

LILANZ

CHINA LILANG LIMITED
中國利郎有限公司

Stock Code: 1234



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2021 Interim Report

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FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2021 (RMB million)	2020 (RMB million)	Changes (%)
Revenue	1,354.3	1,093.3	+23.9
Gross profit	670.8	431.0	+55.6
Profit from operations	307.8	306.7	+0.4
Profit for the period	271.5	268.9	+0.9
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	22.7	22.5	+0.9
— Diluted	22.6	22.5	+0.4
Interim dividend per share	HK13 cents	HK12 cents	+8.3
Special interim dividend per share	HK5 cents	HK5 cents	—
	(%)	(%)	(% points)
Gross profit margin	49.5	39.4	+10.1
Operating profit margin	22.7	28.1	-5.4
Net profit margin	20.0	24.6	-4.6
Return on average shareholders' equity ⁽¹⁾	7.4	7.5	-0.1
Effective tax rate	17.0	17.6	-0.6
Advertising and promotional expenses and renovation subsidies (as percentage of revenue)	6.4	7.5	-1.1
	Six months ended 30 June 2021	Year ended 31 December 2020	Six months ended 30 June 2020
Average inventory turnover days ⁽²⁾	208	168	185
Average trade receivables turnover days ⁽³⁾	69	101	135
Average trade payables turnover days ⁽⁴⁾	93	115	114

Notes:

- (1) Return on average shareholders' equity is equal to profit for the period divided by the average of the beginning and closing balance of total shareholders' equity.
- (2) Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by cost of sales and multiplied by the number of days in the relevant period.
- (3) Average trade receivables turnover days is equal to the average of the beginning and closing trade receivables balance divided by revenue (including value-added tax) and multiplied by the number of days in the relevant period.
- (4) Average trade payables turnover days is equal to the average of the beginning and closing trade and bills payables balance divided by cost of sales and multiplied by the number of days in the relevant period.

MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY REVIEW

In the first half of 2021, the novel coronavirus pandemic (“COVID-19” or the “Pandemic”) overseas had not yet been brought under control, and the tensions between China and the United States continued, bringing uncertainties to the macro environment. However, China’s domestic economy showed a trend of steady and positive development. According to the National Bureau of Statistics of China, the GDP of the first half of 2021 increased by 12.7% year-on-year. With the strengthening recovery momentum in the consumer market and the effective prevention and control of the Pandemic nationwide, the consumer demand of residents gradually increased. On the other hand, the central government has implemented a series of policies to promote domestic demand and consumption, and to further invigorate the retail market. In the first half of 2021, the total retail sales of consumer goods increased by 23.0% year-on-year, of which the total retail sales of apparel, footwear, headwear and knitwear increased by 33.7% year-on-year, showing a recovery trend on the demand side of apparel retail.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the period under review, China Lilang Limited (the “Company” or “China Lilang”, together with its subsidiaries, the “Group”) implemented a series of business model reforms. The core collection originally planned to convert 1,388 stores to the consignment model commencing from the 2021 spring and summer seasons, and the final number of stores completing the conversion was 994, accounting for about 40% of the total store count of the core collection. Stores operating on the consignment model share inventories via the online warehouse and enjoy higher flexibility in inventory allocation, and the sell-through rate of the spring and summer products has increased as a result. As for the smart casual collection, after switching most of the stores to direct-to-retail in the second

half of 2020, virtual inventories of stores were also enlarged through online warehouse. This helped optimise store efficiency and inventory management, and the inventory level continued to decline. During the period, the Group also continued to promote the new retail business and turned its online stores into a self-operating model at the beginning of the year as planned, strengthening the management and control of e-commerce channels. The Group also continued to expand the virtual inventories of physical stores through the stores in WeChat Mall to improve the sales efficiency per store.

During the period, the Group continued to optimise the store network and had a net decrease of 53 stores to 2,708 stores, among which 287 were stores for the smart casual collection.

For the first half of the year ended 30 June 2021, revenue increased by 23.9% year-on-year to RMB1,354.3 million. While adhering to the strategy of providing products that represent excellent value-for-money, starting from the 2021 spring and summer seasons, the Group has increased the markup rate of particular products of both the core collection and smart casual collection based on product design and market competitiveness. In addition, the gross profit margin of the smart casual collection for the period under a direct-to-retail basis was higher than that of the wholesale model in the same period last year. As a result, the gross profit margin significantly increased by 10.1 percentage points to 49.5%. Net profit slightly increased by 0.9% to RMB271.5 million. Net profit margin declined by 4.6 percentage points to 20.0%. Earnings per share

were RMB22.7 cents, an increase of 0.9%. These figures reflected the impacts of the delay in sales recognition resulting from the switching of approximately 40% of the stores of the core collection to consignment model, as well as the differences in the sales, gross profit margin and net profit margin of the smart casual collection under the direct-to-retail model during the period as compared to the wholesale model for the same period last year. During the period, save for sporadic confirmed cases of COVID-19 in certain areas in Guangdong, the Pandemic was generally under control in the Mainland. The total retail sales of the LILANZ products in the first half of the year increased by 25% to 30% year-on-year.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the period, the Group maintained a healthy financial position with sufficient cash flow. The Board of Directors resolved to pay an interim dividend of HK13 cents per share and a special interim dividend of HK5 cents per share, maintaining a relatively high payout ratio.

FINANCIAL REVIEW

Revenue

The Group's revenue during the period increased by 23.9% to RMB1,354.3 million. The increase was mainly attributable to the smart casual collection, the sales of which were recognised at retail value during the period as compared to wholesale value for the same period last year, after a majority of the stores switched to direct-to-retail in July 2020. As for the core collection, although the wholesale business recorded a double-digit sales growth, the point of sales recognition of about 40% of the stores was delayed after switching to consignment model, and thus, the total sales only slightly increased.

By product category, tops remained the major contributor to revenue, accounting for 55.2% (first half of 2020: 52.3%) of total revenue for the period, with a 30.1% rise in sales. Sales of accessories dropped by 18.4% mainly due to the decrease in sales of footwear products.

Revenue by Region

For the first half of the year, the total retail sales of LILANZ products increased by 25% to 30% year-on-year. Nevertheless, the sales revenue of different regions for the period had a variable performance due to the different impact from the shift of about 40% of the core collection stores to the consignment model, the transfer of e-commerce to a self-operating model, and the adoption of a direct-to-retail model by the smart casual collection.

