



2013
ANNUAL
RESULTS

LILANZ 利郎

CHINA LILANG LIMITED
中國利郎有限公司

March 2014



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AR2013 Results Summary

(RMB million)

	FY2013	FY2012	Change
Turnover	2,298.6	2,793.4	-17.7%
Gross profit	979.8	1,124.0	-12.8%
% of Turnover	42.6	40.2	+2.4p.p.
Operating Profit	582.0	709.4	-18.0%
% of Turnover	25.3	25.4	-0.1p.p.
Net Profit	516.1	626.8	-17.7%
% of Turnover	22.5	22.4	+0.1p.p.
Dividend per share			
Final (HK cents)	16.0	19.0	-15.8%
Special Final (HK cents)	5.0	6.0	-16.7%
Operating cash inflow	655.1	557.6	+17.5%
Net cash per share (RMB)	1.37	1.14	+20.2%

Highlights

- Turnover down to RMB2,298.6 million
- Gross margin rose to 42.6% as inventory write-down significantly reduced
- Net profit dropped to RMB516.1 million
- Net margin stable at 22.5%
- Maintain high dividend payout, at 69.1% for the full year
- Cash position stays healthy despite difficult business environment





Prudent Operation Strategy



OPERATIONAL EFFICIENCY IMPROVEMENTS in 2013

- More healthy channel inventory status
- Narrowing retail discount with positive SSSG
- Improved quality and value-for-money of its products without raising the prices (提質不提價) with better supply chain management



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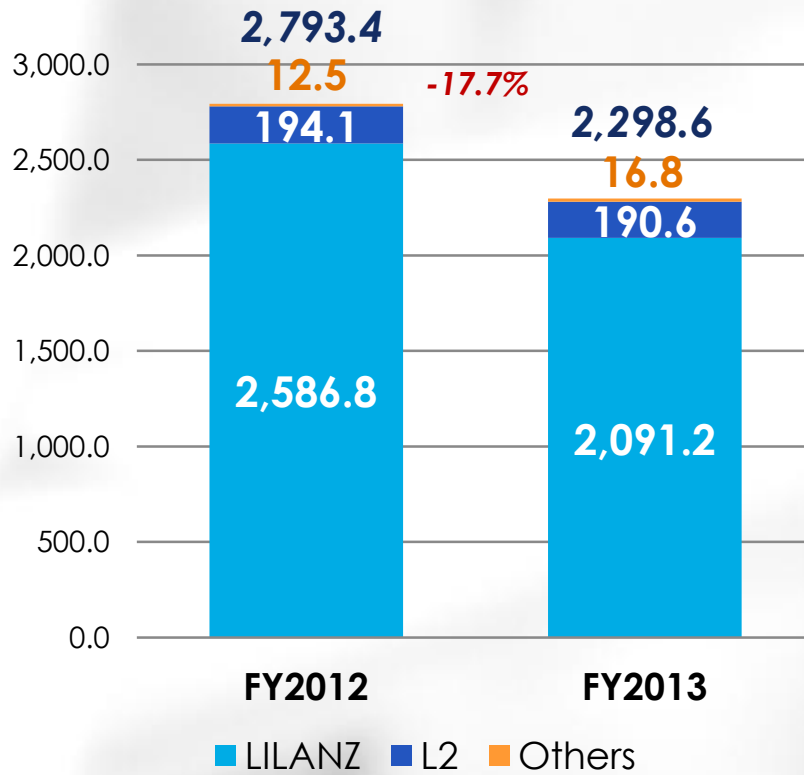
FINANCIAL REVIEW



Turnover Analysis

Total Turnover & Turnover By Brands

(RMB million)



Turnover decline

1. Sluggish performance in retail sales
2. Limit orders to destock channel inventory
3. Larger proportion of fall/winter collections in the channel inventories from previous years made the impact of the destocking process more pronounced in 2HFY2013

	LILANZ	L2
2013 Spring/Summer	-9%	+17%
2013 Autumn	-26%	Flat
2013 Winter	-16%	+ low single digit
1H2013	-14.0%	-2.1%
FY2013	-19.2%	-1.8%

