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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

Results Highlights

- **Successfully listed on the main board of the Hong Kong Stock Exchange on 25 September 2009**
- **Turnover** increased by 37.4% to **RMB 1,559.9 million**
- **Gross profit margin** increased by 5.0 percentage points to **35.3%**
- **Net profit margin** increased by 5.8 percentage points to **19.4%**
- **Profit from operation** increased by 98.1% to **RMB 338.8 million**
- **Profit attributable to shareholders** increased by 96.6% to **RMB 303.0 million**
- **Basic earnings per share** increased by 80.2% to **RMB 30.87 cents**
- **Dividend** of RMB11 cents per share is proposed representing a total payout of **RMB 132,000,000 and payout ratio of approximately 45% of the 2009 profit**

* *Compared to 31 December 2008*

Annual Results

The Board of Directors ("Board") of China Lilang Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2009, with comparative figures for the preceding financial year:

Consolidated Income Statement

For the year ended 31 December 2009

	Note	**2009** **RMB'000**	2008 RMB'000
Turnover	3	**1,559,874**	1,135,684
Cost of sales		**(1,008,738)**	(791,627)
Gross profit		**551,136**	344,057
Other revenue	4	**5,888**	5,868
Selling and distribution expenses		**(165,705)**	(146,469)
Administrative expenses		**(50,232)**	(34,300)
Other operating (expenses)/income		**(2,291)**	1,888
Profit from operations		**338,796**	171,044
Finance costs	5(a)	**(6,387)**	(11,551)
Profit before taxation	5	**332,409**	159,493
Income tax	6	**(29,415)**	(5,361)
Profit attributable to equity shareholders		**302,994**	154,132
Earnings per share	8		
Basic (RMB cents)		**30.87**	17.13
Diluted (RMB cents)		**30.85**	N/A

Consolidated Balance Sheet

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment		**151,420**	135,823
Investment property		**30,963**	30,072
Lease prepayments		**39,047**	39,875
Deposits for purchase of fixed assets		**–**	3,615
Deferred tax assets		**1,060**	997
		222,490	210,382
Current assets			
Inventories		**146,342**	171,487
Trade and other receivables	9	**458,379**	383,748
Amount due from a related company		**214**	220
Current tax recoverable		**793**	–
Pledged bank deposits		**34,065**	42,201
Fixed deposits held at banks with maturity over three months		**308,070**	–
Cash and cash equivalents		**844,051**	53,567
		1,791,914	651,223
Current liabilities			
Bank loans		**1,000**	140,000
Trade and other payables	10	**359,435**	259,419
Amount due to a shareholder		**–**	18,471
Current tax payable		**11,139**	890
		371,574	418,780
Net current assets		**1,420,340**	232,443
Total assets less current liabilities		**1,642,830**	442,825
Non-current liabilities			
Deferred tax liabilities		**–**	1,543
Payables for construction in progress		**726**	1,987
		726	3,530
NET ASSETS		**1,642,104**	439,295
CAPITAL AND RESERVES			
Share capital		**105,731**	176
Reserves		**1,536,373**	439,119
TOTAL EQUITY		**1,642,104**	439,295

Notes

(Expressed in Renminbi)

1 General information

China Lilang Limited ("the Company") was incorporated in the Cayman Islands on 2 January 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as "the Group") are principally engaged in manufacturing and wholesaling of branded menswear and related accessories in the People's Republic of China ("PRC"). Pursuant to a reorganisation scheme to rationalise the structure of the Group in the preparation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the equity interests of entities under common control, and became the holding company of companies now comprising the Group on 12 September 2008 (the "Reorganisation"). Details of the Reorganisation are set out in the prospectus of the Company dated 11 September 2009.

The shares of the Company were listed on the Main Board of the Stock Exchange on 25 September 2009.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

2 Basis of preparation of the financial statements

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention. 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 (the "Listing Rules").

