31 December 2009 and 1 January 2010		1,200,000	120,000	105,731
Issues of shares on exercise of share options	(iv)	519	52	44
At 31 December 2010		1,200,519	120,052	105,775

- (i) Capitalisation upon incorporation/reorganisation

The Company was incorporated on 2 January 2008 with an issued capital of 1,000,000 shares at HK\$0.10 per share which were issued at nil consideration to its then shareholders. On 12 September 2008, the Company allotted and issued 1,000,000 shares with par value of HK\$0.1 each as a consideration to purchase the entire issued share capital of the intermediate holding company of the Group and for full settlement of a loan from then shareholders of RMB139,422,000 (note 26(d)(iii)(ii)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(ii) Capitalisation issue

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

(iii) Issue of shares under placing and public offering

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

(iv) Issues of shares on exercise of share options

During the year, pursuant to the Company's Pre-IPO Share Option Scheme (note 25), options were exercised to subscribe for 518,995 ordinary shares in the Company at a consideration of RMB1,368,000 of which RMB44,000 was credited to share capital and the balance of RMB1,324,000 was credited to the share premium account. 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).

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserve

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves (continued)

(iii) Capital reserve

The capital reserve comprises the following:

- (i) Fair value of design consultancy services contributed by the then shareholders and fair rental value of properties owned by the then shareholders but occupied by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange amounting to RMB1,143,000.
- (ii) Capitalisation of a loan from then shareholders amounting to RMB139,422,000 in 2008 (note 26(c)(i)).
- (iii) The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(o)(ii).

(iv) Exchange reserve

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

(e) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB742,697,000 (2009: RMB974,857,000). After the balance sheet date the directors proposed a final dividend of RMB12 cents (2009: RMB11 cents) per ordinary share, amounting to RMB144,062,000 (2009: RMB132,000,000). This dividend has not been recognised as a liability at the balance sheet date.

(f) Capital risk 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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

(a) Credit risk

The Group's credit risk is primarily attributable to deposits with 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.

At the balance sheet date, the Group has concentration of credit risk as the trade receivables from the five largest customers represented 24.3% (2009: 27.0%) of the total trade receivables, while 9.0% (2009: 13.5%) of the total trade receivables were due from the largest single customer.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Liquidity risk (continued)

The Group

	2010				2009			
	Contractual undiscounted cash outflow			Balance sheet carrying amount	Contractual undiscounted cash outflow			Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 5 years	Total		Within 1 year or on demand	More than 1 year but less than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	—	—	—	—	1,006	—	1,006	1,000
Trade and other payables	508,973	—	508,973	508,973	359,435	—	359,435	359,435
Amount due to a related party	330	—	330	330	—	—	—	—
Retention payables	—	726	726	726	—	726	726	726
	509,303	726	510,029	510,029	360,441	726	361,167	361,161

The Company

	2010				2009			
	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	3,487	—	3,487	3,487	2,304	—	2,304	2,304
Amount due to a subsidiary	2,237	—	2,237	2,237	2,237	—	2,237	2,237
	5,724	—	5,724	5,724	4,541	—	4,541	4,541

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, pledged 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

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

The Group				
	2010		2009	
	Effective interest rate	Amount RMB'000	Effective interest rate	Amount RMB'000
<i>Fixed rate instruments:</i>				
Pledged bank deposits	1.74%	38,105	0.87%	34,065
Bank deposits	2.10%	1,221,843	0.91%	532,825
		1,259,948		566,890
<i>Variable rate instruments:</i>				
Bank loans	—	—	5.31%	(1,000)
Cash at bank and in hand	0.33%	201,208	0.20%	619,296
Total instruments		1,461,156		1,185,186
The Company				
	2010		2009	
	Effective interest rate	Amount RMB'000	Effective interest rate	Amount RMB'000
<i>Fixed rate instruments:</i>				
Bank deposits	2.32%	250,000	0.60%	264,060
<i>Variable rate instruments:</i>				
Cash at bank and in hand	0.12%	6,582	0.01%	176,188
Total instruments		256,582		440,248

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

As at 31 December 2010, 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 RMB1,767,000 (2009: RMB5,689,000). 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 2009.

(d) Foreign currency risk

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

(i) Exposure to currency risk

The following table details the Group's and the Company's major exposure as at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of operations outside mainland China into the Group's presentation currency is excluded.