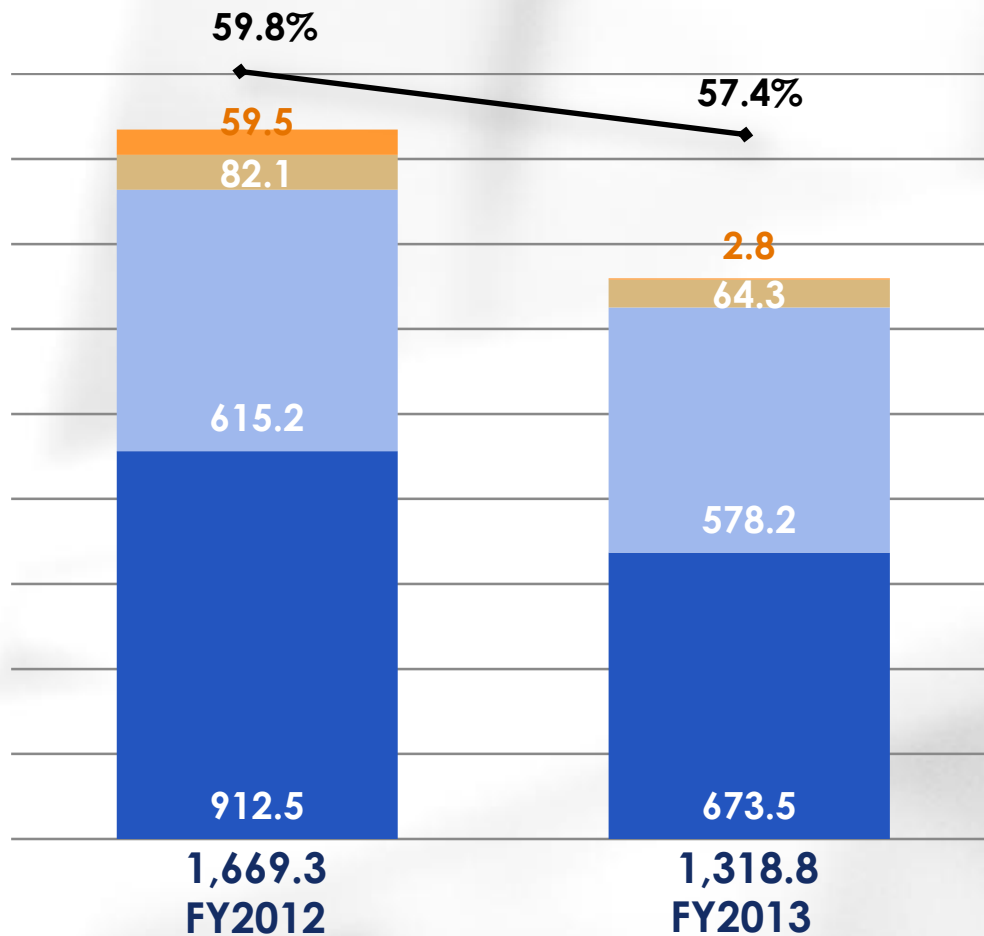
4. **LILANZ** and **L2** respectively accounted for 91.0% and 8.3% of total turnover





Cost of Goods Sold

(RMB million)

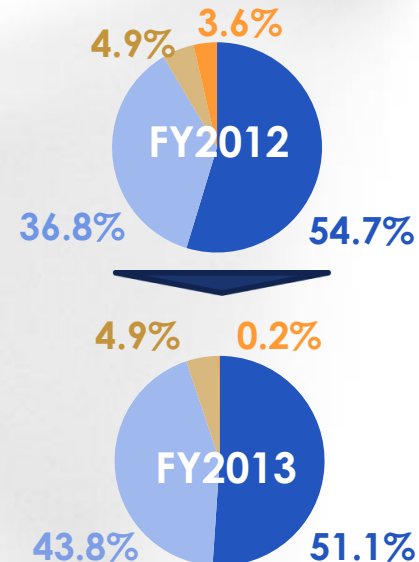


- OEM purchases
- Other self-production costs
- Process outsourcing charges
- Inventory write-off
- ↔ As % of turnover

Drop in COGS:

- Turnover declined
- Inventory write-down significantly reduced
- Better cost control due to:
 - Stable raw material costs
 - Production outsourced to larger and more cost-efficient factories
- Increased R&D costs by 42.2% to RMB 67.4 million to enhance product originality and value for money