3 Turnover and segment reporting

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

The Group operates in a single business segment, manufacturing and sales of menswear and accessories in the PRC. Accordingly, no segmental analysis is presented.

4 Other revenue

	2009	2008
	RMB'000	RMB'000
Interest income from bank deposits	**1,042**	1,388
Government grants	**4,675**	4,480
Others	**171**	–
	5,888	5,868

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		2009	2008
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within one year	**6,109**	11,000
	Bank charges	**278**	551
		6,387	11,551
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**4,990**	11,593
	Salaries, wages and other benefits	**74,973**	74,256
	Share-based compensation	**1,293**	–
		81,256	85,849

		2009	2008
		RMB'000	RMB'000
(c)	Other items:		
	Amortisation of lease prepayments	**828**	694
	Auditors' remuneration	**1,465**	57
	Cost of inventories (note (i))	**1,008,738**	791,627
	Depreciation	**10,977**	6,081
	Fair rental value of free properties occupied by the Group granted by shareholders	**–**	43
	Loss/(gain) on disposal of property, plant and equipment	**112**	(3,081)
	Operating lease rental in respect of properties	**5,989**	2,843
	Research and development costs (notes (i) and (ii))	**7,453**	6,728
	Subcontracting charges (note (i))	**35,617**	13,602

Notes:

(i) Cost of inventories sold includes research and development costs and subcontracting charges as disclosed above.

(ii) Research and development costs include staff costs of employees in the design, research and development department of RMB6,186,000 (2008: RMB5,285,000) for the year ended 31 December 2009 which are also included in the total staff costs as disclosed in note 5(b).

6 Income tax

	2009 RMB'000	2008 RMB'000
Current tax		
Provision for PRC income tax for the year	**31,014**	2,652
Under-provision for PRC income tax in respect of prior year	**7**	–
	31,021	2,652
PRC Land Appreciation Tax	**–**	978
	31,021	3,630
Deferred tax		
Origination and reversal of temporary differences	**(1,606)**	1,731
	29,415	5,361

(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 has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the year ended 31 December 2009 and 2008.

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC income tax of the Group is calculated based on the following rates:

	2009	2008
Lilang (Fujian) Garment Co., Ltd ("Lilang Fujian")	**25%**	25%
Lilang (China) Co., Ltd ("Lilang China") (note 1)	**12.5%**	0%
Lilang (Xiamen) Garment Co., Ltd ("Lilang Xiamen") (notes (1) and (2))	**0%**	0%
Lilang (Shanghai) Co., Ltd ("Lilang Shanghai")	**25%**	N/A

Notes:

(1) These subsidiaries are entitled to tax concessions whereby the profits for the first two years beginning with the first profit-making year are exempted from income tax and profits for the subsequent three years are taxed at 50% of the applicable taxes (the "tax holiday"). During the year ended 31 December 2009, Lilang China and Lilang Xiamen are in the third year and second year of their tax holiday respectively.

(2) Lilang Xiamen was established in the Xiamen Special Economic Zone and was entitled to a preferential tax rate of 15%. The Implementation Rules of the New Tax Law (the "Implementation Rules") and GuoFa [2007] No. 39 Notice on the Implementation of the Transitional Preferential Tax Policies ("Circular 39") were promulgated in December 2007. Pursuant to Circular 39, Lilang Xiamen is entitled to apply the transitional rates of 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Further, Circular 39 grandfathers the tax holiday and requires Lilang Xiamen to commence it on 1 January 2008 given it was not commenced earlier. Accordingly, Lilang Xiamen is exempted from income tax for 2008 and 2009, and is subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and 2013 onwards, respectively.

(iv) Land Appreciation Tax ("LAT")

Pursuant to relevant rules and regulations in the PRC, such income from the sale or transfer of land use rights is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value determined based on sales proceeds less allowable deductions.

6 Income tax (continued)

(v) Withholding tax

The New Tax Law and the Implementation Rules also impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Under the Agreement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax under CaiShui 2008 No. 1 Notice on Certain Preferential Corporate Income Tax Policies.