The sales of the Eastern China region increased by 57.3%. This was primarily due to more than half of the stores of the smart casual collection being located in that region, coupled with the fact that the sales from online stores are all included in that region. As a result, the sales of the Eastern China region had the largest impact from the recognition of sales at retail value of the smart casual collection and online stores after their switching to self-operation.

The sales of the South-Western China region increased by 15.5%, which was mainly due to the increase in sales of the wholesale business of the core collection for the period. There were not many stores of the smart casual collection in that region. As for the core collection, business in that region, other than in Guizhou, continued to be operated under a wholesale model, and therefore the impact of the delay in sales recognition was insignificant.

The North-Eastern China region underperformed all other regions and still had the highest proportion of store closures as the issue of population outflow continued.

The Eastern China and the Central and Southern China regions remained the top geographical revenue contributors, together accounting for 62.9% (first half of 2020: 59.1%) of the total revenue. The retail stores in these two regions accounted for 55.7% (first half of 2020: 54.3%) of the total number of stores.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue by region for the period is set out below:

Region	Six months ended 30 June				
	2021		2020		Changes (%)
	RMB million	% of revenue	RMB million	% of revenue	
Northern China ¹	110.6	8.2%	92.1	8.4%	20.1%
North-Eastern China ²	38.2	2.8%	42.9	3.9%	-11.0%
Eastern China ³	523.5	38.6%	332.7	30.5%	57.3%
Central and Southern China ⁴	328.7	24.3%	312.4	28.6%	5.2%
South-Western China ⁵	231.3	17.1%	200.3	18.3%	15.5%
North-Western China ⁶	122.0	9.0%	112.9	10.3%	8.1%
Total	1,354.3	100.0%	1,093.3	100.0%	23.9%

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.

Cost of Sales and Gross Profit Margin

Cost of sales increased slightly by 3.2% year-on-year to RMB683.5 million. Gross profit margin was 49.5%, increasing significantly by 10.1 percentage points year-on-year. This was mainly due to the fact that while adhering to the strategy of providing products that represent excellent value-for-money, the Group increased the markup rate of particular products of both the core collection and the smart casual collection based on the product design and market competitiveness starting from the 2021 spring and summer seasons, leading to an increase in gross profit margin. In addition, the retail gross profit margin of the smart casual collection was higher than the wholesale gross profit margin in the same period last year.

Other Net Income

Other net income amounted to RMB17.3 million (first half of 2020: RMB46.4 million), comprising China's local government grants of RMB10.3 million (first half of 2020: RMB39.1 million). The decrease in government grants for the period was mainly due to the government grant entitlement of one of the major operating subsidiaries for the first half of the year was only received and recognised as income after the end of the period. The government grants were unconditional and awarded at the discretion of relevant authorities.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the period increased by RMB206.2 million to RMB317.3 million, accounting for 23.4% of the total revenue, up by 13.2 percentage points compared with the same period last year. The sharp increase in expenses was primarily attributable to the operating expenses of the smart casual collection stores after the conversion to the direct-to-retail model in the second half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Advertising expenses and renovation subsidies for the period increased by RMB5.4 million to RMB86.8 million, accounting for 6.4% of the total revenue (first half of 2020: 7.5%). Brand promotion expense for the period was at similar level as in the same period last year. As for renovation subsidies, expenses increased due to the higher number of store openings and the roll out of the seventh-generation store image of the core collection to existing stores.

Administrative Expenses

Administrative expenses amounted to RMB61.7 million, and the expenses to sales ratio was 4.6% (first half of 2020: 5.0%). The amount increased by RMB14.8 million compared with the expenses (before provision for trade receivables of RMB7.4 million) for the same period last year. The increase in expenses for the period was mainly due to the commencement of operation of the new headquarters in the first quarter, and expenses such as depreciation and property management fees increased as a result.

Other Operating Expenses

Other operating expenses comprised charitable donations of RMB0.4 million (first half of 2020: RMB3.7 million).

Profit from Operations

Profit from operations increased slightly by 0.4% to RMB307.8 million. Although the sales revenue and gross profit margin increased, the operating profit margin was down by 5.4 percentage points to 22.7% due to the higher selling expenses for the smart casual collection and the online stores after their conversion to the direct-to-retail model, coupled with the deferral of the receipt of government grants.

Net Finance Income

Net finance income was RMB19.4 million, which was slightly lower than the same period last year. Interest income decreased by RMB5.3 million to RMB19.0 million as both the average cash balance and bank deposit interest rate decreased during the period.

Income Taxes

The effective income tax rate for the period was 17.0%, slightly down by 0.6 percentage point compared to the same period last year. Consistent with the same period last year, tax benefits of certain prior year's expense deductions were confirmed by the relevant tax authorities and recognised as tax credits during the period. One of the Group's subsidiaries in China has attained "Advanced and New Technology Enterprise" status and is eligible for a preferential tax rate of 15% between 2019 and 2021, while another two subsidiaries established by the Group in Tibet are eligible for a local preferential tax rate of 15%.

Net Profit

Net profit for the period was RMB271.5 million, increased slightly by 0.9%. The increases in selling and distribution expenses and administrative expenses and also the delayed receipt of the government grants offset the increases in sales revenue and gross profit margin. Net profit margin declined by 4.6 percentage points to 20.0%.

Earnings Per Share

Earnings per share were RMB22.7 cents, increasing by 0.9%.

Interim Dividend

The Board recommended to distribute an interim dividend of HK13 cents (first half of 2020: HK12 cents) per ordinary share and a special interim dividend of HK5 cents (first half of 2020: HK5 cents) per ordinary share in respect of this financial year, making a total dividend payment of approximately HK\$215.5 million (equivalent to approximately RMB179.5 million). The interim dividend and special interim dividend will be paid in cash on or around 24 September 2021 to shareholders whose names appear on the register of members of the Company on 10 September 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW

Sales Channel Management

Through the LILANZ retail stores operated by distributors, the Group has established a distinctive brand image, and provides professional retail services, and raises the spending desire of consumers so as to drive sales. In order to more closely control the retail channel and reduce inventory risk, approximately 40% of the core collection stores have been converted to the consignment model starting from the 2021 spring and summer seasons, and a majority of stores for the smart casual collection have switched to a direct-to-retail model since the second half of 2020.