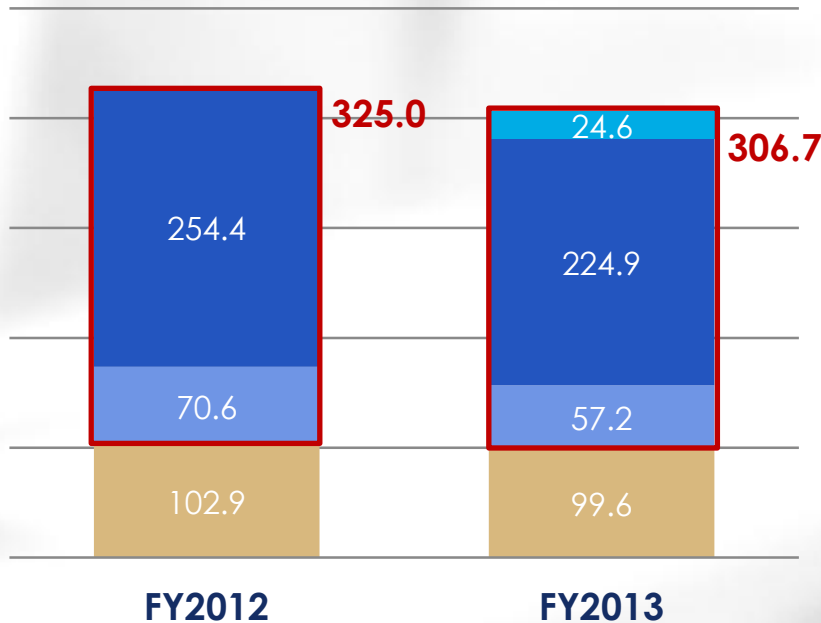
Cost as percentage of COGS





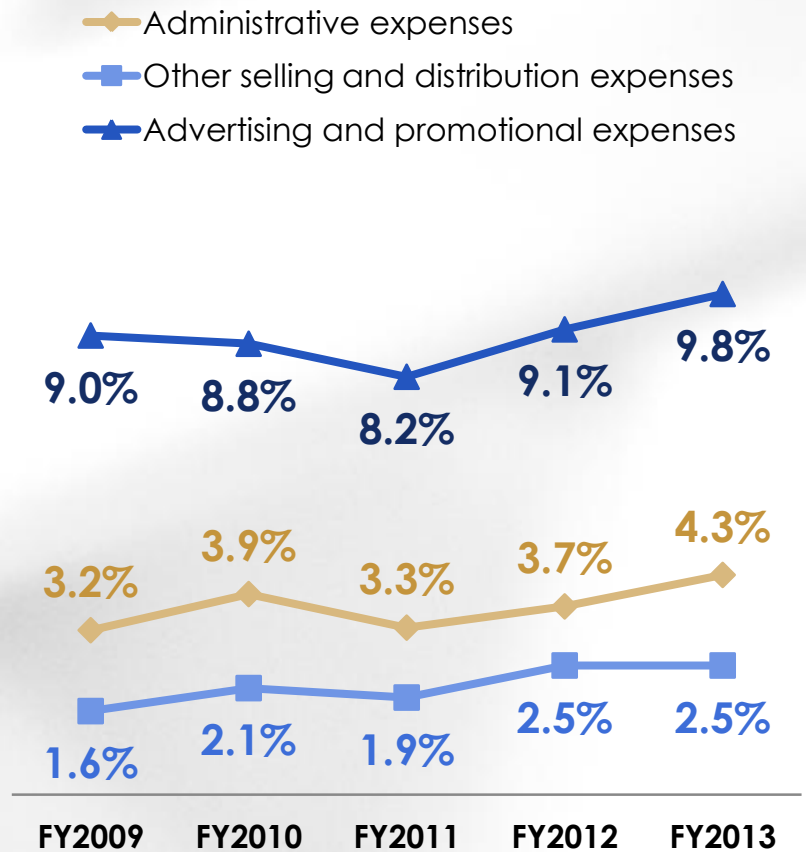
SD&A Expenses

SD&A Expenses Total Amount



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

SD&A Expenses As % of Turnover

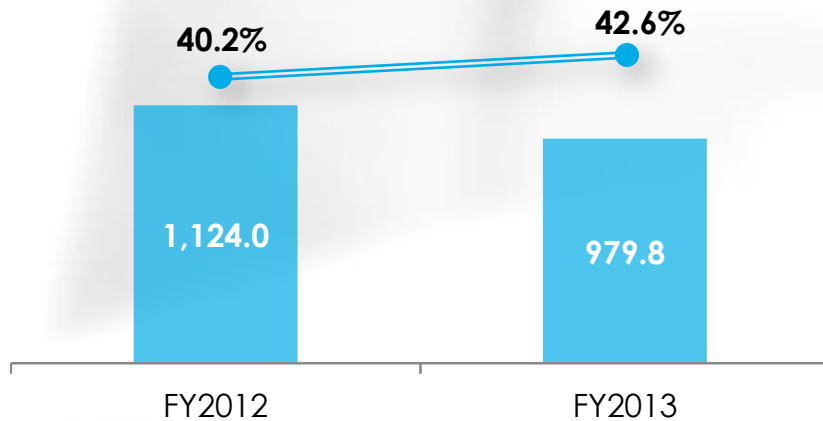




Profit and Margins

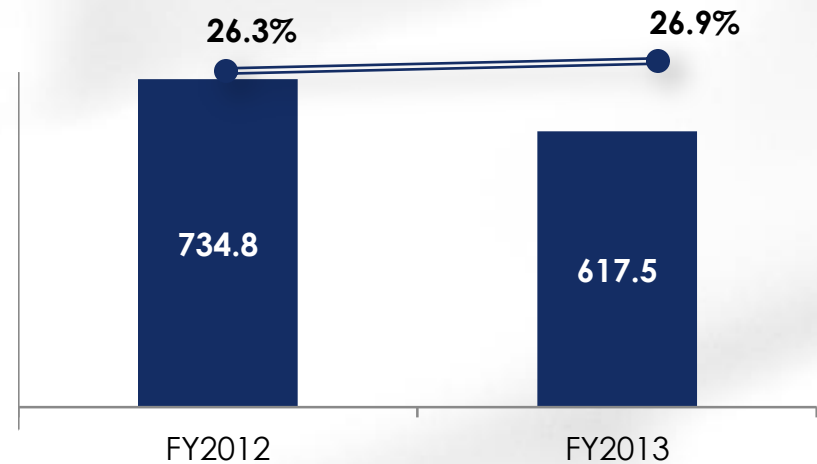
Gross Profit & Gross margin

(Unit: RMB million)



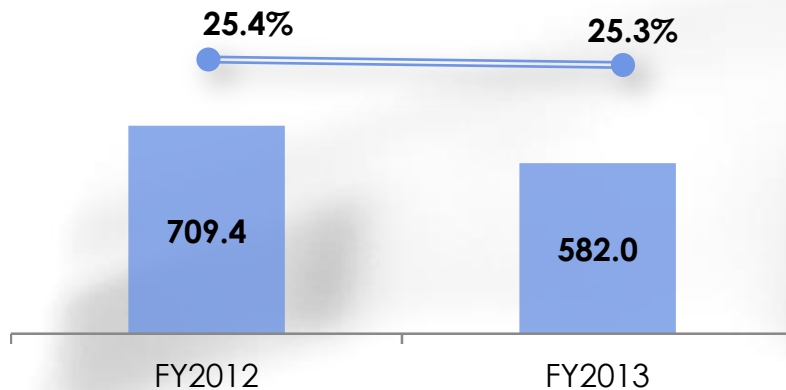
EBITDA & EBITDA margin

(Unit: RMB million)