Accordingly, Lilang (Hong Kong) International Co., Limited will be subject to a 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits earned since 1 January 2008.

7 Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2009 **RMB'000**	2008 RMB'000
Dividends declared and paid during the year	**53,040**	–
Dividend proposed after the balance sheet date of RMB11 cents per share	**132,000**	–
	185,040	–

Dividends declared and paid during the year represent dividends declared prior to listing of the Company. The rate of dividend per share is not presented for these dividends as it is not indicative of the rate at which future dividends will be declared.

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

8 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 RMB302,994,000 (2008: RMB154,132,000) and the weighted average number of shares in issue during the year of 981,370,000 (2008: 900,000,000). The weighted average number of shares in issue during the years ended 31 December 2008 and 2009 is based on the assumption that 900,000,000 shares were in issue throughout the periods and assuming that the Reorganisation had been effective and the capitalisation of 898,000,000 shares had been existed upon legal establishment.

Weighted average number of ordinary shares

	2009 **'000**	2008 '000
Capitalisation upon legal establishment	**900,000**	900,000
Effect of shares issued upon placing and public offering on 25 September 2009	**81,370**	–
Weighted average number of ordinary shares	**981,370**	900,000

8 Earnings per share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to ordinary equity shareholders of the Company of RMB302,994,000 and the weighted average number of ordinary shares of 982,066,000, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2009
	'000
Weighted average number of ordinary shares	**981,370**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**696**
Weighted average number of ordinary shares (diluted)	**982,066**

No disclosure of diluted earnings per share for the year ended 31 December 2008 has been made as there were no potential dilutive shares outstanding during the year.

9 Trade and other receivables

	2009	2008
	RMB'000	RMB'000
Trade receivables	**406,603**	249,732
Bills receivable	**–**	1,560
	406,603	251,292
Prepayments to suppliers	**38,264**	98,811
Prepaid advertising expenses and renovation subsidies	**4,006**	4,083
VAT recoverable	**–**	3,408
Other deposits, prepayments and receivables	**9,506**	26,154
	458,379	383,748

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

	2009	2008
	RMB'000	RMB'000
Within 3 months	**373,992**	210,956
3 months to 6 months	**32,076**	28,916
6 months to 1 year	**535**	11,420
	406,603	251,292

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

The Group offers credit period of 90 days to 180 days to its customers. 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.

As at the balance sheet date, the Group did not record any impairment losses in respect of trade and other receivables.

10 Trade and other payables

	2009 RMB'000	2008 RMB'000
Trade payables	**133,612**	51,146
Bills payable	**113,550**	140,670
Trade and bills payables	**247,162**	191,816
Receipts in advance	**26,816**	23,350
Accrued salaries and wages	**10,830**	7,374
Payables for purchase of fixed assets	**6,871**	6,861
Deferred income	**–**	300
Retirement benefit contribution payable	**25,237**	21,651
VAT payables	**15,245**	–
Other payables and accruals	**27,274**	8,067
	359,435	259,419

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

Bills payable as at 31 December 2008 and 2009 were secured by pledged bank deposits.

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

	The Group	
	2009 **RMB'000**	2008 RMB'000
Within 3 months	**218,414**	137,818
3 months to 6 months	**21,372**	50,330
6 months to 1 year	**3,593**	2,685
Over 1 year	**3,783**	983
	247,162	191,816

Management Discussion and Analysis

Overview

China's economy has demonstrated a strong momentum of recovery from the financial tsunami. The state's policy to encourage domestic demand and boost economy has revived the consumer market. At this critical moment, Lilang has taken full advantage of the many opportunities to lure more promising growth under a vivid consumer market in China. During the year under review, riding on accurate market positioning, effective promotion strategies, proper business expansion, and armed with quality products of Lilang, the Group's turnover grew by 37.4% to RMB1,559.9 million, whereas profit attributable to shareholders increased by 96.6% to RMB303.0 million, outperforming the profit forecast as stated in the listing prospectus. To reward the shareholders for their support towards Lilang, the Board of Directors recommended the payment of an annual dividend of RMB11 cents per share.

