

LILANZ 利郎

CHINA LILANG LIMITED

中國利郎有限公司

Stock Code:1234

Interim Results 2014

August 2014



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Agenda

Interim Results Highlights

Financial Review

Business and Operational Review

Prospect and Strategies

Open Forum



Interim Results Highlights

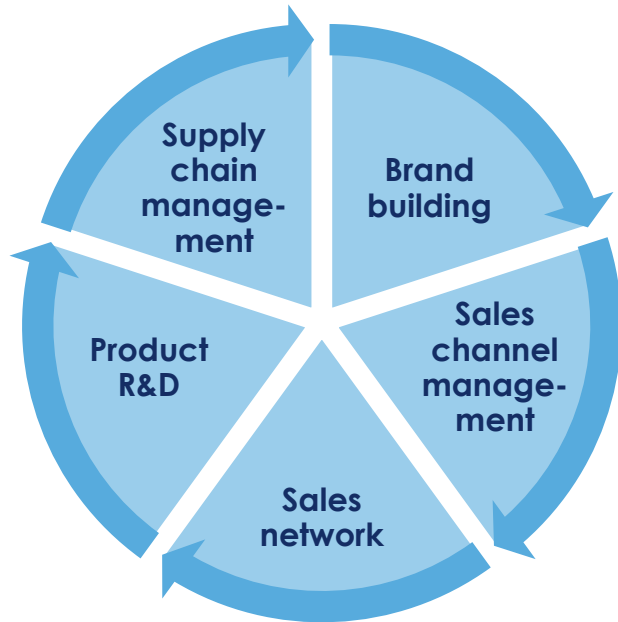


Outperformed Other Industry Players

PRC menswear industry showed no obvious improvement

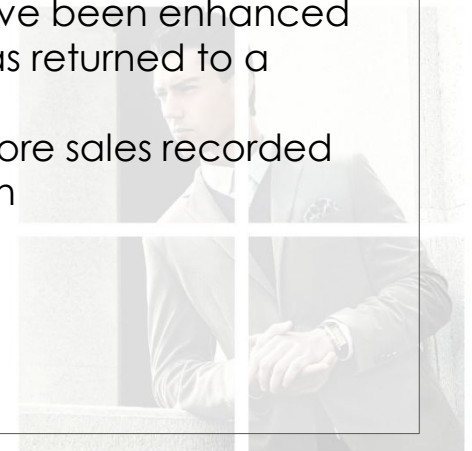
- Channel inventory of the industry improving slowly
- Industry's aggressive retail discounts and store realignment continue
- Industry's issue of product homogeneity remains serious

China Lilang outperformed other industry players



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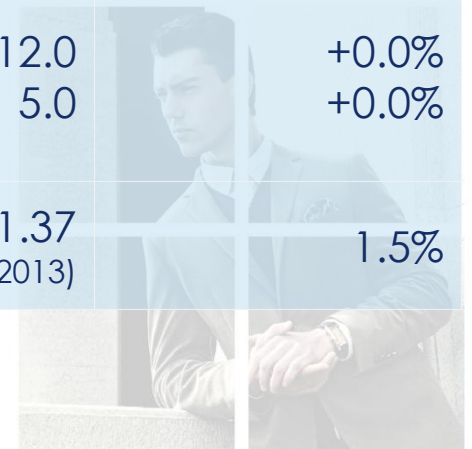
- **The strategy of “improving product quality without raising the price” is effective**
- Product differentiation and the proportion of original designs have been enhanced
- Channel inventory has returned to a healthy level
- The average same-store sales recorded low single digit growth



2014 Interim Results Financial Highlights

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(RMB million)	1H2014	1H2013	Change
Turnover	1,090.5	1,092.5	-0.2%
Gross profit % of Turnover	445.8 40.9	436.7 40.0	+2.1% +0.9p.p.
Profit from operations % of Turnover	295.0 27.1	275.0 25.2	+7.3% +1.9p.p.
Net Profit % of Turnover	248.1 22.7	242.3 22.2	+2.4% +0.5 p.p.
Dividend per share Interim(HK cents) Special interim(HK cents)	12.0 5.0	12.0 5.0	+0.0% +0.0%
Net cash per share (RMB)	1.39	1.37 (As at the end of 2013)	1.5%