During the period, the Group continued to pragmatically support distributors in optimising the retail network by closing underperforming stores while opening stores in carefully selected suitable shop locations in quality shopping malls. The Group also promoted physical stores to better utilise the WeChat platform to achieve higher store efficiency. For the core collection, the North-Eastern China region and the Northern China had the highest net store closures during the period. While the issue of population outflow continued in the North-Eastern China region, the store closures in the Northern China region were mainly in Shanxi province where low-efficiency stores were consolidated and closed during the period after rapid store expansion in the past two years. As for the smart casual collection, after turning most of the stores into direct-to-retail stores since the middle of last year, the Group has started to optimise the store locations, and to enhance the retail space arrangement of stores in various regions by stages. During the period, such restructuring of the store network in Xi'an and Zhengzhou has been completed, enhancing the sales efficiency of stores.

As at the end of June 2021, LILANZ had a total of 2,708 retail stores nationwide, representing a net decrease of 53 stores during the period, and the aggregate retail floor area decreased by 0.5% compared with the end of last year to about 397,100 square metres (31 December 2020: 398,900 square metres). Among them, there were 287 independent specialty stores for the smart casual collection, down by 8 stores during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Changes in the number of LILANZ stores in different regions are as follows:

Region	Number of Stores			At 30 June 2021
	At 1 January 2021	Opened during the period	Closed during the period	
Northern China	294	10	30	274
North-Eastern China	185	2	23	164
Eastern China	790	46	57	779
Central and Southern China	727	52	49	730
South-Western China	494	25	26	493
North-Western China	271	19	22	268
Total	2,761	154	207	2,708

As at the end of June 2021, the number of stores in shopping malls increased to 821 (31 December 2020: 807), accounting for 30.3% of the total store count and 32.7% of total retail area; and the number of outlet stores increased to 40 (31 December 2020: 36).

As at 30 June 2021, among the 2,708 LILANZ stores, 279 were the Group's direct-to-retail stores, and the other stores were operated by distributors or sub-distributors respectively. As most of the stores of the smart casual collection have switched to direct-to-retail model since the middle of last year, distributorships were ended gradually after clearing inventories, such that the number of distributors decreased from 90 to 69 during the period. The number of sub-distributors was 734. The number of stores is analysed as follows:

	At 30 June 2021		At 31 December 2020	
	Number of distributors	Number of stores	Number of distributors	Number of stores
Direct-to-retail stores	—	279	—	287
Distributors	69	1,298	90	1,348
Sub-distributors	734	1,131	747	1,126
Total number of stores		2,708		2,761
Street stores		1,541		1,609
Stores in shopping malls and outlet stores		861		843
Shop-in-shops in department stores		306		309
Total number of stores		2,708		2,761

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

To further enhance the brand image of LILANZ and the shopping experience of consumers, this year the Group has started rolling out the seventh-generation store image of the core collection to existing stores. A total of 500 existing stores are planned to be covered in 2021 and about 100 stores were completed in the first half of the year. In the exercise, the Group will use different decorative materials, subject to different market positioning of the stores, to achieve better cost efficiency. For stores of the smart casual collection, the new store image will be launched in the second half of the year as planned, so as to showcase a more fashionable and fresh brand image to attract more customers.

With respect to inventory management, as most of the stores of the smart casual collection have been converted to a direct-to-retail model and about 40% of the stores of the core collection have adopted a consignment model, inventory transfers to these stores have been more flexible. By expanding the virtual inventory of stores with the online warehouse, the sales efficiency of stores has been enhanced and the sell-through rate of the spring and summer collections has increased. During the period, the Group continued to clear inventories by offering discounts and promotions and sales in outlet stores. While the inventory level of the smart casual collection has decreased continuously, the inventory level for the core collection was slightly higher than the target level as at the end of June 2021 but still lies within a manageable range. In addition, the Group also monitors the sales and

inventory condition of stores in a timely manner via a ERP system, and the channel inventory of distributors was maintained at a healthy level.

New Retail Development

New retail remains one of the Group's top priorities for business development. The Group strives to promote the business of its LILANZ core collection and smart casual collection by actively integrating online services with offline in-store experiences and the comprehensive logistics services.

Ever since the Group turned its online stores into self-operated stores in the beginning of the year, activities such as promotional sales online and live streaming of promotion events were organised in a more flexible manner, and e-commerce was used more effectively for inventory clearance. The retail sales value of online stores for the period increased by 15% to 20% year-on-year. While sales of the online stores in the past two years were mainly in respect of inventory clearance, the Group added more new products for online sales starting in the first half of the year. To meet the production needs of new special editions of pants products for online stores launched during the 618 shopping festival, the Group reorganised its in-house production plant in a prompt manner and added seven production lines for the products. This reflected the Group's ability to produce small batch orders swiftly, marking the start of the new model of selling new products online.

In addition to setting up LILANZ core collection and smart casual collection online stores on major online shopping platforms, the Group also actively promotes the business of using the WeChat platform, providing customer relationship management services via that platform and setting up stores in WeChat Mall. This has comprehensively capitalised on the complementary advantages of online and offline services, thus driving the growth in store efficiency.

Product Design, Development and Supply Chain Management

The Group continued to enhance the personality-themed and original designs of its products to provide greater value-for-money and differentiate itself from its peers. The proportion of originally designed products was maintained at about 70% among products sold during the period, and the proportion of these products utilising proprietary fabrics developed by the Group was around 50%. It is expected that the proportion of originally designed products will be further increased to around 75% in the 2021 winter collection. To facilitate the launching of fast-developed products online, the Group began to actively develop new suppliers to source the related materials since last year. With the Group's in-house production plant's ability to produce small batch orders swiftly, it is expected to launch more fast-developed products online.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As product design and supply chain management has greatly improved over the past few years, the Group's products show cost advantages over those of its peers. The project to gradually upgrade the fashion elements and design of products of the smart casual collection since last year has also been completed in the 2021 spring and summer seasons. While the Group continued to adhere to the strategy of providing products that represent excellent value-for-money, the Group has increased the markup rate of particular products based on product design and market competitiveness starting from the 2021 spring and summer seasons. During the period, the gross profit margins for both the core collection and smart casual collection have increased accordingly.

The Group's international and local research and development teams have continued to keep abreast of the popular trends in the international market. With the objective of meeting the fashion needs of mainland China's consumers, the teams design value-for-money menswear products that are simple yet fashionable in style. There are currently around 440 staff members in the Group's research and development department engaged in areas such as product design, material development and sample creation, all striving to enhance the overall competitiveness of its products.