The Group is principally engaged in design, procurement, production and sales of high-quality business and casual menswear. Capitalizing on unique positioning and excellent design, significant growth has been achieved in recent years, and a dominant position in China's mainstream menswear market has been established by adhering to a "simple yet sophisticated" (簡約而不簡單) philosophy. On 25 September 2009, the Group marked an important milestone in gaining international presence by raising RMB953 million through a successful listing on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Through the successful listing, the Group has brought itself a sufficient pool of funds to sustain its future development and has remarkably promoted a widespread awareness of the Group and its brand, thereby laying a solid cornerstone for the long term business growth.

During the year under review, to capitalize on the rapid growth in the mainstream menswear market, the Group successfully expanded its sales network in the second and third tier markets and enhanced the brand appeal of Lilanz. During the period, the number of outlets in the Group's distribution network amounted to about 2,600, thus meeting the goal set at the time of its listing. The Group has also stepped up its innovation in product development. In the fourth quarter, the Group introduced a series of high-quality business casual apparels branded under the name of Mr. Ji Wen Bo, our chief designer. We continued to receive overwhelming responses from customers by delivering higher quality products which are in line with Lilang's tastes and values. Meanwhile, the Group is actively preparing for the roll out of "L2" brand with target audience of young businessmen at the age between 20 and 30 so as to widen customer base and to achieve an increasingly diversified and mature product portfolio. To better define our market segments, a celebrity, namely Mr. Daniel Wu (吳彥祖), was retained by the Group as "L2" brand spokesperson, while Mr. Chen Dao Ming (陳道明), a spokesperson with close co-operation relationship with the Group, will continue to serve as a spokesperson of the main brand of "Lilanz". This represented an important step towards diversification of the Lilanz brand and broadening of customer profile, thereby further promoting brand awareness.

It is a great privilege for us that our endeavor in brand development has been widely recognized by various circles. In 2009, a number of honors were awarded to the Group, including the Planning Award of "2007–2008 China Apparel Brands Annual Awards" (「2007–2008中國服裝品牌年度大獎」策劃大獎), "the most popular and charming brand of menswear for 2009-2010", "the value award and year award of China's apparel brand", "color application award in China for 2009"and "2009 Top 10 Most Influential and Famous Apparel Brands in Asia" (2009亞洲服裝最具影響力十大馳名品牌). The Group places great values to each and every award, and expresses deep appreciation to the accrediting bodies for their support and recognition of the philosophy, concept and quality of Lilang.

Looking towards the future, in order to continue to present the Group as one of the leading brands of menswear in China, we will endeavour to leverage our brand awareness, enhance our competitive edges and achieve sustainable sales growth. We will endeavour to enrich and diversify our product offerings, and enhance the market acceptance of Lilanz and "L2" brand through appropriate marketing and promotional strategies. We will also further consolidate and expand distribution network to extend the retail business coverage, improve operation and production management capability and further strengthen product design and development strengths.

Given the rapid economic development in China and evolving vision and taste of consumers, we believe that Lilanz is one of the few men's apparel brands which is leading the changing consumer market through its spirit of continuous evolution and breakthrough. Lilang's "simple yet sophisticated" (簡約而不簡單) concept echos the consumption trend of better quality. Lilang will uphold its firm belief of "keeping abreast of the unboundedly changing world" by providing a product range of better taste and higher quality to consumers.

Market Review

In 2009, the financial crisis continued to affect the global economy. Thanks to the timely deployment of macro economic measures by the PRC government, the domestic consumption market has been stabilized and is on the way to a controlled recovery. Even though the export market is still weighed down by the continued sluggishness in Europe and the United State's economy, the domestic PRC retail sector and self-owned brands have thrived in a more promising direction.