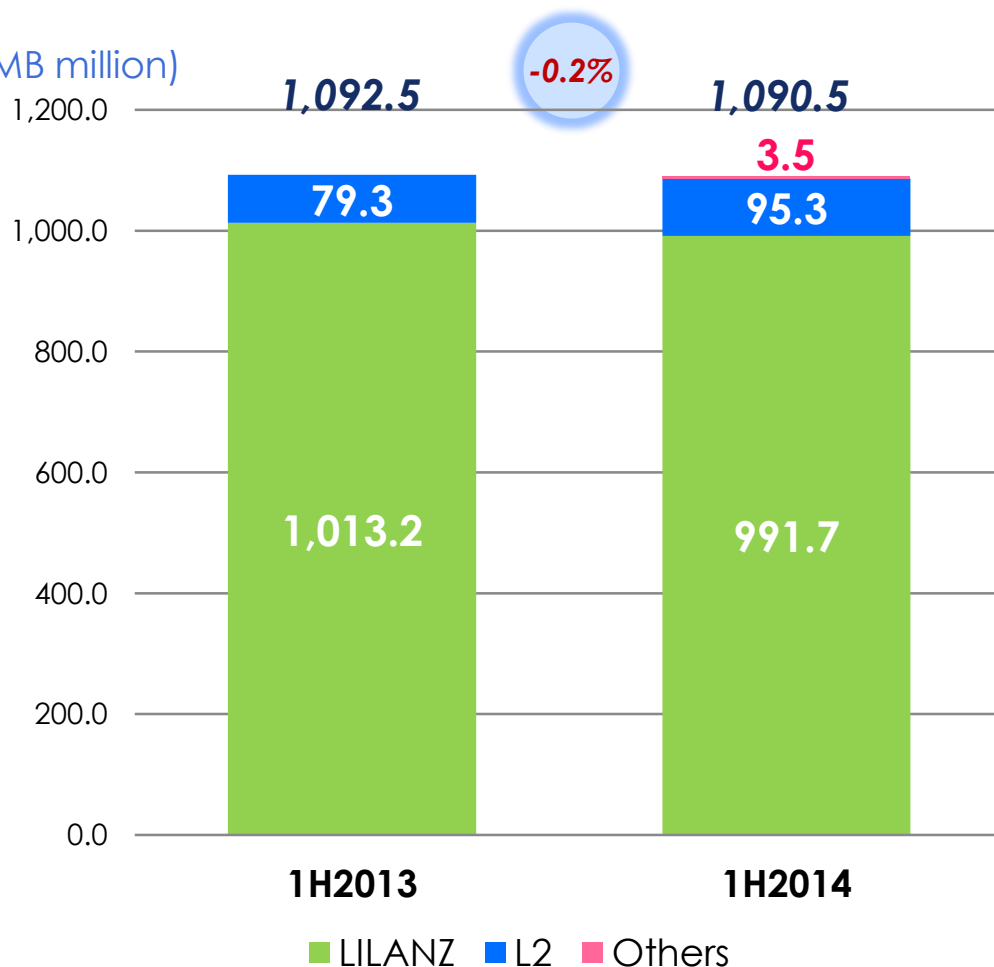
Financial Review



Turnover Analysis

Total Turnover & Turnover By Brand

(RMB million)

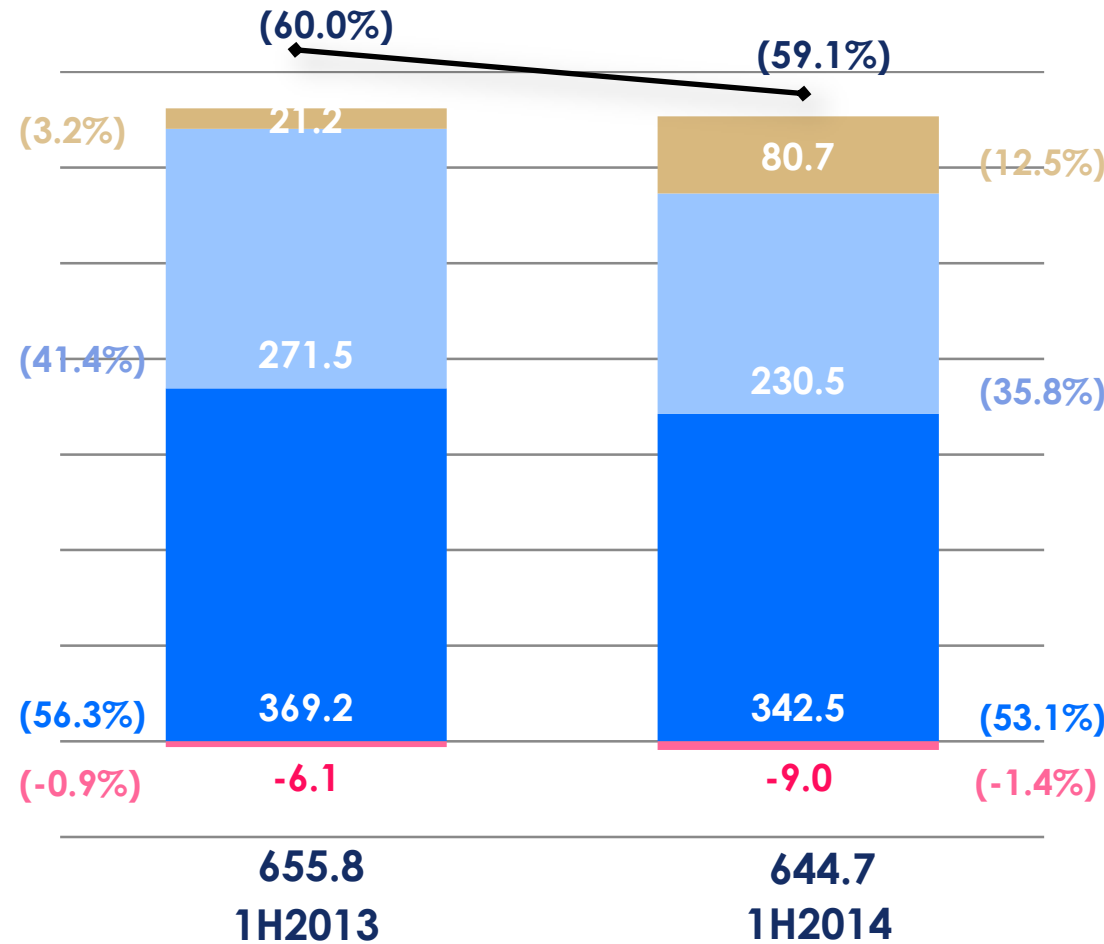


Turnover change due to:

1. Weak retail market
2. ASP decline as the Group implements its strategy of “improving product quality without raising the price” and shares the fruit of its cost-saving measures with the consumers
 - ASP of spring/summer products :
 - **LILANZ** - mid-single digit percentage decline
 - **L2** - low-single digit percentage increase
 - ASP of fall collections:
 - **LILANZ, L2** - largely flat
3. Sales of **LILANZ** and **L2** accounted for approximately 90.9% and 8.7% respectively of the total turnover

Cost of goods sold

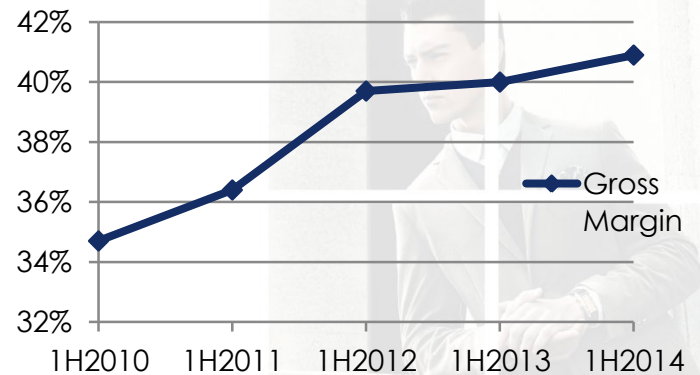
(RMB million)



■ OEM purchases ■ Other self-production costs
■ Process outsourcing costs ■ Inventory write-off
↔ As % of COGS () As % of COGS

Gross profit margin increased by 0.9 p.p. to 40.9% from 40.0% for 1H2013, due to:

- Stable raw materials prices
- Increased proportion of original products:
 - Cost of self production, including process outsourcing, up by 3.7 pp to 48.3% of total cost of sales
 - Increased R&D costs by 20.6% to RMB35.4 million to enhance product originality