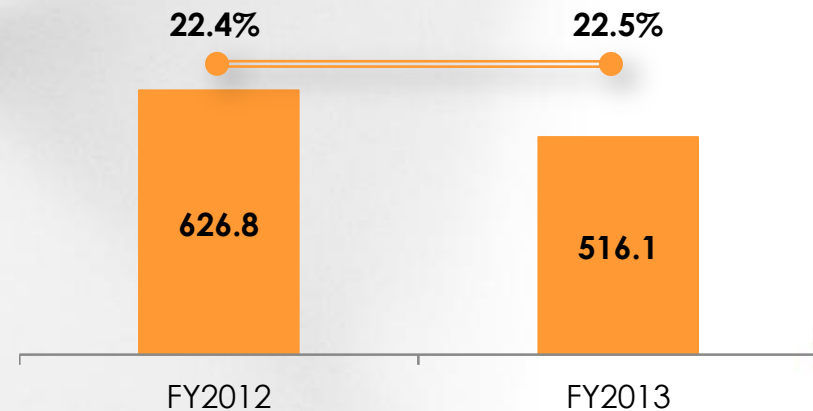
Operating Profit & Operating margin

(Unit: RMB million)



Net Profit & Net margin

(Unit: RMB million)

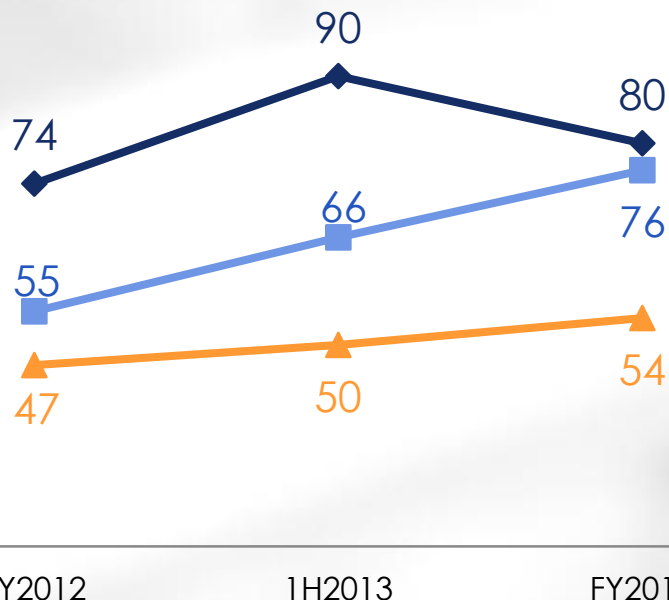




Working Capital Cycle

Turnover Days (Unit: Days)

- ◆ Average Trade Receivables Turnover Days
- Average Inventory Turnover Days
- ▲ Average Trade Payables Turnover 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 year.
- 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 year.
- 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 year.

Notes

- **Trade Receivables Turnover Days**
The turnover days based on the year-end balance improved by 10 days to 67 days.
- **Inventory Turnover Days**
Inventory balance decreased by RMB9.2 million (3.3%) as orders and productions for the 2014 spring and summer collections dropped.
- **Trade Payables Turnover Days**
Trade Payable balance decreased by RMB22.0 million (10.7%) as orders for 2013 winter and 2014 spring and summer collections dropped.