According to the preliminary estimates from the National Bureau of Statistics, China's GDP was about RMB33.5 trillion in 2009, representing a growth of about 8.7% over 2008. In addition, various economic indicators grew steadily. Improving consumer sentiment in the PRC along with the steadily recovering economic conditions in 2009 have boosted the retail sales of consumer goods to RMB12.5 trillion, an increase of 15.5% over the previous year. Of which, apparel, shoes and hats, as well as textile products accounted for RMB462.2 billion, an increase of 18.8% over last year. This reflects the resilience of the apparel market.

The sustainable growth momentum of China's economy and the increase in China's disposable income have paved the way for China's menswear industry, and offers a flurry of opportunities for well-recognized menswear brands with extensive sales network.

Business Review

During the year under review, by seizing market development potential, by capitalizing on strengths in the Group's brand, design and sales network, the Group has achieved remarkable results. The Group's turnover is mainly derived from the wholesale of products to distributors. For the year ended 31 December 2009, the Group recorded a turnover of approximately RMB1,559.9 million, representing an increase of 37.4% over the corresponding period of the previous year. Gross profit amounted to approximately RMB551.2 million, up by 5 percentage points over the corresponding period of the previous year. The significant surge in turnover was partly attributable to the increase in sales volume, and partly attributable to the rise in the average selling price. The wholesale volume of apparel and accessories soared to 9,417,000 units and 655,000 units in 2009 from 7,712,000 units and 475,000 units in 2008 respectively. The average wholesale price of apparel and accessories rose by 12% and 19% to RMB159 and RMB100 respectively over the same period. These factors contributed to an increase in gross margin to 35.3%. Net profit attributable to shareholders amounted to RMB303.0 million, representing an increase of 96.6% when compared with the corresponding period of the previous year.

Prospects

With the rapidly growing economy, accelerated urbanization, rising disposable income and changing consumption patterns of increasingly affluent urban consumers in China, the domestic demand for menswear will continue to strengthen in the future. As a leading menswear brand in China, we are very optimistic about the development prospects.

The "simple yet sophisticated" design concept and unique market positioning have provided the Group with opportunities to develop a wide variety of products. In future, we plan to continue to improve and expand our existing product range in order to diversify our product portfolio. We will also strive to expand our customer base, and seek for greater market share. To meet this development goal, the Group is actively preparing the launch of our sub-brand — "L2".

"L2" is a brand which targets young businessmen between the age of 20 and 30, and is designed by a newly built independent design team of the Group, led by Italian designer Mr. Michelangelo Bombino. For a more distinctive brand positioning, the Group has appointed celebrity Mr. Daniel Wu (吳彥祖) as "L2" brand's spokesperson. The Group is planning to present a new "L2" product line in April, 2010.

To diversify product range and a broaden customer profile under the Lilanz brand, the Group will continue to identify opportunities to develop other sub-brands in order to solidify the Group's growth foundation.

At the same time, the Group will further consolidate and expand the distribution network in order to extend the retail business coverage. The Group plans to realize an annual increase of about 300-400 outlets in the next three years, and establish a foothold in first and second tier cities by increasing exposure to the second tier cities and strengthening brand image.

The Group is also committed to improving its operation and production management capability. Through upgrading of its information systems, the Group is in the process of directly linking its production and supply chain management systems. This enables the Group to make production and logistics planning in a more effective manner.

As one of the leading menswear brands in China, the Group intends to capture the enormous market growth opportunities by taking full advantage of its brand recognition and strengthening its competitive edges, while striving for better performance in order to reward shareholders, employees and customers for their support.

Financial Review

Turnover Breakdown by Region

The following table sets out the contribution to the turnover by region for the financial year.