Brand Management and Promotion

China Lilang owns and operates the LILANZ brand and currently sells menswear products in two collections — the core collection and the smart casual collection. The core collection, mainly targeting consumers aged 25 to 45, has been well-received in traditional third- and fourth-tier markets and is gradually expanding into first- and second-tier markets. The smart casual collection, targeting consumers aged 20 to 30 in first- and second-tier markets, comprises more classic products than the core collection.

During the period, in addition to commissioning a number of influencers to showcase the new products on various portals such as TikTok and Xiaohongshu to attract market attention, the Group continued to launch a series of brand promotion activities featuring Han Han, the brand ambassador appointed since the fourth quarter of 2020. Activities included sponsoring the New Year's Eve talk show "2021, Speaking the Truth" participated by Han Han, in which the costume of certain guests were sponsored and image advertisements were placed. In addition, a short film with the theme of positive feelings after the epidemic, was produced and broadcasted on various online media and on the high speed rail. In the 2021 spring and summer seasons, the core collection and smart casual collection launched crossover products with *China Daily* and the science fiction "The Three-Body Universe" respectively, which helped to promote the rejuvenation of the brand and enhanced the brand power.

During the period, the Group also continued to participate in the Advertising Festival of Chinese College Students and to solicit publicity plans and ideas for its brand and product design from college students. The solicitation tours engaged over 1.5 million college students, further enhancing brand awareness of LILANZ among a young consumer demographic.

Apart from brand promotion activities, the Group continued to cooperate with Adream Foundation. In addition to donations, the Group also launched student-designed tops on Father's Day in June. All sales proceeds were donated to the fund, so that those in need could receive appropriate help and enhanced the Group's corporate image.

Awards

The "I Look Great with the World" commercial shot by Han Han and Li Dan launched in the fourth quarter of 2020 garnered the "Creative Communication Gold Case" award in the 10th ADMEN International Awards (第十屆ADMEN國際大獎) in 2021, and won the Gold Award for the 2021 IAI Awards (IAI傳鑒國際廣告獎). In addition, in May 2021, the Group won the "2020-2021 Innovative and Upgraded Retail Enterprise" award at the "Golden Coordinates" Award Presentation Ceremony of Zhujiang Investment•China Commercial Property.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

Looking ahead to the second half of 2021, as the Sino-US tension continues, coupled with the recurring Pandemic in China and abroad, the pace of recovery in each country varies, and the macro environment is still affected by uncertainties. Nevertheless, China is speeding up the construction of a new development pattern of dual-cycle mutual circulation, steadily implementing the promotion of domestic demand, and the upgrade of consumer demand is expected to continue. The Group is cautiously optimistic about the development of the retail market in China.

Following the conversion of the smart casual collection to the direct-to-retail mode since the middle of last year, the change of about 40% of the stores of the core collection to the consignment model in the spring and summer this year, and the conversion of online stores to self-operation since the beginning of the year, the Group's control over sales channels has been strengthened, and inventory interoperability and the complementary advantages of the stores in WeChat Mall and physical stores have gradually emerged. In the second half of the year, the Group will continue to optimise the store network and improve retail management to further enhance store efficiency and product sell-through rate, thus driving stable and healthy sales growth. The total retail sales growth target for the year 2021 is revised from 10% or more to 15% or more.

In the second half of the year, China Lilang will continue to adopt a prudent strategy for store openings and will focus on optimising the existing store network to enhance store efficiency. The Group will continue to strictly select and open stores in suitable shop locations in quality shopping malls in provincial capitals and prefecture level cities to replace street stores with low efficiency. Meanwhile, the Group will also add stores in outlets as a recurring channel for inventory clearance. With an emphasis on quality, the Group revised its annual target of net increase in the number of stores in 2021 from 100 to 150 stores to 50 to 100 stores.

As for retail management, in order to further encourage distributors to use the customer relationship management system in the WeChat platform and the stores in WeChat Mall to increase store efficiency, the Group organised training for distributors in July to strengthen their skills in using the WeChat platform to attract traffic and increase sales. For the smart casual collection, following the completion of store enhancement work in Xi'an and Zhengzhou in the first half of the year, it is planned to cover stores in Hefei, Nanchang, Changsha and other cities in the second half of the year. In addition to optimising the store network in these cities, display spaces in stores will also be adjusted to increase store efficiency.

As for new retail, apart from training distributors to use the WeChat platform to improve store efficiency, the Group will continue to promote e-commerce. Other than being a channel for inventory clearance, more new products will be launched online in the second half of the year, including launching more fast-developed products by using the capability of the Group's in-house production plant in producing small batch orders swiftly. The Group would also work with environmentally-certified suppliers to use recycled plastics and fabrics made from fast-growing non-edible plants to launch the environmentally-friendly series special edition products online in 2021 fall and winter seasons as planned. In the medium-to-long term, it is expected that increasing sales of new products could enhance the profit contribution of the e-commerce business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As for brand promotion, the Group will continue to conduct brand promotion on Weibo, TikTok, and other portals and will organise various activities both online and offline to promote the brand. Crossover products of the core collection with *China Daily* and the smart casual collection with the science fiction “The Three-Body Universe” launched in the first half of the year will continue, and new products will be launched in the fall and winter seasons. The seventh-generation store image upgrade of the core collection will be rolled out across approximately 500 existing stores during this year. Renovation of about 100 stores have been completed in the first half of the year, and the remaining about 400 stores will be covered in the second half of the year. The smart casual collection would also launch a new store image in the second half of the year as planned. The new store images showcase a more fashionable and fresh brand image to attract more customers.

Operations at the new headquarters in Fujian have begun in February 2021, providing a new step forward for the Group’s development. Phase I of the new logistics centre aims at commencing operation before the 11 November shopping festival, which will effectively enhance the inventory management and the logistics efficiency of the Group.

In the long run, China Lilang will retain its multi-brand strategy, as it endeavours to strengthen its product competitiveness and value-for-money to further consolidate its leading position in the menswear industry and realise sustainable long-term growth to reward its shareholders, staff and customers for their support.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

CASH AND BANK BALANCES AND CASH FLOWS

	As at 30 June 2021 RMB million	As at 31 December 2020 RMB million
Amounts pledged as security for bills payable	0.0	1.7
Cash and cash equivalents	1,353.7	1,738.9
Total cash and bank balance	1,353.7	1,740.6

As at 30 June 2021, the Group's total cash and bank balance was mainly denominated in Renminbi (95.0%). There were no bank loans outstanding as at 30 June 2021.

