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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

- Turnover increased by 31.6% to RMB2,053.0 million
- Profit attributable to equity shareholders increased by 38.2% to RMB418.7 million
- Basic earnings per share was RMB34.89 cents
- Proposed final dividend per share is RMB12 cents

The Board of Directors (the "Board") of China Lilang Limited (the "Company") is pleased to announce its consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

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.

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.

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:

	For the year ended 31 December				
	2010		2009		Changes
Region	***(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

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

(2) North Eastern China includes Heilongjiang, Jilin and Liaoning.

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

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

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

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

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				
	2010		2009		Changes
	(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

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 high 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.

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				
	2010		2009		
	(RMB' million)	***% of cost of sales***	*(RMB' million)*	*% of cost of sales*	Changes *(%)*
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.

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.

Profits from Operations

Profits 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.

Dividend

The Board 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%.

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 (陳道明) as the spokesperson for "LILANZ" brand and Mr. Daniel Wu (吳彥祖) 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 51.5% of the total number of stores, and 60.7% in terms of total sales value.

For the year ended 31 December 2010, there was a net increase of 244 "LILANZ" retail stores, reaching a total of 2,805 by the end of 2010. Benefitting from the "Go West" development plan of the Central Government, the South Western China region recorded the highest growth with a net increase of 84 stores. "L2" was just launched into market this year and 80 stores were opened by the end of the year, with 54 stores concentrated in the Eastern and Central and Southern China.

As of 31 December, 2010, "LILANZ" had 59 distributors and 1,321 sub-distributors, operating a total of 2,805 retail stores; The retail outlets can be divided into 1,933 stand-alone stores and 872 concessions in department stores, of which 938 retail outlets are directly operated by the distributors and 1,867 retail outlets are operated by their sub-distributors. The total area of retail outlets is about 299,000 square meters.

Sub-brand "L2" had 38 distributors and 9 sub-distributors, operating a total of 80 retail outlets. The retail outlets can be divided into 48 stand-alone stores and 32 concessions in department stores, of which 71 retail outlets are directly operated by the distributors and 9 retail outlets are operated by their sub-distributors. The total area of retail outlets is about 8,200 square meters. After "L2" was launched in mid-year, the Group adjusted its distribution strategy according to the market situation and leveraged the resources of the current distributors of "LILANZ" to develop the sales network of "L2" to ensure it could rapidly expand in the target market. Currently, among the 38 distributors of "L2", 10 are also distributors of main brand "LILANZ".

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:

	Number of stores			
Region	**As of 1 January 2010**	**Store opened during the year**	**Store closed during the year**	**As of 31 December 2010**
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**

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.

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.

PROSPECT

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 to emphasize on branding and enhancing product quality by adding value to its products and establishing differentiation. At the same time, the Group will continue to change its product mix to have more higher value-added products in conjunction with the enhancement of brand image so as to attain higher profitability.

Despite market predictions of rising material costs, inflation pressures and rising operational expenses, the Group believes that by implementing the above branding and product mix upgrade strategies, it would effectively improve the Group's competitiveness and help overcome the pressure from increasing costs, bringing better profits as the business expands.

In 2011, the Group will continue investing in the development of brand "LILANZ" and extends the fashionable and personalized elements in its product design. The Group also aims to have a net increase of 200 to 250 retail outlets which will mainly be opened in provincial capital and prefecture-level cities. Of these new stores, the Group plans to open 20 flagship stores with sizes ranging from 300 to 500 square meters at commercial areas in these cities to further upgrade its brand image. At the same time, the Group will continue to improve the store front design and enhance its store image.

For its sub-brand "L2", the Group will continue to enhance the product quality and expand its product range and to further boost distributors' confidence towards the brand in 2011. The Group also plans to open 150 to 200 new stores in different regions to reinforce the sales network.

In view of the increasing popularity of internet sales across the nation, the Group has collaborated with a professional website and launched an online sales platform for the sub-brand "L2" in 2010. The Group plans to develop an online sales platform for "LILANZ" products in the second half of 2011 to tap into another source of income.

Leveraging the strength of its brands, product quality and distribution channels, and the knowledge of the menswear market in China, the Group will keep upgrading its product mix and enhancing its brands' image. By doing so, the Group hopes to achieve even better business performance and reward all parties such as our shareholders, employees and customers for their support.