	Turnover by geographical location, and the corresponding percentage of turnover			
	As of 31 December 2009		As of 31 December 2008	
Geographical location	**(in RMB million)**	**% of turnover**	**(in RMB million)**	**% of turnover**
Northern China [(1)]	**77.9**	**5.0**	80.5	7.1
Northeast China [(2)]	**129.2**	**8.3**	114.2	10.0
Eastern China [(3)]	**589.9**	**37.8**	417.6	36.8
Central and southern China [(4)]	**378.4**	**24.3**	254.9	22.4
Southwestern China [(5)]	**247.1**	**15.8**	181.2	16.0
Northwestern China [(6)]	**137.4**	**8.8**	87.3	7.7
Total	**1,559.9**	**100.0**	1,135.7	100.0

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

(2) Northeast 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) Southwest China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.

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

Turnover Breakdown by Product

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

	Year ended 31 December				
	2009		2008		
	(RMB million)	% of turnover	(RMB million)	% of turnover	Changes (in %)
Pants	**243.3**	**15.6**	232.8	20.5	4.5
Apparel	**1,251.0**	**80.2**	863.1	76.0	44.9
Accessories	**65.6**	**4.2**	39.8	3.5	64.8
	1,559.9	**100.0**	1,135.7	100.0	27.0

During the financial year, turnover increased by 37.4% as compared with 2008 because of the increase in average selling prices, expansion of the distribution network and the early arrival of winter season in the Mainland in 2009. Number of LILANZ stores and the total sales floor area have been increased and the Group has developed a wide range of product lines to meet the demand of various markets in China.

Cost of Sales Breakdown by Production

The following table sets out the breakdown of the Group's cost of sales by production and the percentage of such costs to the total cost of sales for the financial year:

	Year ended 31 December				
	2009		2008		
	(RMB million)	% of cost of sales	(RMB million)	% of cost of sales	Changes (in %)
Self-production					
Raw materials	**425.2**	**42.2**	369.3	46.6	15.1
Direct labour	**41.8**	**4.1**	52.0	6.6	(19.6)
Overhead	**25.9**	**2.6**	24.9	3.2	4.0
	492.9	**48.9**	446.2	56.4	10.5
Subcontracting arrangement					
Subcontracting charges	**35.6**	**3.5**	13.6	1.7	161.8
	528.5	**52.4**	459.8	58.1	14.9
Outsourced production					
OEM purchases	**480.2**	**47.6**	331.8	41.9	44.7
Total	**1,008.7**	**100.0**	791.6	100.0	27.4

Use of Proceeds

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange 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).

Net proceeds from the global offering (HK$ million)

Purposes of net proceeds	Percentage	Amount of net proceeds (in HK$ million)	Already utilised amount (in HK$ million) (As at 31 December 2009)	Remaining amount (in HK$ million) (As at 31 December 2009)
Expansion of product development studio in Shanghai and development of facilities in Xiamen	15%	162.2	**0.3**	**161.9**
The development of sub-brand (L2)	15%	162.2	**4.4**	**157.8**
Lease and refurbishment of the flagship store for operation by distributors	15%	162.2	–	**162.2**
Promotional and brand building activities	20%	216.3	–	**216.3**
Expansion of the production plant in Jinjiang City Technology and Industry Park	5%	54.1	–	**54.1**
The establishment of enterprise resource planning system, development of information technology network and obtainment of the necessary advisory services and system software	10%	108.1	–	**108.1**
Repayment of part of the Group's bank loans	10%	108.1	**108.1**	–
Working capital and other general corporate purposes	10%	108.1	–	**108.1**
	100%	1,081.3	**112.8**	**968.5**

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

Gross Profit Margin

The gross profit margin of the Group for 2009 was 35.3%, which is 5 percentage points higher as compared to 30.3% for 2008. The main reason for such increase was due to the increase in our average selling price as a result of the enhancement of our brand image and the provision of increased support and services to the distributors, which in turn contributed to the increase in our ex-factory prices. Increase in consumer's disposable income, demand for menswear products in China and strengthening of brand desirability have contributed significantly to the average increase in our suggested retail prices.

Other revenue

Other revenue for the financial year mainly represented government grants of RMB4.7 million (2008: RMB4.5 million).