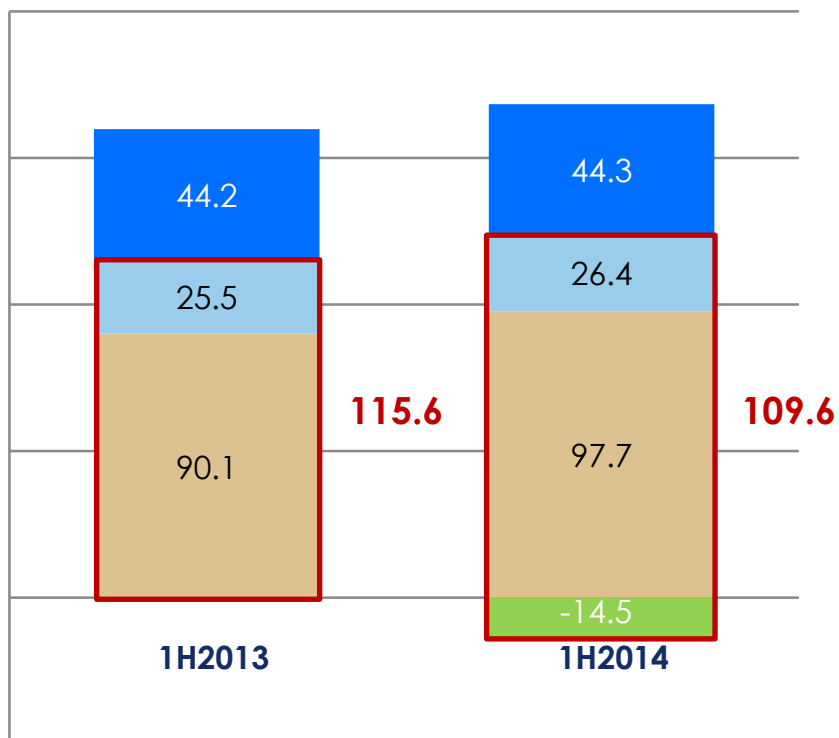


SD&A Expenses

SD&A Expenses

Total Amount

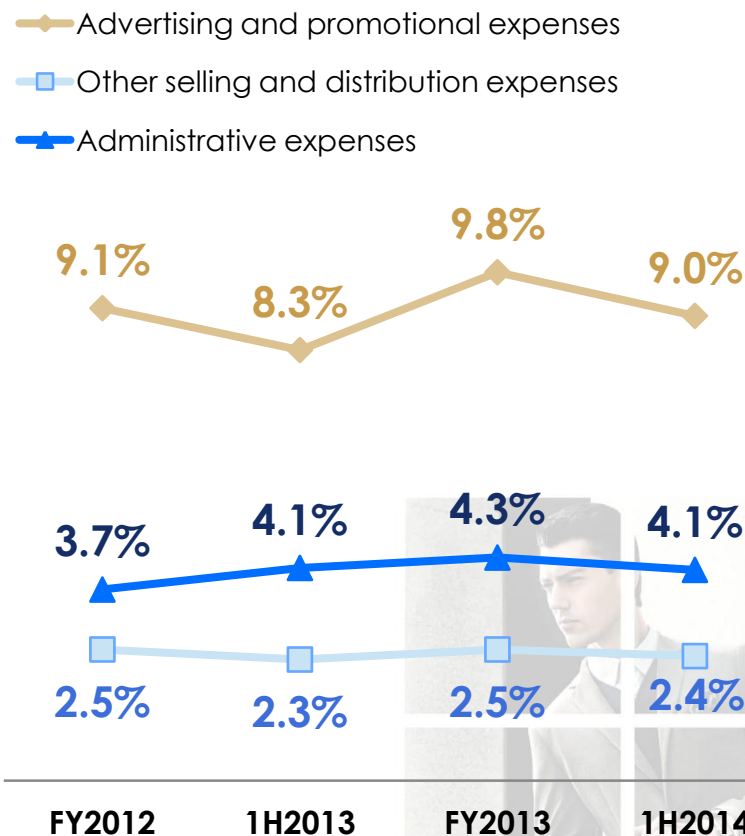
(RMB million)



- Advertising and promotional expenses
- Other selling and distribution expenses
- Administrative expenses
- AR provision
- Total Selling and Distribution expenses

SD&A Expenses

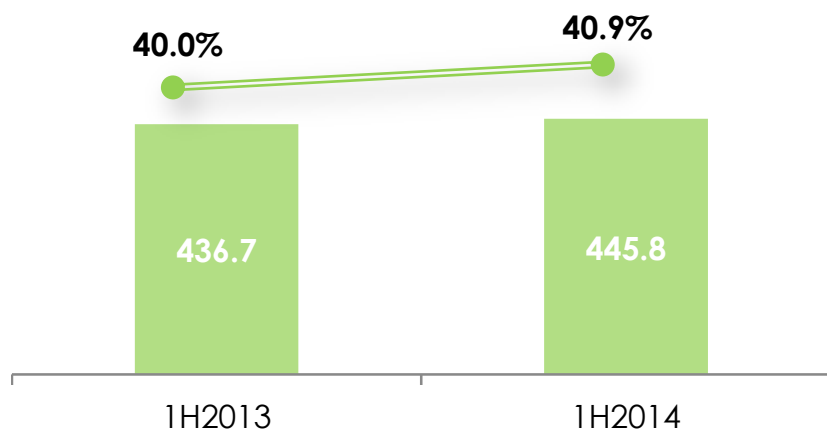
As % of Turnover



Increased Profit and Margins

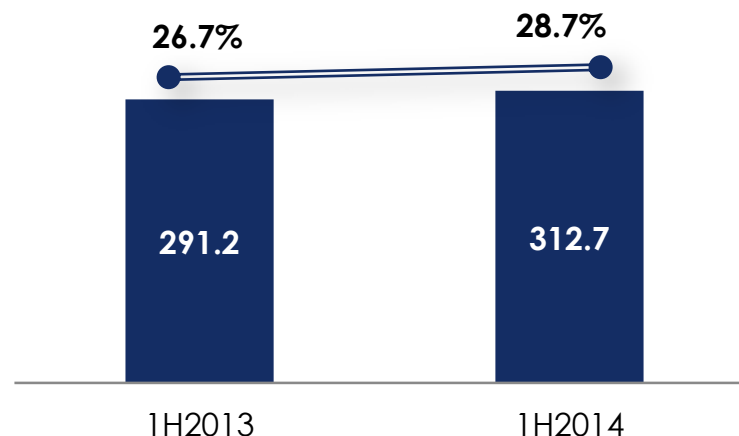
Gross Profit & Gross Margin

(Unit: RMB million)