LIQUIDITY AND FINANCIAL RESOURCES

	Year ended 31 December	
	2010	2009
	RMB million	*RMB million*
Cash generated from operations	**517.6**	387.1
Capital expenditure	**(57.9)**	(25.7)
Free cash inflow	**459.7**	361.4
Cash and bank balances (including pledged bank deposits)	**1,461.2**	1,186.2

As at 31 December 2010, the cash and cash equivalents of the Group amounted to RMB847.5 million (placement of fixed deposits held at banks with maturity over 3 months totaling RMB575.6 million was regarded as an investing activity in the consolidated cash flow statement), representing an increase of RMB3.4 million as compared with the cash and cash equivalents balance of RMB844.1 million as at 31 December 2009. This was attributable to:

- 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	2009
	(days)	*(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.

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 COMMITMENT 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.

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:

			As at 31 December 2010	
Purposes of net proceeds	**Percentage**	**Amount of net proceeds** *(HK$' million)*	**Amount utilized** *(HK$' 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	**2010**	2009
		RMB'000	*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		**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	*4(a)*	**(311)**	(6,387)
Profit before taxation	*4*	**488,104**	332,409
Income tax	*5*	**(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	*6*		
Basic (cents)		**34.89**	30.87
Diluted (cents)		**34.72**	30.85

CONSOLIDATED BALANCE SHEET

At 31 December 2010

(Expressed in Renminbi)

	Note	**2010** **RMB'000**	2009 RMB'000
Non-current assets			
Property, plant and equipment		**180,061**	151,420
Investment property		**30,035**	30,963
Lease prepayments		**38,233**	39,047
Intangible assets		**7,737**	—
Deferred tax assets		**8,031**	1,060
		264,097	222,490
Current assets			
Inventories		**181,549**	146,342
Trade and other receivables	*7*	**500,838**	458,379
Amount due from a related company		**—**	214
Current tax recoverable		**221**	793
Pledged bank deposits	*8*	**38,105**	34,065
Fixed deposits held at banks with maturity over three months		**575,594**	308,070
Cash and cash equivalents		**847,457**	844,051
		2,143,764	1,791,914
Current liabilities			
Bank loans		**—**	1,000
Trade and other payables	*9*	**508,973**	359,435
Amount due to a related company		**330**	—
Current tax payable		**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		**11,351**	—
Retention payables		**726**	726
		12,077	726
Net assets		**1,860,137**	1,642,104
Capital and reserves			
Share capital		**105,775**	105,731
Reserves		**1,754,362**	1,536,373
Total equity		**1,860,137**	1,642,104

Notes:

1 Basis of preparation

The Group prepared its financial statements 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"), 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").

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.

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.

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2010	2009
	RMB'000	*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	**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 4(b).

(iii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

5 Income tax in the consolidated statement of comprehensive income

Income tax in the consolidated statement of comprehensive income represents:

	2010	2009
	RMB'000	*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	**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.

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB418,728,000 (2009: RMB302,994,000) and the weighted average number of shares in issue during the year of 1,200,119,000 (2009: 981,370,000).

Weighted average number of ordinary shares

	2010	2009
	'000	*'000*
Issued ordinary shares at 1 January/capitalisation upon legal establishment	**1,200,000**	900,000
Effect of share options exercised	**119**	—
Effect of shares issued upon placing and public offering on 25 September 2009	**—**	81,370
Weighted average number of ordinary shares at 31 December	**1,200,119**	981,370

(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	2009
	'000	*'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	**6,065**	696
Weighted average number of ordinary shares (diluted) at 31 December	**1,206,184**	982,066

7 Trade and other receivables

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**451,241**	406,603
Bills receivable	**60**	—
Trade and bills receivables	**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
	500,838	458,379

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

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

	2010	2009
	RMB'000	*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

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

8 Pledged bank deposits

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

9 Trade and other payables

	2010	2009
	RMB'000	*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
	508,973	359,435

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 8.

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

	2010	2009
	RMB'000	*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

10 Dividends

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

	2010	2009
	RMB'000	*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.

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

	2010	2009
	RMB'000	*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	—

REVIEW OF ANNUAL RESULTS

The results for the year ended 31 December 2010 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

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

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 DealingCode"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year.

PURCHASE, SALE AND 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.

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.

GENERAL

As at the date of this announcement, the Board of Directors of the Company comprises:

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

Independent Non-executive Directors:
Dr. Lu Hong Te
Mr. Chen Tien Tui
Mr. Nie Xing

By Order of the Board
Ko Yuk Lan
Company Secretary

Hong Kong, 21 March 2011

This announcement can be retrieved from the Company's website: http://www.lilanz.com