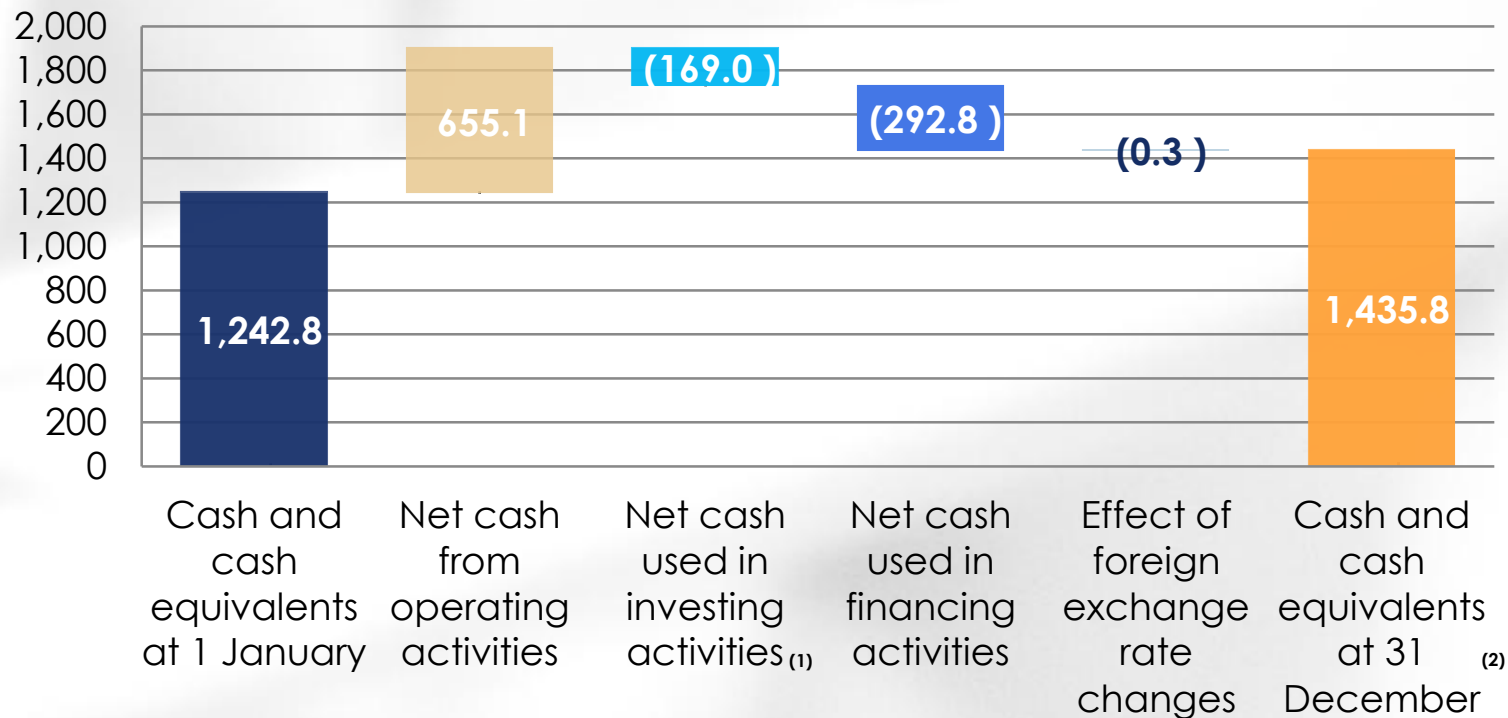




Cash Flow Statement

Cash and cash equivalents

(RMB million)



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

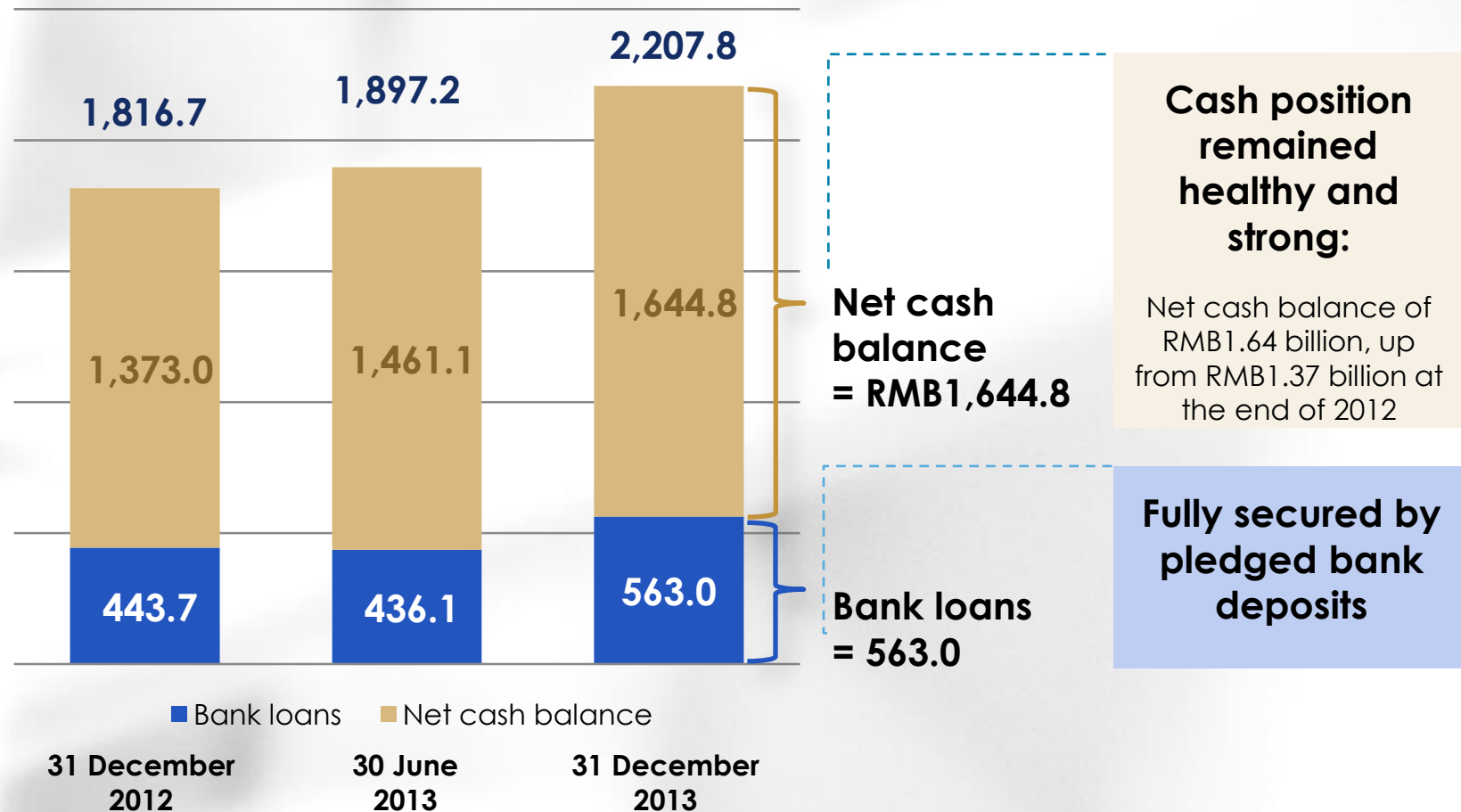
(2) Excluded fixed deposits held at banks with maturity over 3 months and bank deposits pledged as security for bank loans.



Healthy and Strong Cash Position

Total Cash and Bank Balance

(Unit: RMB million)



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BUSINESS & OPERATIONAL REVIEW



Brand Marketing and Promotion

Store Image

- Continue to upgrade storefront of "LILANZ" to enhance and reinforce brand image

No. of Store revamps

FY2012	280
FY2013	750
FY2014	700-800
FY2015	300-400



Advertising and Marketing



- Increased spending on regional advertising
- Sponsoring a program of Guangxi Satellite Television in exchange for the naming right for a year
- Set up advertising billboards in various airports in China and in Bangkok airport.