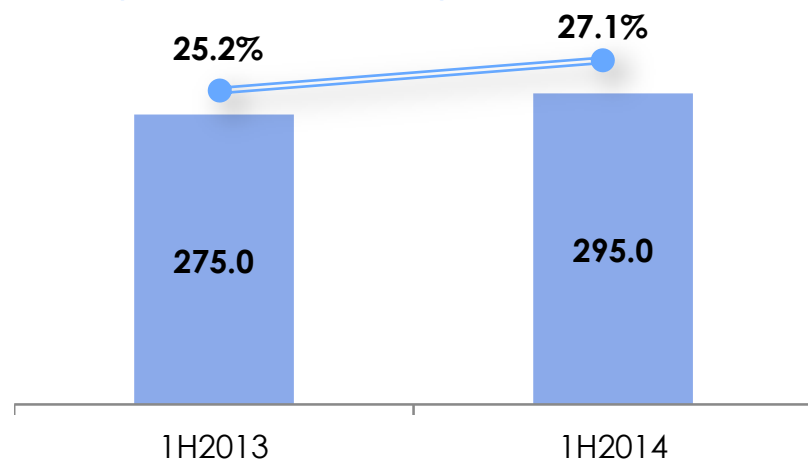
EBITDA & EBITDA Margin

(Unit: RMB million)



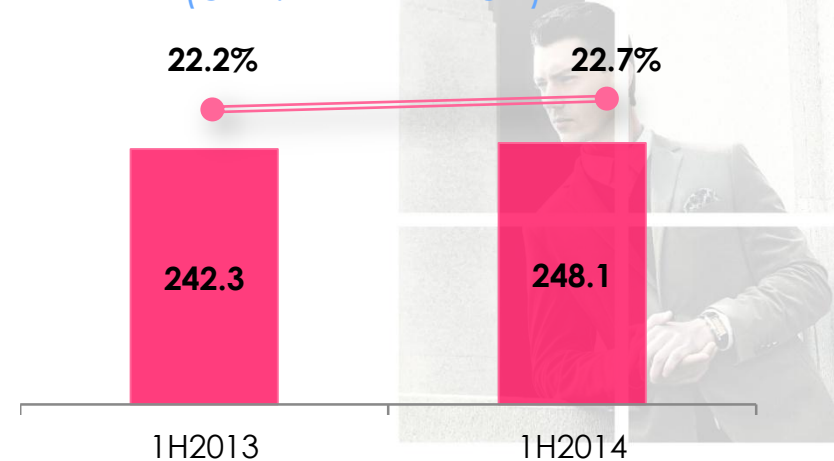
Operating Profit & Operating Margin

(Unit: RMB million)



Net Profit & Net Margin

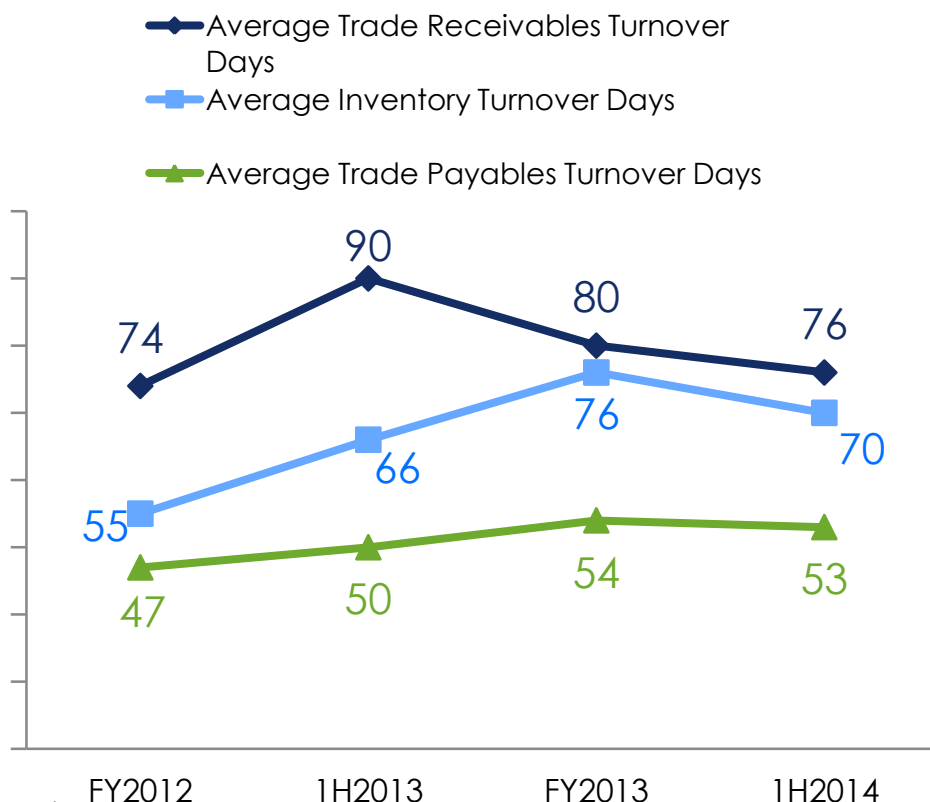
(Unit: RMB million)



Working Capital Cycle

Turnover Days

(Unit: Days)



Remarks:

- Average trade receivables turnover days is equal to the average of the beginning and closing trade receivables balance divided by the turnover (including value-added tax) and multiplied by the number of days in the period.
- Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by the cost of sales and multiplied by the number of days in the period.
- Average trade payables turnover days is equal to the average of the beginning and closing trade and trade bills payables balance divided by cost of sales and multiplied by the number of days in the period.

