

CHINA LILANG LIMITED 中國利郎有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1234)

LILANZ 利郎



2013 INTERIM RESULTS

August 2013

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Agenda

Financial Highlights



Business and Operational Review



Prospects and Strategies



Open Forum

Results Summary

- 
1. Turnover down by 13.2% year-on-year to RMB1,092.5 million
 2. Net profit decreased by 12.8% to RMB242.3 million
 3. Basic earnings per share is RMB20.2 cents, down by 12.9% year-on-year
 4. Gross margin increased 0.3 percentage point to 40.0%
 5. An interim dividend of 12 HK cents per share and a special interim dividend of 5 HK cents per share were proposed
 6. Turnover of **LILANZ** was RMB1,013.2 million, contributing 92.7% of the Group's total
 7. Turnover of **L2** was RMB79.3 million, contributing 7.3% of the Group's total
 8. Net cash amounted to RMB1.46 billion at 30 June 2013



1. Financial Review

Financial Highlights

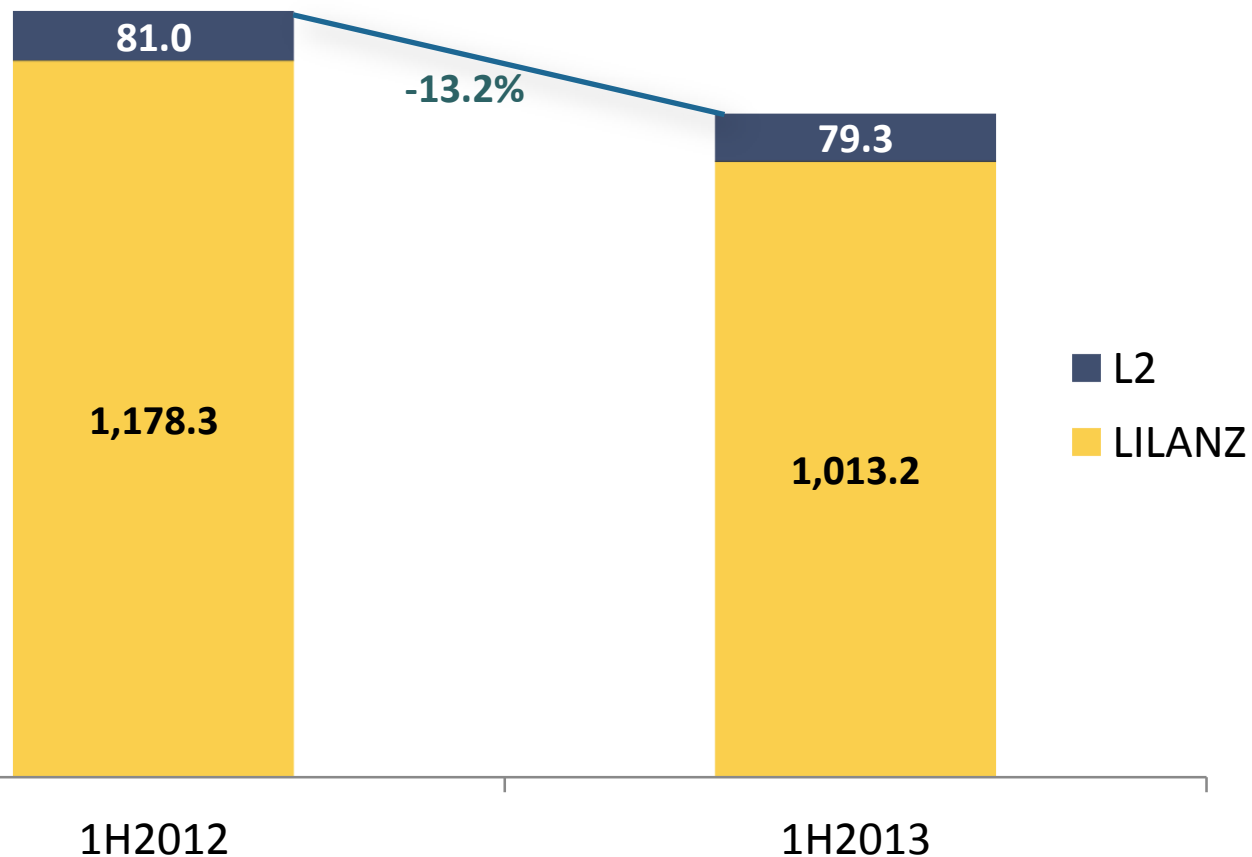
For the six months ended 30 June

	2013	2012	Change
Turnover (RMB million)	1,092.5	1,259.3	-13.2%
Gross profit (RMB million)	436.7	499.4	-12.6%
Profit from operations (RMB million)	275.0	343.6	-20.0%
Profit attributable to equity shareholders (RMB million)	242.3	278.0	-12.8%
Basic EPS (RMB cents)	20.2	23.2	-12.9%
Dividend per share (HK cents)			
Interim (HK cents)	12.0	13.0	-7.7%
Special interim (HK cents)	5.0	6.0	-16.7%
Profitability ratios			
Gross margin (%)	40.0	39.7	+0.3p.p.
Operating margin (%)	25.2	27.3	-2.1p.p.
Net margin (%)	22.2	22.1	+0.1p.p.
Effective tax rate (%)	20.2	25.6	-5.4p.p.
A&P expenses (as percentage of turnover) (%)	8.3	5.9	+2.4p.p.

Turnover Analysis

Total Turnover & Turnover by brands

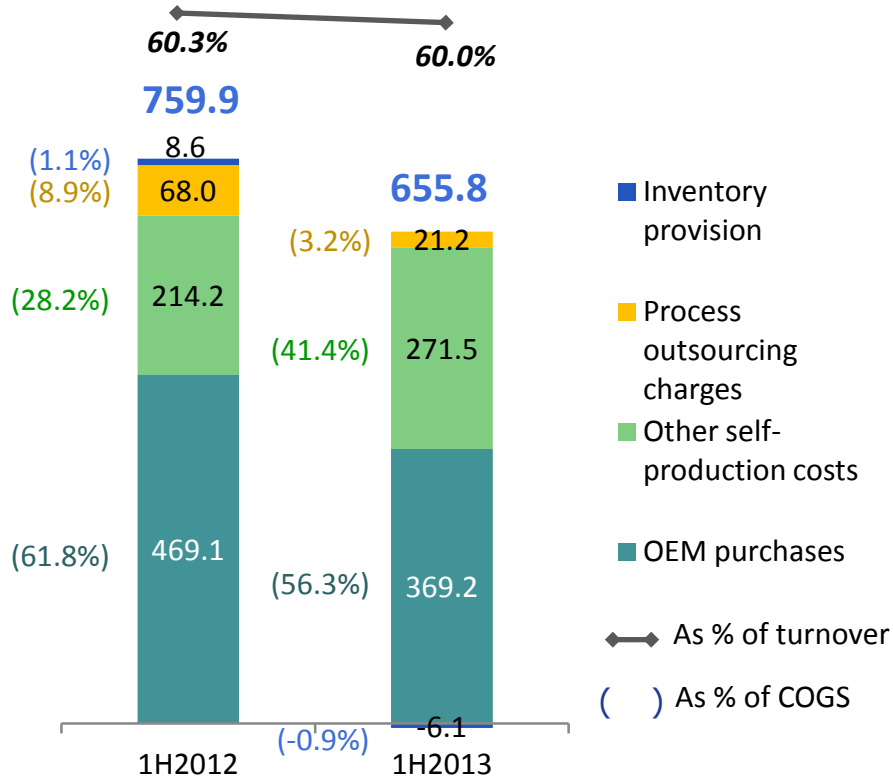
(RMB million)



Cost of Sales, and SD&A

COGS

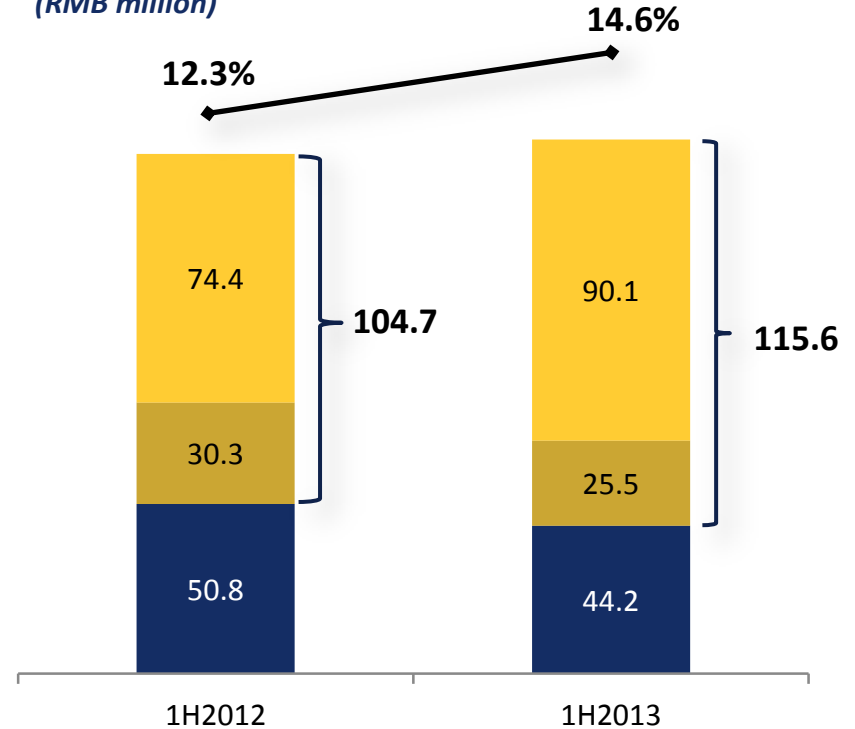
(RMB million)