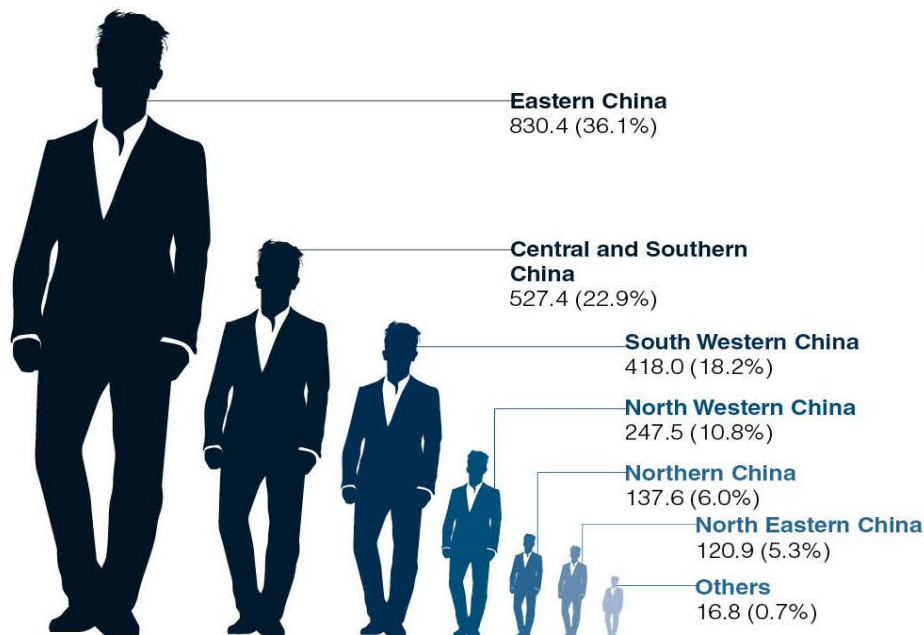




Nationwide Distribution Network

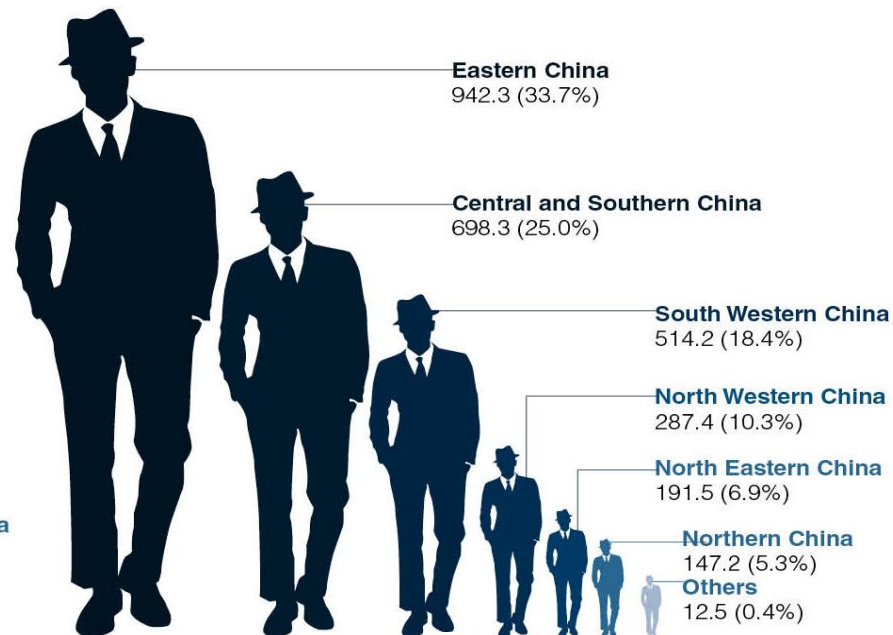
2013

Turnover by Region
RMB million (% of turnover)



2012

Turnover by Region
RMB million (% of turnover)



Group's store count	FY2013	FY2012	Change
Eastern China	1,011	1,043	-32
Central and Southern China	806	796	+10
South Western China	656	639	+17
North Eastern China	367	419	-52
Northern China	330	314	+16
North Western China	285	268	+17
Store count as at end of FY2013	3,455	3,479	-24
Brand breakdown	LILANZ	L2	TOTAL
Store count	3,180	275	3,455
Total retail area	360,000 m ²	29,800 m ²	389,800 m ²
Change	+0.3%	+11.6%	+1.1%



Product Design and Development

Product Design and Development

LILANZ

- R & D team with 100+ staffers
- International research and development team headed by a group of designers from abroad set up:
 - bringing in new ideas by adding innovative and international taste and elements to the brand's fashionable yet simple product style and designs
 - Help maintain trend-setter position and offer a more diversified product mix
 - New design concepts first adopted in 2014 Spring/Summer collections

L2

- R&D team with 35 staffers
- Product line restructuring to focus on trendy casual wear largely completed