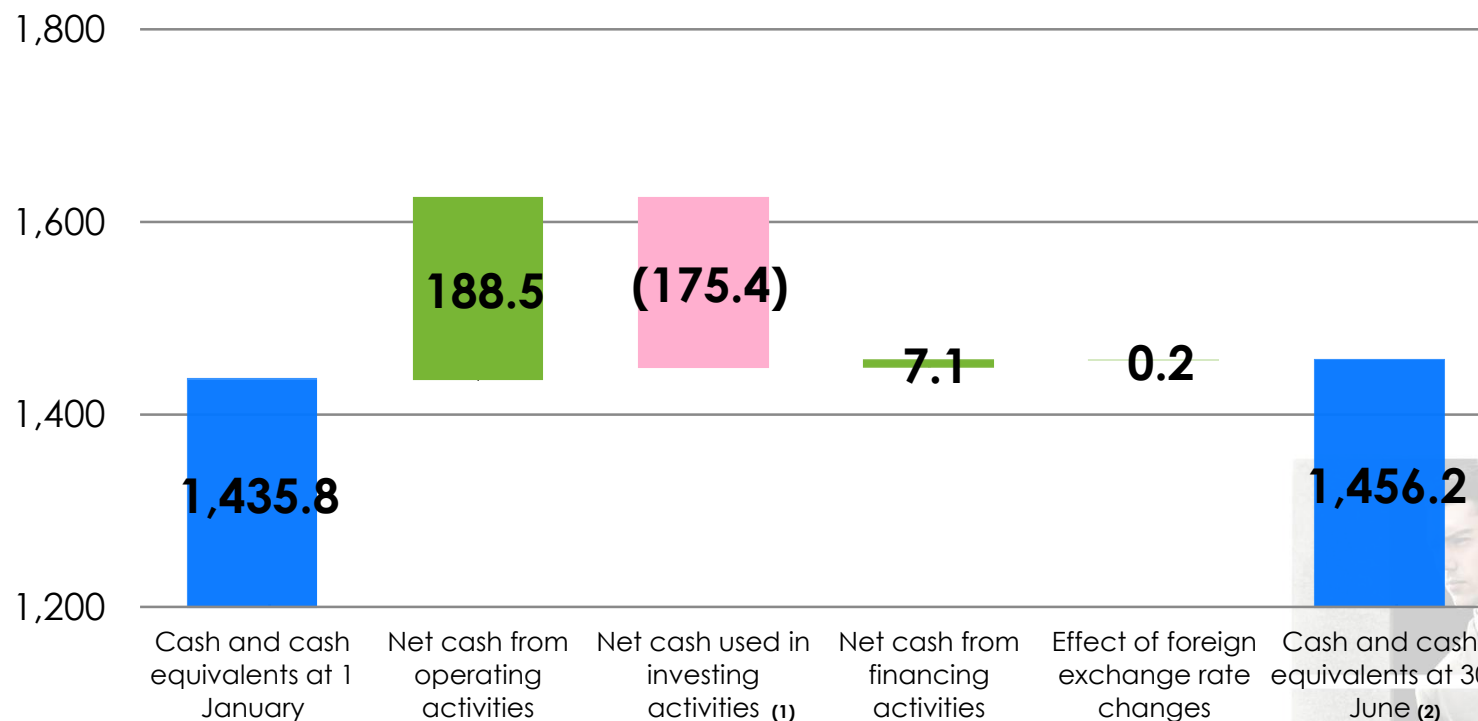
Notes

- **Trade Receivables Turnover Days**
 - Average turnover days improved
 - Turnover days based on period end balance was 82 days, similar to June 2013
 - Balance increased over the period by RMB80.0 million as trade credit extended over peak delivery period from June to September as in previous years
 - Balance reduced by RMB12.6 million compared to 30 June 2013
 - Full provision for overdue balance of RMB10.1 million
 - Provision wrote back of RMB14.5 million for the period
- **Inventory Turnover Days**
 - Period end inventories mainly represented raw materials and products for 2014 autumn and winter collections
- **Trade Payables Turnover Days**
 - Average turnover days at 53 days, similar to 2013.

Cash Flow Statement

Cash and cash equivalents

(RMB million)



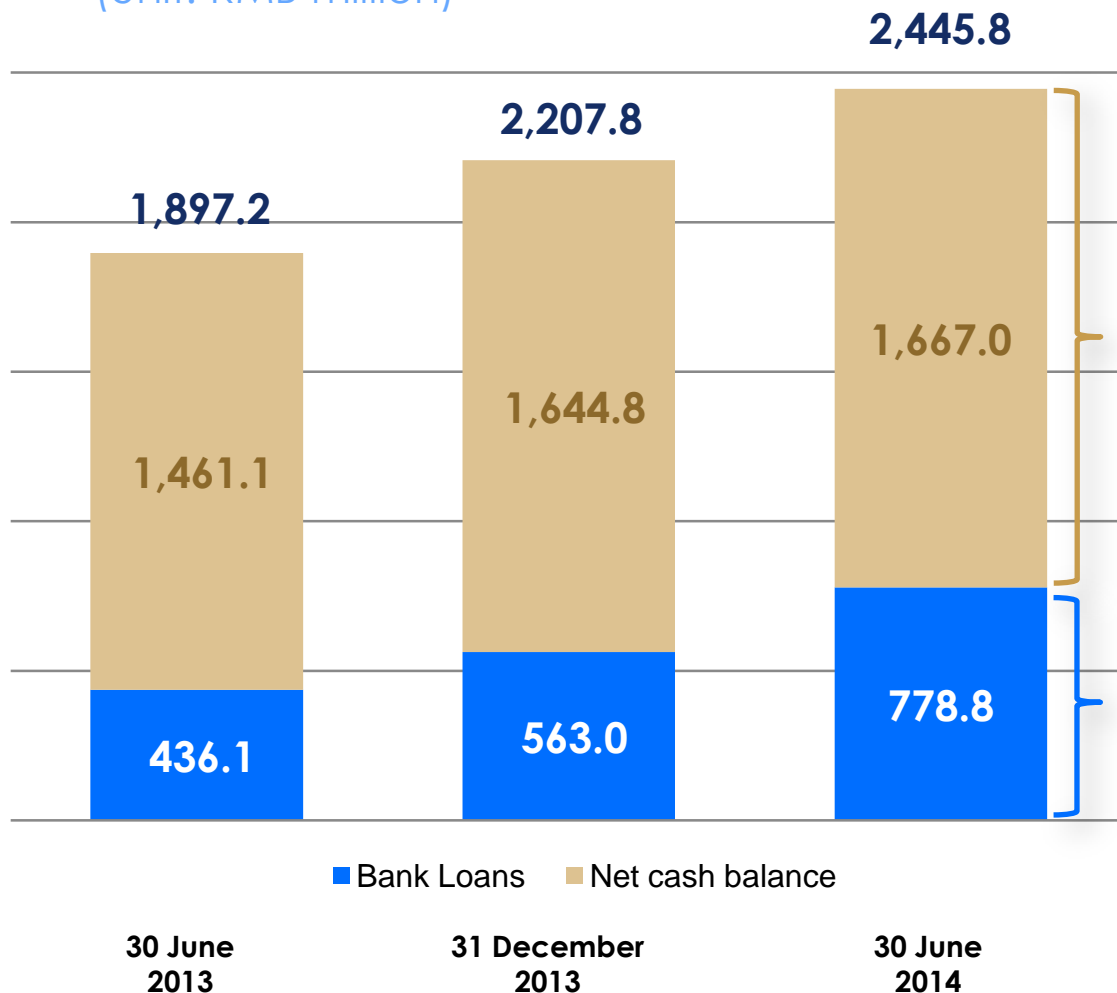
(1) Included placements of time deposits and pledged bank deposits with maturity over 3 months