Cash and cash equivalents balance decreased by RMB385.2 million. Major cash flow movements during the period were as follows:

— Net cash generated from operating activities amounting to RMB123.4 million. The major reconciling item between the amount of net operating cash inflow and the net profit for the period of RMB271.5 million was the decrease in trade and bills payables balance by RMB121.2 million. After switching most of the smart casual collection stores to direct-to-retail model and about 40% of the core collection stores to consignment model,

the control over the channel has increased and the inventory management enhanced. The Group has adjusted backward the production and delivery schedules of some of the fall and winter products and the period end balance of the trade payables reduced as a result. The impact of the increase in inventory balance resulting from the conversion of stores to consignment model on working capital at the period end was offset by the decrease in trade receivables balance.

— Net cash outflows from investing activities amounting to RMB156.3 million, comprising mainly capital expenditure totalling RMB170.1 million.

— Net cash outflows from financing activities amounting to RMB351.6 million, mainly attributable to the payments of the final dividends totalling RMB267.9 million in respect of the year ended 31 December 2020, and capital and interest elements of lease rentals paid totalling RMB83.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

TRADE WORKING CAPITAL TURNOVER DAYS

	Six months ended 30 June 2021	Year ended 31 December 2020	Six months ended 30 June 2020
Average inventory turnover days	208	168	185
Average trade receivables turnover days	69	101	135
Average trade payables turnover days	93	115	114

Inventory turnover days

The Group's average inventory turnover days was 208 days for the period, an increase of 23 days as compared to the interim period last year.

Inventory balance increased by RMB234.1 million to RMB901.2 million. The increase was mainly attributable to the core collection after converting about 40% of its stores to consignment model commencing from the 2021 spring and summer seasons. As noted in the 2020 annual report, inventories of about RMB309.1 million were bought-back from these stores at 28 February as part of the conversion.

As for the smart casual collection, inventory balance continued to improve after the conversion to direct-retailing in the middle of 2020.

As at 30 June 2021, a provision of RMB20.7 million was made in accordance with the Group's inventory provision policy.

Trade receivables turnover days

The Group's average trade receivables turnover days was 69 days for the period. If based on the period-end balance, the turnover days for the period was 54 days. This compared to 75 days for the year 2020 (adjusted based on the turnover before provision for inventory buy-back). Turnover days reduced as about 40% of the core collection stores have been converted to consignment model.

As at 30 June 2021, a provision of RMB16.6 million was made in accordance with the Group's trade receivables provision policy.

Trade payables turnover days

The Group's average trade and bills payables turnover days was 93 days for the period. If based on the period end balance, trade and bills payables turnover days was 77 days for the period as compared to 84 days for the year 2020 (adjusted based on the cost of sales before provision for inventory buy-back). After switching most of the smart casual collection stores to direct-to-retail model and about 40% of the

core collection stores to consignment model, the control over the channel has increased and the inventory management enhanced. The Group has adjusted backward the production and delivery schedules of some of the fall and winter products and the trade and bills payables balance reduced by RMB121.2 million as a result. There were no material changes in the payment terms with suppliers.

PLEDGE OF ASSETS

As at 30 June 2021, deposits with banks totalling RMB0.0 million (31 December 2020: RMB1.7 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2021, the Group had total capital commitments of RMB302.0 million, primarily related to the construction of the logistics center, the first phase of which is expected to be completed in the second half of 2021.

These capital commitments are expected to be financed by internal resources of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 30 June 2021, 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 Dollars and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly recognized in equity as a separate reserve. As the Group conducts business transactions principally in Renminbi, the exchange rate risk at the Group's operational level is not significant.

HUMAN RESOURCES

As at 30 June 2021, the Group had 3,874 staff. Total staff costs for the period amounted to approximately RMB172.5

million (first half of 2020: RMB115.2 million).

The Group places great emphasis on recruiting and training quality personnel. We recruit talents from universities and technical schools and provide pre-employment and on-going training and development opportunities to our staff members. Our training programs cover areas such as sales and production, customer service, quality control, trade fairs planning, work place ethics and other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees based on factors such as market rates, workload, responsibility, job complexity as well as the Group's performance. The Group has also adopted a share option scheme to recognize, reward and promote the contribution of the employees to the growth and development of the Group. On 3 July 2020, the Group granted options to subscribe for a total of 11,500,000 shares of the Company to its employees under the share option scheme at an exercise price of HK\$4.31 per share. The options will be vested during the period from 3 July 2022 to 3 July 2024.

REVIEW REPORT OF THE AUDITOR



REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA LILANG LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 18 to 33 which comprises the condensed consolidated statement of financial position of China Lilang Limited (the “Company”) as of 30 June 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

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

23 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	3	1,354,299	1,093,336
Cost of sales		(683,479)	(662,354)
Gross profit		670,820	430,982
Other net income		17,286	46,372
Selling and distribution expenses		(317,344)	(111,054)
Administrative expenses		(61,688)	(54,337)
Other operating expenses		(1,246)	(5,265)
Profit from operations		307,828	306,698
Net finance income	4	19,385	19,839
Profit before taxation	5	327,213	326,537
Income tax	6	(55,757)	(57,595)
Profit for the period		271,456	268,942
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company and subsidiaries outside the mainland of the People's Republic of China (the "PRC")		(4,109)	6,940
Total comprehensive income for the period		267,347	275,882
Earnings per share	7		
Basic (cents)		22.7	22.5
Diluted (cents)		22.6	22.5

The notes on pages 23 to 33 form part of this interim financial report. Details of dividends payable to shareholders of the Company are set out in note 16.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 — unaudited
(Expressed in Renminbi)

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	8	1,093,818	923,727
Investment properties	9	120,485	122,198
Right-of-use assets	10	286,466	279,407
Intangible assets		7,938	7,914
Deposits for purchases of plant and equipment		7,705	3,100
Lease rental deposits		20,261	32,869
Deferred tax assets		24,787	24,310
		1,561,460	1,393,525
Current assets			
Inventories	11	901,222	667,054
Trade and other receivables	12	731,725	1,210,168
Pledged bank deposits	13	30	1,710
Cash and cash equivalents		1,353,722	1,738,934
		2,986,699	3,617,866
Current liabilities			
Trade and other payables	14	566,460	1,036,022
Lease liabilities	15	57,424	62,003
Contract liabilities		27,907	37,463
Current tax payable		161,948	152,489
		813,739	1,287,977
		2,172,960	2,329,889
Net current assets			
		3,734,420	3,723,414
Total assets less current liabilities			
Non-current liabilities			
Deferred tax liabilities		17,448	7,963
Lease liabilities	15	62,391	61,926
		79,839	69,889
Net assets		3,654,581	3,653,525

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2021 — unaudited
(Expressed in Renminbi)

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
Capital and reserves			
Share capital		105,517	105,517
Reserves		3,549,064	3,548,008
Total equity		3,654,581	3,653,525

Authorised for issue by the board of directors in Hong Kong on 23 August 2021.