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Fabric innovation

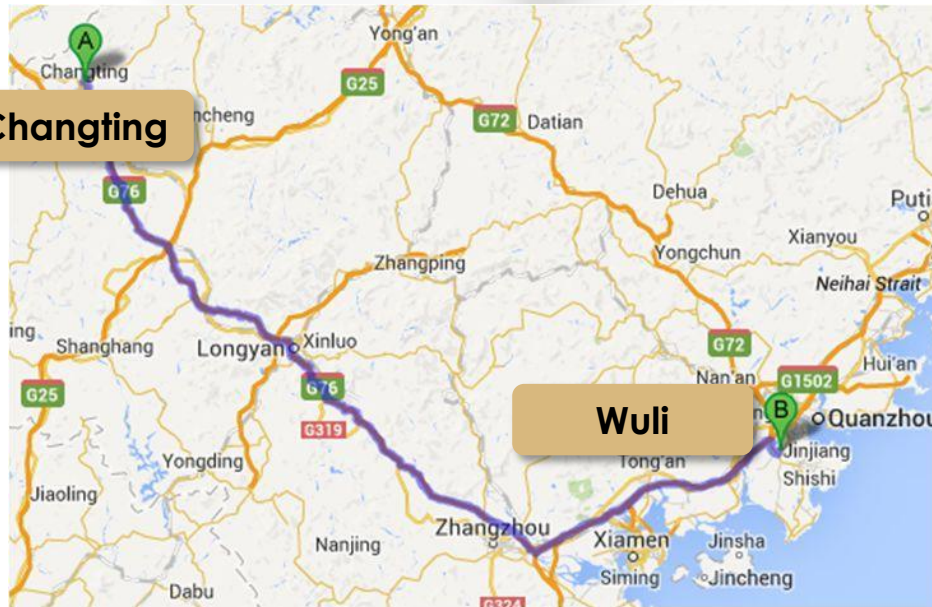
Continued to develop new fabrics in close cooperation with its suppliers:

- further control production costs
- enhance products' quality and value for money
- maintain the uniqueness of the fabrics used

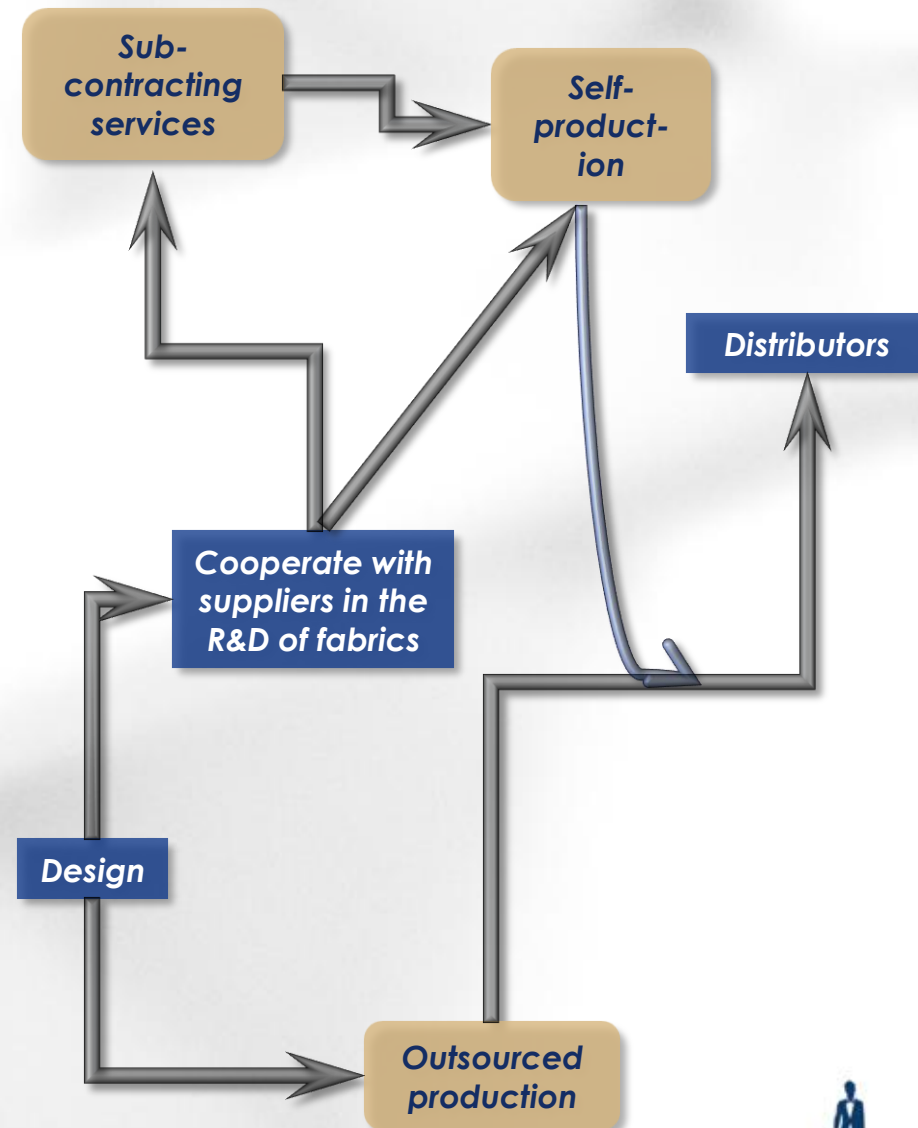




Production and Supply Chain



- Closed down production plant in Changting, Fujian Province 1HFY2013 to achieve higher efficiency in production management
- In-house-production now entirely carried out in the plant in Wuli, Fujian Province
- Continued to reinforce its supply chain management and tighten cost control by seeking more cost efficient fabrics suppliers and processing plants





Sales Channel Management

Monitoring of sales channels

- Encouraged distributors to clear old inventories by:
 - Operate discount stores for a period of about 30 days before the store renovation or store opening
 - Set up temporary promotion counters in department stores