(2) Excluded fixed deposits held at banks with maturity over 3 months and bank deposits pledged as security for bank loans.

Healthy and Strong Cash Position

Total Cash and Bank Balance

(Unit: RMB million)



Cash position remained healthy and strong:
Net cash balance of RMB1.67 billion, up from RMB1.64 billion at the end of 2013

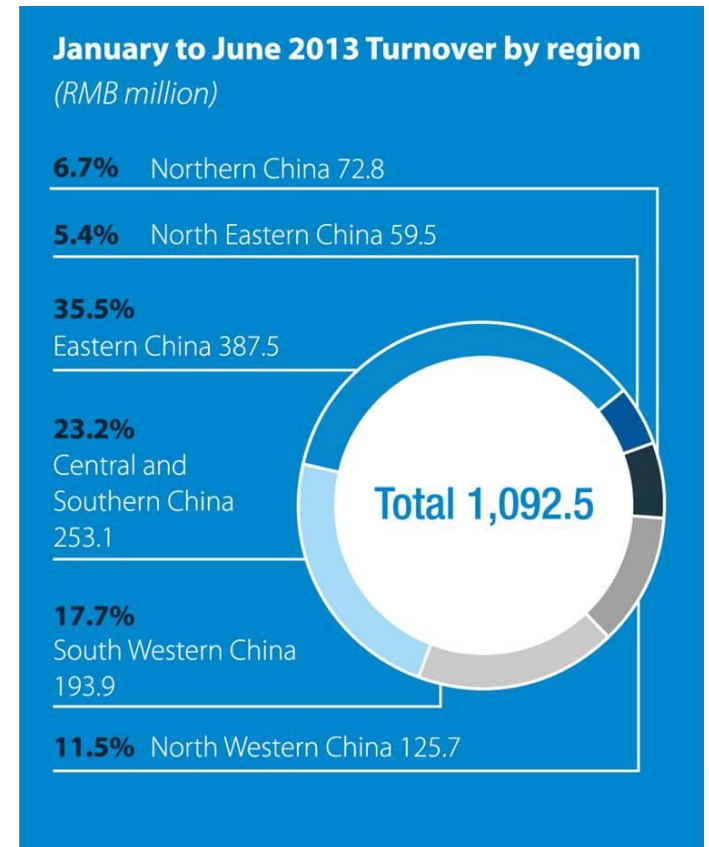
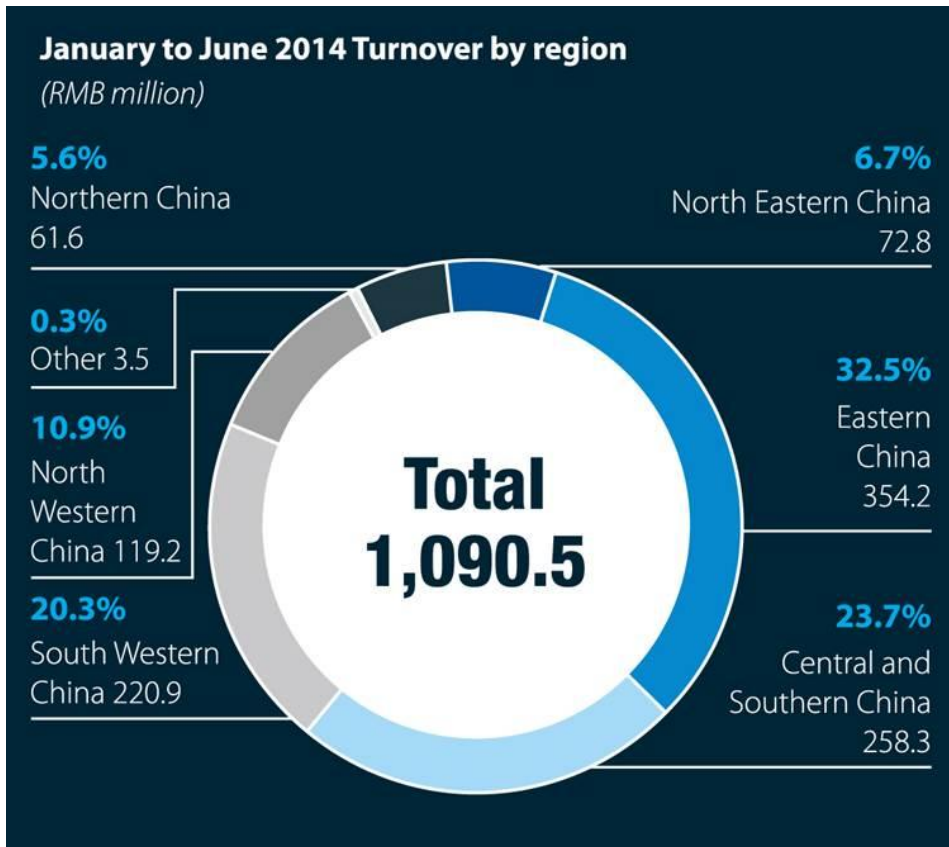


Fully secured by pledged bank deposits

Business & Operational Review



Nationwide Distribution Network



Group store's count	2014 Jun 30	2014 Jan 1	Change
Eastern China	952	1,011	-59
Central and southern China	791	806	-15
South Western China	651	656	-5
North Eastern China	334	367	-33
Northern China	313	330	-17
North Western China	274	285	-11
Total store count	3,315	3,455	-140

	No. of stores renovated
2012	280
2013	750
2014	700-800 (target)
2015	300-400 (target)

Sales Channel Management

Brand	LILANZ	L2	Total
Total no. of retail stores	3,022	293	3,315
Total area of retail stores (sq.m.)	345,000	32,100	377,100
Change	-4.2%	+8.8%	-3.2%



Paying close attention to the potential of e-business channel

- Current online sales market in China is still mainly focused on discount sales with relatively low profitability for the vendors
- Except for out-of-the-season products, Lilanz and L2 products and prices offered on the online sales platforms are the same as those in the brick-and-mortar stores.