Operating Expenses Ratio

The ratio of advertising and promotional expenses to turnover has decreased by 2.2 percentage points for the financial year as management tended to be more prudent on media advertising during the first half of 2009. Relatively, more budget will be reserved for 2010. The ratio of R&D costs to cost of sales remained constant, reflecting our continuous effort on maintaining R&D capabilities and quality control.

Finance Costs

The decrease in finance costs from RMB11.6 million in 2008 to RMB6.4 million in 2009 was mainly due to the decrease of interest expenses resulting from the significant reduction of bank loans as compared to 2008 (2009: RMB1 million; 2008: RMB140 million).

Effective Tax Rate

The effective tax rate increased from 3.4% in 2008 to 8.8% in 2009 mainly because one of our subsidiaries, Lilang (China) Co., Ltd. (利郎(中國)有限公司) has been subject to the PRC enterprise income tax at 12.5% since 1 January, 2009, while it was exempted from the PRC enterprise income tax in 2008.

Net Profit Margin

The net profit margin increased by 5.8 percentage points (2009: 19.4%, 2008: 13.6%), which is in line with the increase in gross profit margin.

Dividends

The Board recommend a final dividend of RMB11 cents per ordinary share for the financial year, representing a total payout of RMB132 million, a distribution of approximately 45% of the current year's profit attributable to equity shareholders.

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 Monday, 3 May 2010 to Thursday, 6 May 2010 (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 Friday, 30 April 2010 for registration.

Liquidity and Financial Resources

As at 31 December 2009, the cash and cash equivalents of the Group amounted to RMB844.1 million (placement of fixed deposits held at banks with maturity over 3 months totaling RMB308.1 million was regarded as an investing activity in the consolidated cash flow statement), representing an increase of RMB790.5 million as compared with the total cash balance of RMB53.6 million as at 31 December, 2008. However, the total cash and bank balance (including pledged bank deposits and fixed deposits) was significantly increased to RMB1,186.2 million as at 31 December 2009 (2008: RMB95.8 million). This is attributable to:

- Cash inflows from operating activities amounting to RMB387.0 million, representing improved management of working capital and outstanding operating results.

- Cash inflows from financing activities amounting to RMB735.7 million, mainly representing the cash proceeds from issue of shares during the IPO amounting to RMB952.8 million

As at 31 December 2009, total assets of the Group were RMB2,014.4 million of which current assets were RMB1,791.9 million. Total liabilities were RMB372.3 million and total shareholders' equity amounted to RMB1,642.1 million. There were only RMB1 million of outstanding bank loan.

Pledge of Assets

As at 31 December 2009, deposits with certain banks with a total amount of RMB34.1 million (2008: RMB42.2 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

Contingent Liabilities

As at 31 December 2009, the Group had no significant contingent liabilities.

Financial Management Policies

The Group continues to control financial risks in a prudent manner and proactively adopts internationally recognised corporate management standards to safeguard the interests of shareholders. The functional currency of the Company is the Hong Kong Dollar and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly 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.

Purchase, Sale or Redemption of the Company's Listed Securities

During the twelve months ended 31 December 2009, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

Audit Committee

The Audit Committee, which comprises the three independent non-executive Directors, has reviewed the financial statements of the Group for the year ended 31 December 2009 and submitted its views to the Board.

The Audit Committee has endorsed the accounting policies and practices adopted by the Group in respect of the financial statements for the year ended 31 December 2009.

The Audit Committee has also reviewed the connected transactions and the internal control systems of the Group for the year ended 31 December 2009.

Compliance with the Code on Corporate Governance Practices

The Group has complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules during the 2009 financial year.

Publication of Annual Report

The 2009 Annual Report of the Company, which contains the detailed results and other information of the Company required pursuant to Appendix 16 of the Listing Rules, will be dispatched to shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.lilanz.com in due course. This announcement can also be accessed on the above websites.

By Order of the Board
Wang Dong Xing
Chairman

Hong Kong, 22 March 2010

As at the date of this announcement, the Directors are:

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