Achieve optimal quality, cost efficiency and flexibility in production arrangement through combination of self-production, process outsourcing and OEM purchases

SG&A

(RMB million)



- Administrative expenses
- Other selling and distribution expenses
- Advertising and promotional expenses
- ↔ As % of turnover

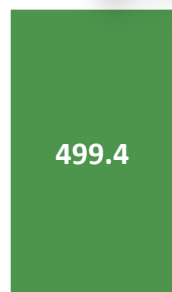
Profit and Margins

Gross Profit & Gross margin

(RMB million)

39.7%

40.0%



1H2012

1H2013

436.7

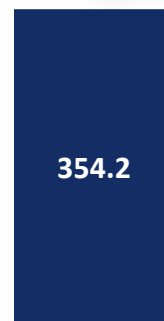
Contributed by better supply chain management

EBITDA & EBITDA margin

(RMB million)

28.1%

26.7%



1H2012

1H2013

354.2

291.2

Operating Profit & Operating margin

(RMB million)

27.3%

25.2%



1H2012

1H2013

343.6

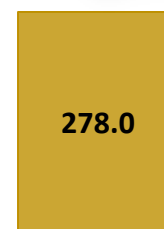
275.0

Net Profit & Net margin

(RMB million)

22.1%

22.2%



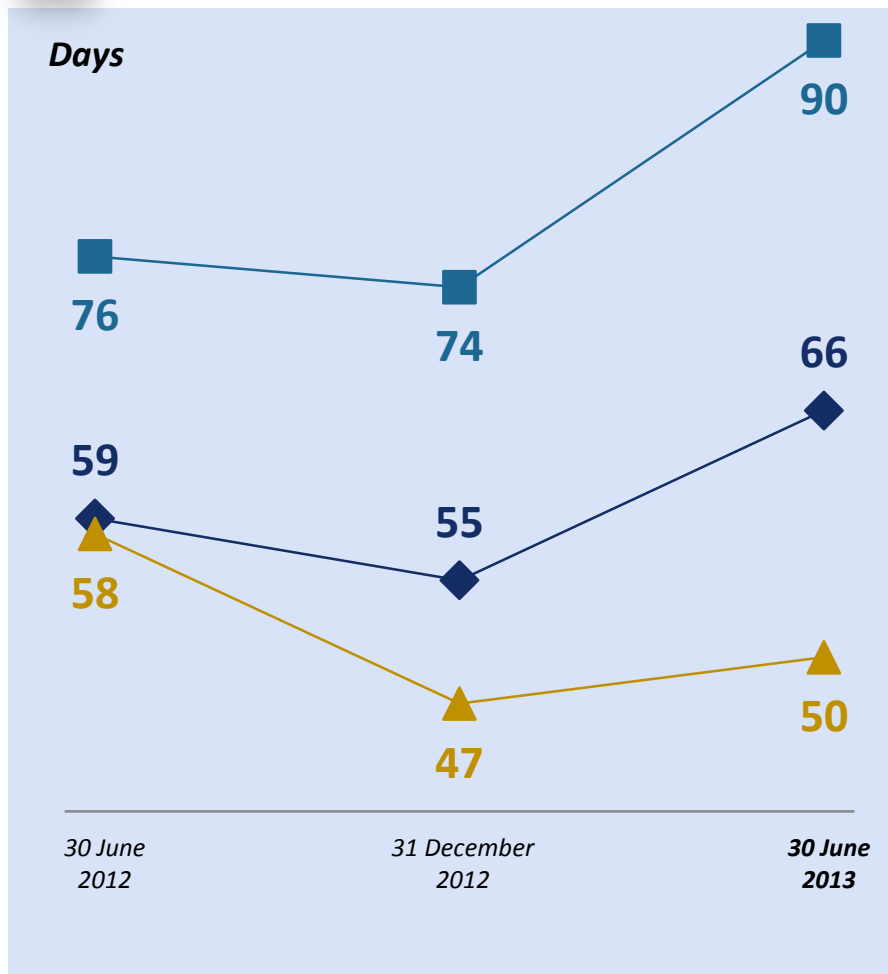