Sales Channel Management

- Monitor sales channel through the ERP system connecting to all stand-alone stores
- Encourage distributors to clear old inventories through:
 - Operating discount stores prior to store renovation
 - Setting up temporary promotion counters in department stores

Enhancing the management skills and efficiency of distributors

- Provide training for management teams of distributors in the second half of 2014.
- Training will cover the upgrade and planning of distribution channels and the planning for the transformation from wholesale to retailing for brands .

Product Design and Development

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Provide more diverse products to target consumers

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- International R & D team headed by a group of designers from abroad set up in 2013:
 - Bring in new ideas by adding innovative and international taste and elements to the brand's fashionable yet simple product style and designs
 - A newly recruited accessory designer has been added in the first half of 2014
 - Local design team blended new design ideas with knowledge on local market under the leadership of the chief designer from abroad, produces better product designs

L2

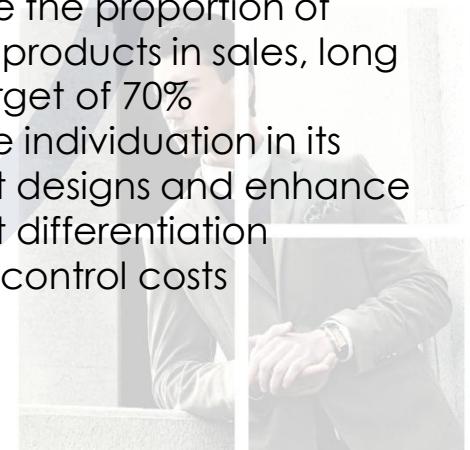
- The restructuring of product line completed in 2013
- now mainly focuses on trendy casual wear which better suits the needs of target consumers.

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Enhance competitiveness

- Increase the proportion of original products in sales, long term target of 70%
- Promote individuation in its product designs and enhance product differentiation
- Help to control costs



Marketing and Promotion

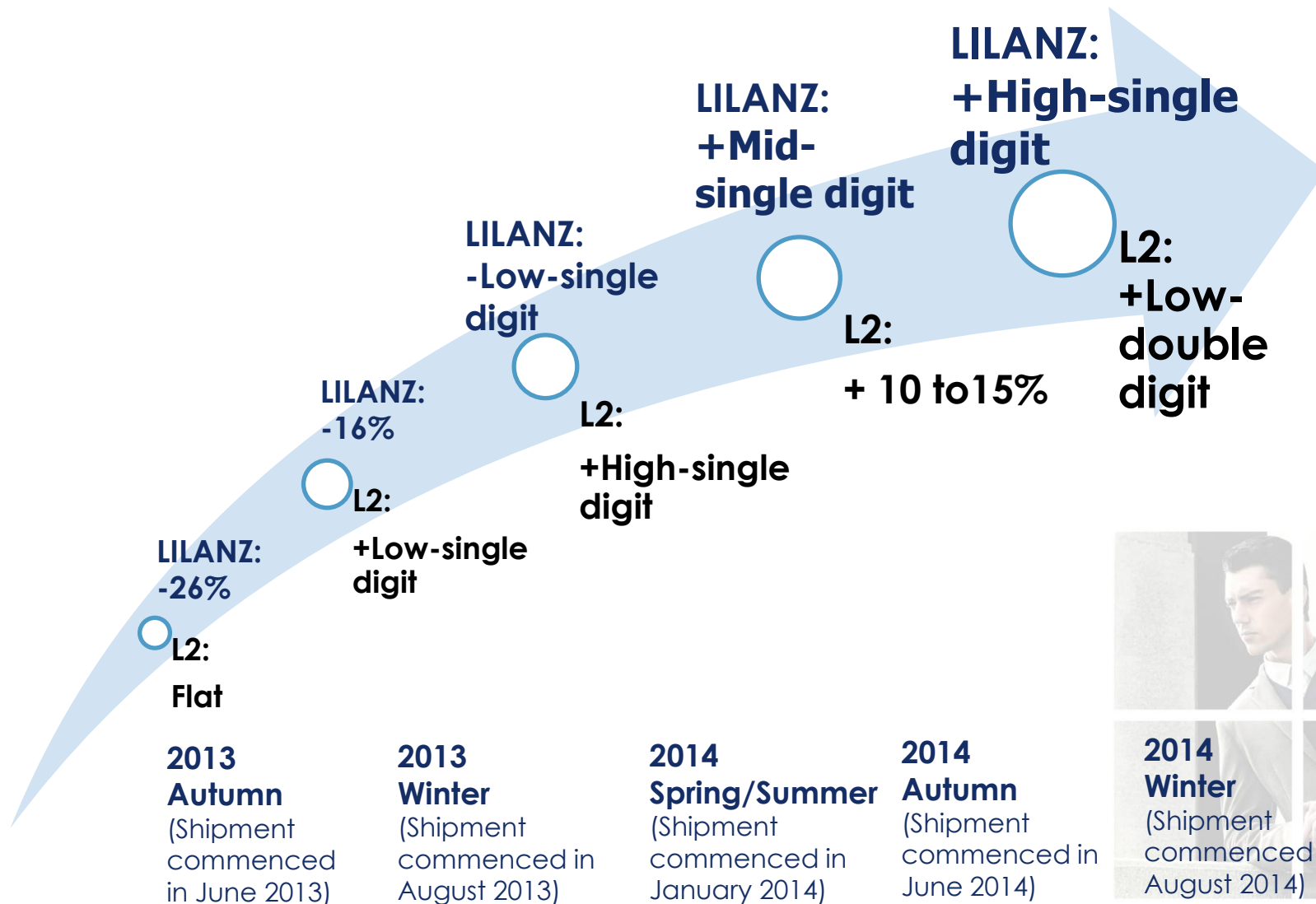
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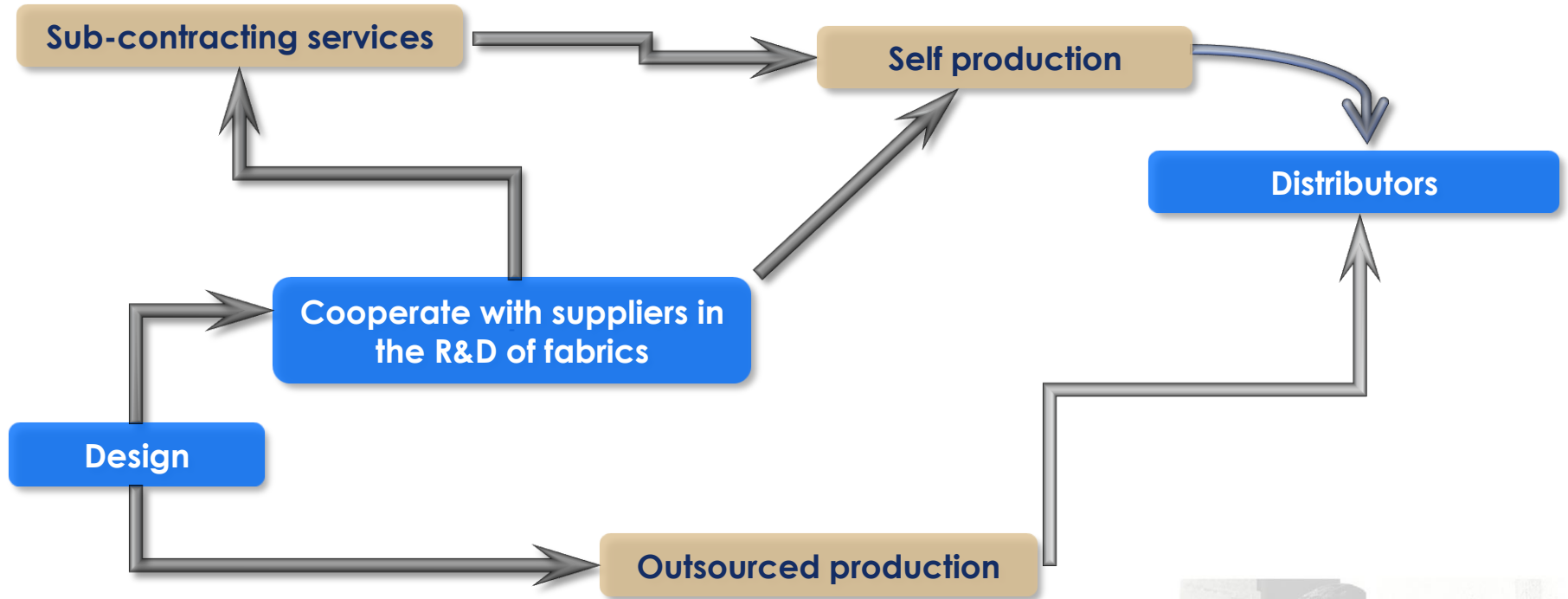
- A micro film, starring Chen Dao Ming, the spokesperson of **LILANZ** was made and is planned to be officially broadcasted in September or October this year both online and on television
- Placing soft-sell advertisements in magazines and newspapers
- Setting up billboards in a dozen of airports in China and the airport in Bangkok, Thailand