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 23 to 33 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
As at 1 January 2020	105,517	31,411	263,467	23,176	(37,369)	3,220,077	3,606,279
Changes in equity for the six months ended 30 June 2020:							
Profit for the period	—	—	—	—	—	268,942	268,942
Other comprehensive income for the period	—	—	—	—	6,940	—	6,940
Total comprehensive income for the period	—	—	—	—	6,940	268,942	275,882
Dividends approved in respect of the previous year	—	—	—	—	—	(341,671)	(341,671)
As at 30 June 2020	105,517	31,411	263,467	23,176	(30,429)	3,147,348	3,540,490
As at 1 January 2021	105,517	31,411	266,037	24,941	(27,908)	3,253,527	3,653,525
Changes in equity for the six months ended 30 June 2021:							
Profit for the period	—	—	—	—	—	271,456	271,456
Other comprehensive income for the period	—	—	—	—	(4,109)	—	(4,109)
Total comprehensive income for the period	—	—	—	—	(4,109)	271,456	267,347
Equity-settled share-based payment	—	—	—	1,645	—	—	1,645
Dividends approved in respect of the previous year	—	—	—	—	—	(267,936)	(267,936)
Appropriation to statutory reserve	—	—	5,376	—	—	(5,376)	—
As at 30 June 2021	105,517	31,411	271,413	26,586	(32,017)	3,251,671	3,654,581

The notes on pages 23 to 33 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Operating activities		
Cash generated from operations	169,108	176,839
Tax paid	(45,719)	(59,574)
Net cash generated from operating activities	123,389	117,265
Investing activities		
Payments for the purchases of property, plant and equipment, and intangible assets	(170,073)	(87,681)
Net payments for lease rental deposits	(6,577)	—
Interest income received	19,001	24,298
Other cash inflows arising from investing activities	1,353	50
Net cash used in investing activities	(156,296)	(63,333)
Financing activities		
Proceeds from bank loan	16,652	273,840
Repayment of bank loan	(16,652)	—
Dividends paid	(267,936)	(341,671)
Interest expense paid	(19)	(499)
Capital element of lease rentals paid	(79,807)	(3,259)
Interest element of lease rentals paid	(3,872)	(67)
Net cash used in financing activities	(351,634)	(71,656)
Net decrease in cash and cash equivalents	(384,541)	(17,724)
Cash and cash equivalents at 1 January	1,738,934	1,750,609
Effect of foreign exchange rate changes	(671)	642
Cash and cash equivalents at 30 June	1,353,722	1,733,527

The notes on pages 23 to 33 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 23 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes which do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements.

The interim financial report is unaudited, but has been reviewed by the Company’s auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 17.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2020 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 18 March 2021.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group. None of those developments are relevant to the Group’s interim financial statements.

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

3. REVENUE

The principal activities of the Group are manufacturing and sale of branded menswear and related accessories in the PRC. Revenue represents the sales value of goods sold less returns, discounts and value added taxes (“VAT”).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

4. NET FINANCE INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest income	19,001	24,298
Interest on bank borrowings	(19)	(499)
Interest on lease liabilities	(3,872)	(67)
Net foreign exchange gain/(loss)	4,275	(3,893)
	19,385	19,839

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Amortisation of intangible assets	1,807	1,613
Depreciation		
— owned property, plant and equipment	36,416	13,359
— investment properties	1,713	1,909
— right-of-use assets	58,054	3,741
Short term lease rental expenses	7,946	34
Research and development costs	47,222	56,239
Subcontracting charges (Note (i))	114,197	115,330
Inventory write-down (Note 11(b))	5,174	3,380
Impairment losses on trade receivables (Note 12)	—	7,443

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

6. INCOME TAX

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax — PRC Corporate Income Tax	46,749	38,310
Deferred tax	9,008	19,285
	55,757	57,595

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and 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 six months ended 30 June 2021 and 2020.
- (iii) Taxation for the Group’s PRC subsidiaries is calculated using the income tax rates applicable to the subsidiaries. In accordance with the relevant PRC Corporate Income Tax Law, regulations and implementation guidance notes, one of the subsidiaries had been granted Advanced and New Technology Enterprise status and was entitled to a reduced income tax rate at 15% for 2021. In addition, two of the Group’s subsidiaries incorporated in the Tibet Autonomous Region of the PRC are entitled to a reduced income tax rate of 15% in 2021.
- (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. 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 since 1 January 2008.

7. EARNINGS PER SHARE

(A) BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period of RMB271,456,000 (2020: RMB268,942,000) and the weighted average number of ordinary shares in issue of 1,197,485,000 (2020: 1,197,485,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

7. EARNINGS PER SHARE (CONTINUED)

(B) DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share is based on the profit for the period of RMB271,456,000 (2020: RMB268,942,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company.

Weighted average number of ordinary shares (diluted):

	Six months ended 30 June	
	2021 '000	2020 '000
Weighted average number of ordinary shares	1,197,485	1,197,485
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	1,845	—
Weighted average number of ordinary shares (diluted)	1,199,330	1,197,485

8. PROPERTY, PLANT AND EQUIPMENT

	2021	2020
	RMB'000	RMB'000
Net book value, as at 1 January	923,727	713,892
Additions	207,816	40,087
Disposals (net carrying amount)	(1,309)	(305)
Depreciation charge for the period	(36,416)	(13,359)
Net book value, as at 30 June	1,093,818	740,315

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

9. INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
Net book value, as at 1 January	122,198	142,403
Depreciation charge for the period	(1,713)	(1,909)
Net book value, as at 30 June	120,485	140,494

Investment properties are stated at cost less accumulated depreciation and impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the shorter of the respective unexpired terms of the leases and their estimated useful lives, being no more than 40 years after the date of completion.