1H2012

1H2013

278.0

242.3

Working Capital Cycle



—■— Average Trade Receivables Turnover ⁽¹⁾

Extended trade credits have been granted to distributors as additional support during this challenging time

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 relevant period.

—◆— Average Inventory Turnover

The high beginning inventory balance inflated the average inventory turnover days. Inventory balance decreased by RMB82.5 million as orders and productions for the 2013 fall and winter collections dropped.

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 relevant period.

—▲— Average Trade Payables Turnover

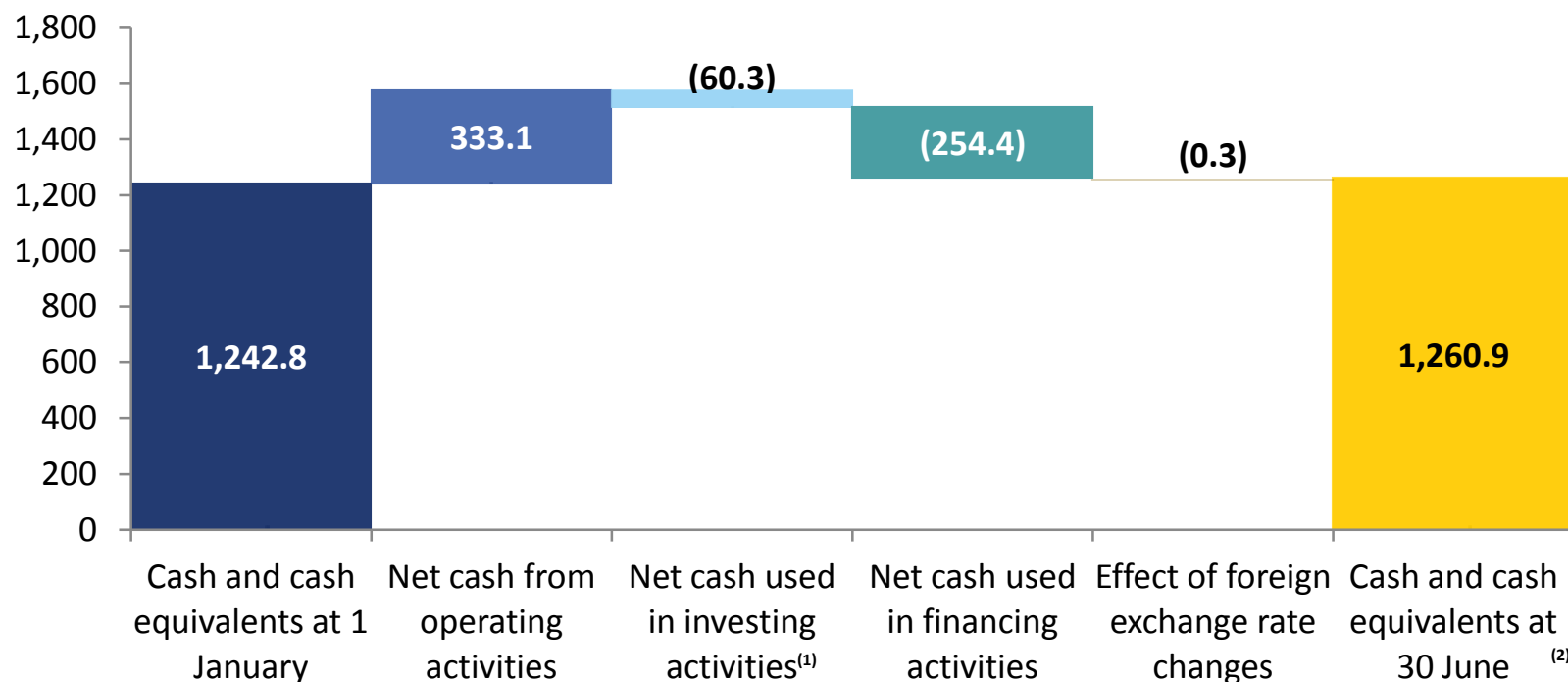
The trade payables balance decreased by RMB51.3 million to RMB154.9 million, in line with the reduction in inventory balance

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 relevant period.