Trade Fair Results



Production and Supply Chain



- Continued to improve its supply chain management and identify more cost-efficient fabric suppliers and processing plants
- Shared the benefits of its improved supply chain management with consumers



Prospect and Strategies



Enhance core competitiveness

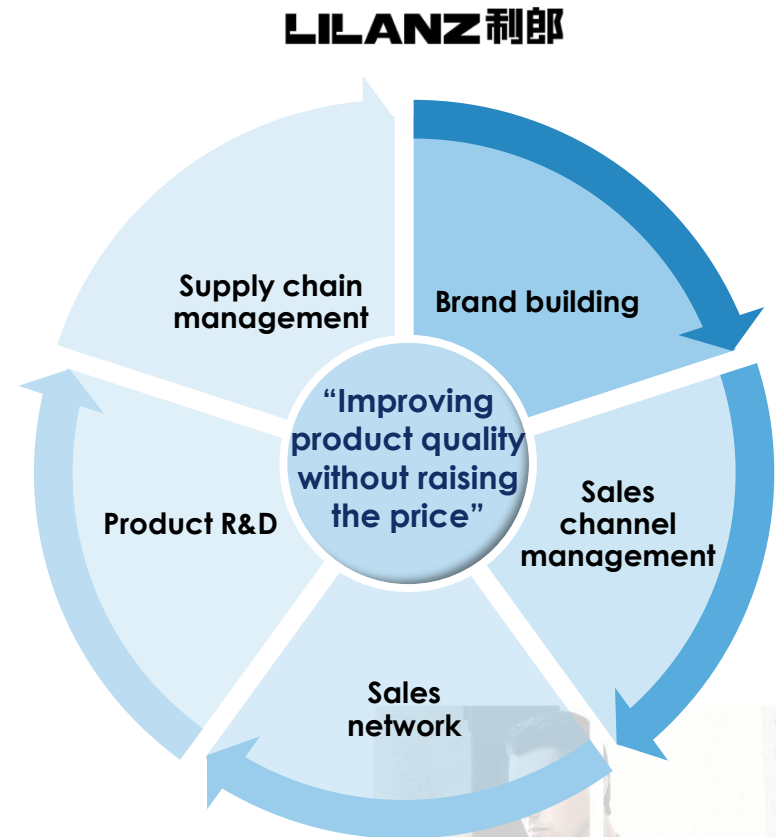
- Continue with the policy of **“improving product quality without raising the price”** and enhance products' value for money
- Increase proportion of original products in sales and enhance product differentiation

Increase market share

- Continue to leverage its brand equity, capitalize on opportunities that arise from industry's restructuring, further consolidate and increase market share

Realign retail network

- Continue to realign “LILANZ” stores of low efficiency and maintain a conservative approach to new store openings for FY2014
- Expand the “L2” retail network with a net increase of 20-30 stores in FY2014
- Renovate 700-800 “LILANZ” stores for FY2014



We are cautiously optimistic about the prospects for the second half of the year, expecting continuous growth at 2015 Spring/Summer Trade Fair, and low-to-mid-single digit SSS growth

Open Forum