10. RIGHT-OF-USE ASSETS

	2021 RMB'000	2020 RMB'000
Net book value, as at 1 January	279,407	139,506
Additions	77,877	53,462
Disposals	(12,764)	—
Depreciation charge for the period	(58,054)	(3,741)
Net book value, as at 30 June	286,466	189,227

The Group's right-of-use assets contain the land use rights and properties leased for own use. The interest of land use rights in the PRC are prepaid upon acquisition. The leases related to properties are typically run for an initial period of one to five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. As at 30 June 2021, rental deposits of RMB39,446,000 (31 December 2020: RMB32,869,000) were paid for the leases, which will be held by the lessors throughout the respective lease terms.

11. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Raw materials	119,512	97,927
Work in progress	68,070	66,502
Finished goods	713,640	502,625
	901,222	667,054

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

11. INVENTORIES (CONTINUED)

(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Carrying amount of inventories sold	678,305	658,974
Write-down of inventories (Note 5)	5,174	3,380
	683,479	662,354

12. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2021 RMB'000	2020 RMB'000
Trade receivables	469,612	728,291
Less: Loss allowance	(16,597)	(16,597)
Trade receivables, net of loss allowance	453,015	711,694
Other assets in relation to refund liabilities	—	309,089
Prepayments to suppliers	34,517	1,103
Prepaid advertising expenses	39	5,658
VAT deductible	139,742	130,752
Current tax prepayment	8,429	—
Other deposits, prepayments and receivables	95,983	51,872
	731,725	1,210,168

Trade and other receivables net of loss allowance are expected to be recovered or recognised as expense within one year.

An ageing analysis of the trade receivables, based on the invoice date and net of loss allowance, is as follows:

	30 June	31 December
	2021 RMB'000	2020 RMB'000
Within 3 months	252,335	554,283
Over 3 months but within 6 months	142,770	135,979
Over 6 months but within 1 year	57,910	21,432
	453,015	711,694

The Group grants a credit period of 180 to 240 days (31 December 2020: 90 to 240 days) to its distributors.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

The movement in the loss allowance account for trade receivables during the period is as follows:

	2021 RMB'000	2020 RMB'000
As at 1 January	16,597	9,154
Impairment losses for the period (Note 5)	—	7,443
As at 30 June	16,597	16,597

The Group measures loss allowance for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix.

The Group keeps assessing the expected loss rates based on the Group's historical credit loss experience over the past years, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of the reporting period over the expected lives of the receivables.

Normally, the Group does not obtain collateral from customers.

13. PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 14). The pledged bank deposits will be released upon the settlement of the relevant bills payable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

14. TRADE AND OTHER PAYABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade payables	288,995	404,632
Bills payable	100	5,700
Trade and bills payables	289,095	410,332
Refund liabilities	—	390,000
Accrued salaries and wages	25,366	40,286
Payables for purchase of property, plant and equipment	110,742	66,563
Retirement benefit contribution payable	25,524	25,524
VAT payables	4,993	—
Other payables and accruals	110,740	103,317
	566,460	1,036,022

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. Bills payable were secured by pledged bank deposits (see note 13).

An ageing analysis of the Group's trade and bills payables based on the invoice date is as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Within 3 months	271,138	341,568
Over 3 months but within 6 months	11,205	62,668
Over 6 months but within 1 year	4,471	3,472
Over 1 year	2,281	2,624
	289,095	410,332

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

15. LEASE LIABILITIES

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period are as follows:

	At 30 June 2021		At 31 December 2020	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	57,424	59,192	62,003	66,546
After 1 year but within 2 years	46,280	49,606	42,848	44,923
After 2 years but within 5 years	16,111	18,313	19,078	19,351
	119,815	127,111	123,929	130,820
Less: Total future interest expenses		(7,296)		(6,891)
Present value of lease liabilities		119,815		123,929

16. DIVIDENDS

Dividends payable to shareholders of the Company attributable to the period:

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Declared and payable after interim period:		
Interim dividend of HK13 cents per ordinary share (2020: HK12 cents per ordinary share)	129,614	126,742
Special interim dividend of HK5 cents per ordinary share (2020: HK5 cents per ordinary share)	49,851	52,809
	179,465	179,551

The interim dividend and special interim dividend have not been recognised as liabilities as at 30 June 2021.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

16. DIVIDENDS (CONTINUED)

Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year of HK19 cents per ordinary share (2020: HK21 cents per ordinary share)	188,548	231,455
Special final dividend in respect of the previous financial year of HK8 cents per ordinary share (2020: HK10 cents per ordinary share)	79,388	110,216
	267,936	341,671

17. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has adopted a share option scheme (the "Share Option Scheme") pursuant to an ordinary resolution passed by the shareholders on 23 April 2019 for the purposes of providing incentives and rewards to eligible participants who contribute to the Group. On 3 July 2020, the Group granted options to subscribe for a total of 11,500,000 shares of the Company to its employees under the Share Option Scheme at an exercise price of HK\$4.31 per share. The options will be vested during the period from 3 July 2022 to 3 July 2024. Details of the number and weighted average exercise price of share options granted under the Share Option Scheme during the period were as follows:

	Exercise price	No. of options
Outstanding at 1 January and 30 June 2021	HK\$4.31	11,500,000
Exercisable at 30 June 2021	—	—

The share options outstanding under the Share Option Scheme at 30 June 2021 had a weighted average remaining contractual life of 9 years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

18. COMMITMENTS

As at 30 June 2021, capital commitments not provided for in the interim financial report are as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Contracted for	210,203	258,336
Authorised but not contracted for	91,822	170,119
	302,025	428,455

19. MATERIAL RELATED PARTY TRANSACTIONS

(A) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Short-term employee benefits	3,723	3,919
Contributions to defined contribution retirement benefit scheme	56	52
Share-based compensation	154	—
	3,933	3,971

(B) OTHER RELATED PARTY TRANSACTION

On 16 December 2019, the Group entered into a tenancy agreement ("Tenancy Agreement") with Jinlang (Fujian) Investments Co., Ltd ("Jinlang Fujian") for the lease of properties for a term from 1 January 2020 to 30 June 2021 at a monthly rent of RMB286,000. Jinlang Fujian is effectively 33.3%, 33.3% and 33.4% owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing respectively, who are Directors and Controlling Shareholders of the Group, and therefore is considered a related party of the Group. The Directors are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