Elevating distributors' management skills and efficiency

- Continue to provide training for distributors and their management teams
- Elevate the retail management skills and sales technique as well as refining management of chain business for distributors
- Over 2,000 people attended in the training courses during FY2013



Utilizing front-line data to better address market needs

- Sales and inventory levels of all retail stores of “LILANZ” and “L2” are web-enabled except for the shop-in-shops in department stores
- Respond promptly to various issues
- Develop products which meet market needs better



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PROSPECTS & STRATEGIES



2014 Prospects and 2014 Fall Trade Fair

Short term

Progress made in inventory clearance of the entire industry is slower than expected

Outlook of consumer confidence and retail environment remains uncertain

Long term

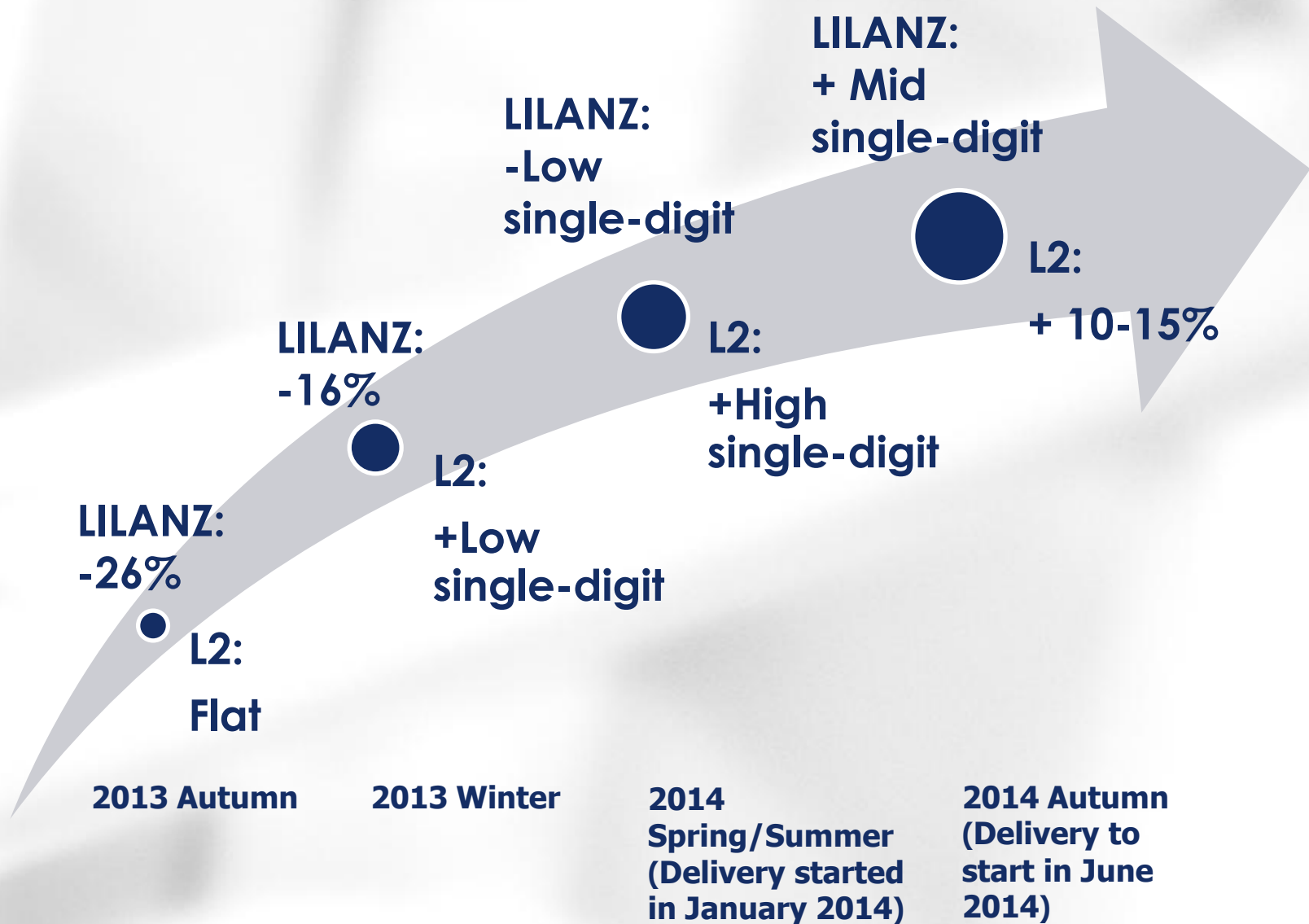
Accelerating urbanization continues to boost income level and lift consumer sentiment

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- ▶ Stays optimistic about the long-term development of the menswear industry in China
- ▶ Attained moderate growth in 2014 fall trade fair orders
 - ▶ “LILANZ”: +mid single digit
 - ▶ “L2”: +10 to 15%



Trade Fairs Results





Prudent and flexible operation Strategy



Our Work in 2014

- Adhere to brand positioning & pricing strategy
- Enhance competitiveness by improving product quality without raising the price (提質不提價)
- Enhance operating efficiency by better supply chain management
- Escalate R&D efforts and increase proportion of innovative products
- Enhance store performance and network efficiency

Store opening target

- LILANZ Target zero net opening
- L2 Target net increase of 20-30 stores

Renovation

- Continue to renovate another 700-800 stores in 2014
- Complete store revamp project by 2015
- Commence construction of new headquarters in mid-2014, expected to complete in 3 years



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OPEN FORUM