Exposure to foreign currencies (expressed in Renminbi) The Group

	2010			2009	
	HKD \$'000	USD \$'000	RMB '000	HKD \$'000	USD \$'000
Cash and cash equivalents	1,031	585	41,723	76,684	41,556
Fixed deposits held at banks with maturity over three months	—	—	250,000	—	—
Net exposure to currency risk	1,031	585	291,723	76,684	41,556

The Company

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents	2,017	—
Fixed deposits held at banks with maturity over three months	250,000	—
Amount due to a subsidiary	(2,237)	(2,237)
Net exposure to currency risk	249,780	(2,237)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Foreign currency risk (continued)

(ii) Sensitivity analysis

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

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	Effect on profits after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profits after tax and retained profits RMB'000
Hong Kong dollars	5% (5)%	26 (26)	5% (5)%	3,384 (3,384)
United States dollars	5% (5)%	45 (45)	5% (5)%	1,839 (1,839)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

(e) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2009 and 2010.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

28 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant, equipment, and computer system and software outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	2010 RMB'000	2009 RMB'000
Contracted for	4,275	1,787
Authorised but not contracted for	156,579	145,408
	160,854	147,195

(b) Operating lease commitments

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2010 RMB'000	2009 RMB'000
Within one year	1,656	1,602
After one year to five years	204	—
	1,860	1,602

During the year ended 31 December 2009 and 2010, the Group entered into lease agreements for its offices in Hong Kong, Jinjiang, Xiamen and Shanghai, and a production factory in Longyan. The leases typically run for an initial period of one to five years, which 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.

29 MATERIAL RELATED PARTY TRANSACTIONS

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

During the year ended 31 December 2010, 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 Group
Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")	Effectively 33.3%, 33.3% and 33.4% owned by Wang Dong Xing, Wang Liang Xing and Wang Cong Xing respectively

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

29 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions

	2010 RMB'000	2009 RMB'000
Lease of land and properties — Jinlang Fujian	2,175	2,032

(b) Non-recurring transactions

	2010 RMB'000	2009 RMB'000
Cash advances to a shareholder of the Company (note) — Wang Cong Xing	—	19,942

Note:

The advances to a shareholder of the Company were made prior to the listing of the Company's shares on the Stock Exchange and were unsecured and interest free. The amounts disclosed above were also the maximum amounts due from the related party during the year.

(c) Balance with a related party

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

	2010 RMB'000	2009 RMB'000
Amount due (to)/from a related company — Jinlang Fujian	(330)	214

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

29 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	9,905	4,876
Discretionary bonus	775	928
Contributions to defined contribution retirement benefit schemes	104	123
Share-based compensation	1,485	502
	12,269	6,429

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

30 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Depreciation 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Renminbi)

30 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 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
Revised IAS 24	Related party disclosures	1 January 2011
IFRS 9	Financial instruments	1 January 2013
Improvements to IFRSs		1 July 2010 or 1 January 2011
Amendments to IAS 12	Income taxes	1 January 2012

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

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, 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)

	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
OPERATING RESULTS					
Turnover	418,195	885,921	1,135,684	1,559,874	2,053,007
Profit from operations	49,508	109,727	171,044	338,796	488,415
Finance costs	(3,904)	(11,996)	(11,551)	(6,387)	(311)
Profit before taxation	45,604	97,731	159,493	332,409	488,104
Income tax	(13,023)	(1,225)	(5,361)	(29,415)	(69,376)
Profit attributable to equity shareholders	32,581	96,506	154,132	302,994	418,728
Earnings per share					
Basic (cents)	3.62	10.72	17.13	30.87	34.89
Diluted (cents)	N/A	N/A	N/A	30.85	34.72
Assets and liabilities					
Non-current assets	66,963	143,172	210,382	222,490	264,097
Net current assets	121,177	143,613	232,443	1,420,340	1,608,117
Total assets less current liabilities	188,140	286,785	442,825	1,642,830	1,872,214
Non-current liabilities	139,422	141,212	3,530	726	12,077
NET ASSET	48,718	145,573	439,295	1,642,104	1,860,137
Capital and reserves					
Share capital	21,016	98	176	105,731	105,775
Reserves	27,702	145,475	439,119	1,536,373	1,754,362
TOTAL EQUITY	48,718	145,573	439,295	1,642,104	1,860,137

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 2006, 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.