The Tenancy Agreement was terminated on 31 March 2021 and the total rental paid or payable by the Group to Jinlang Fujian under the Tenancy Agreement amounted to RMB 858,000 for the period ended 30 June 2021.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 June 2021, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number of shares (Note 1)	Number of underlying shares (Note 1&2)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Wang Liang Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Cai Rong Hua	The Company	Beneficial owner	1,810,000 shares (L)	—	0.151%
	The Company	Settlor of a discretionary trust (Note 4)	7,200,000 shares (L)	—	0.601%
	Xiao Sheng International (Note 3)	Settlor of a discretionary trust (Note 4)	800 shares of US\$1.00 each (L)	—	8.247%

OTHER INFORMATION (CONTINUED)

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number of shares (Note 1)	Number of underlying shares (Note 1&2)	Approximate percentage of shareholding
Mr. Hu Cheng Chu	The Company	Settlor of a discretionary trust (Note 5)	4,500,000 shares (L)	—	0.376%
	Xiao Sheng International (Note 3)	Settlor of a discretionary trust (Note 5)	500 shares of US\$1.00 each (L)	—	5.155%
Mr. Pan Rong Bin	The Company	Beneficial owner	3,171,000 shares (L)	—	0.264%
	The Company	Interest of spouse	—	150,000 shares (L)	0.013%
	Xiao Sheng International (Note 3)	Beneficial owner	300 shares of US\$1.00 each (L)	—	3.093%

Notes:

- The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.
- The interests in underlying shares represent the interests in share options granted pursuant to the Company's share option scheme, details of which are set out in the paragraph below headed "Share Option Scheme".
- As at 30 June 2021, Xiao Sheng International was owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 4), 5.155% by Luxuriant Treasure Global Limited (note 5), 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- The interests of Mr. Cai Rong Hua in 7,200,000 shares of the Company and 800 shares of Xiao Sheng International is held through Jia Fa International Limited ("JFIL"). The entire issued share capital of JFIL is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai as the settlor. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.
- The interests of Mr. Hu Cheng Chu in 4,500,000 shares of the Company and 500 shares of Xiao Sheng International is held through Luxuriant Treasure Global Limited ("LTGL"). The entire issued share capital of LTGL is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an revocable discretionary trust set up by Mr. Hu as the settlor. The beneficiaries under the trust are Mr. Hu and his family members. Mr. Hu is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 30 June 2021, 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.

OTHER INFORMATION (CONTINUED)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2021, 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 of shares (Note 1)	Approximate percentage of shareholding
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.24%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	74,905,000 shares (L) (Note 3)	6.26%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) These shares were held by Xiao Sheng International. As at 30 June 2021, Xiao Sheng International was owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 4), 5.155% by Luxuriant Treasure Global Limited (note 5), 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- (3) These shares were held by Ming Lang Investments. As at 30 June 2021, Ming Lang Investments was owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 4), 5.155% by Luxuriant Treasure Global Limited (note 5), 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- (4) The entire issued share capital of Jia Fa International Limited is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai Rong Hua as the settlor. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.
- (5) The entire issued share capital of Luxuriant Treasure Global Limited is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an revocable discretionary trust set up by Mr. Hu Cheng Chu as the settlor. The beneficiaries under the trust are Mr. Hu and his family members. Mr. Hu is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 30 June 2021, 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.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”) pursuant to an ordinary resolution passed by the shareholders on 23 April 2019 for the purposes of providing incentives and rewards to eligible participants who contribute to the Group. Details of the Share Option Scheme are set out in the 2020 Annual Report of the Company.

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

Name or category of participants	As at 1 January 2021	Number of options			As at 30 June 2021	Exercise price	Date of grant	Exercise period
		Exercised	Cancelled	Lapsed				
Mr. Chen Wei Jin (note 1(a))	433,000	—	—	—	433,000	HK\$4.31	3 July 2020	Note 2(a)
Mr. Wang Jun Hong (note 1(b))	350,000	—	—	—	350,000	HK\$4.31	3 July 2020	Note 2(b)
Mr. Wang Zhi Yong (note 1(c))	350,000	—	—	—	350,000	HK\$4.31	3 July 2020	Note 2(b)
Ms. Chen Zhi Mei (note 1(d))	150,000	—	—	—	150,000	HK\$4.31	3 July 2020	Note 2(b)
Employees	10,217,000	—	—	—	10,217,000	HK\$4.31	3 July 2020	Note 2(c)
	11,500,000	—	—	—	11,500,000			

Notes:

- 1 Options granted to associates (as defined in the Listing Rules):
 - a. Mr. Chen Wei Jin, the head of the group ordering department of the Group, is the brother-in-law of Mr. Wang Dong Xing, an executive Director and a controlling shareholder of the Company.
 - b. Mr. Wang Jun Hong, a president of the product planning department of the Group, is the son of Mr. Wang Dong Xing.
 - c. Mr. Wang Zhi Yong, a vice president of the sales and marketing department of the Group, is the son of Mr. Wang Liang Xing, an executive Director and a controlling shareholder of the Company.
 - d. Ms. Chen Zhi Mei, the assistant to the head of the sales and marketing department of the Group, is the wife of Mr. Pan Rong Bin, an executive Director of the Company.

OTHER INFORMATION (CONTINUED)

2 Exercisable periods of options:

- a. The options are exercisable by the grantee during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 129,000 options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 259,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), 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.
- b. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 30% of the options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 60% of the options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), 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.
- c. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of two year period after the date of grant and ending on the day falling ten years after the date of grant, during which, (a) up to 3,033,000 options granted may be exercised on or prior to the end of the third year after the date of grant; (b) subject to (a), up to 6,113,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; 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.

CORPORATE GOVERNANCE

The Company had complied with all code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2021.

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, who confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2021.

REVIEW OF INTERIM RESULTS

The Audit Committee comprises three independent non-executive Directors. The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The interim results of the Group for the six months ended 30 June 2021 have not been audited but they have been reviewed by KPMG, the auditor of the Company, and the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements to the proposed interim dividend and special interim dividend, the register of members will be closed from Thursday, 9 September 2021 to Friday, 10 September 2021 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend and special interim dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 8 September 2021 for registration.

APPRECIATION

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

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

By Order of the Board
WANG DONG XING
Chairman

Hong Kong, 23 August 2021

OTHER INFORMATION (CONTINUED)

BOARD

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

SHARE INFORMATION

Listing date: 25 September 2009
Board lot size: 1,000 shares
Number of shares in issue: 1,197,484,919 shares (as at 30 June 2021)

IR CONTACT

IF YOU HAVE ANY INQUIRIES, PLEASE CONTACT:

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