Cash Flow Statement

Cash and cash equivalents

(RMB million)



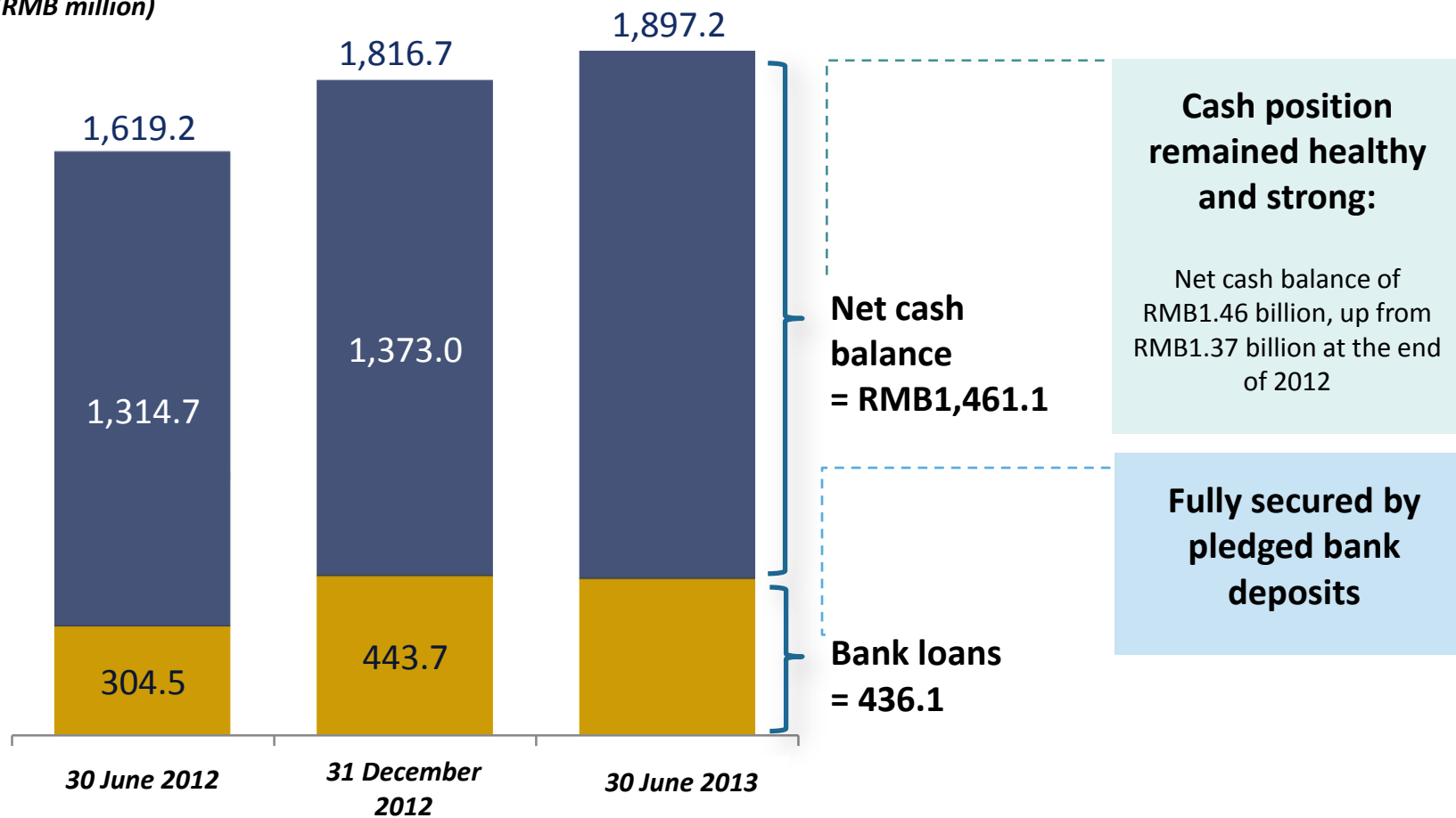
(1) Included placements of time deposits and pledged bank deposits with maturity over 3 months

(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 cash balance

(RMB million)





2. Business and Operational Review

Brand Marketing and Promotion

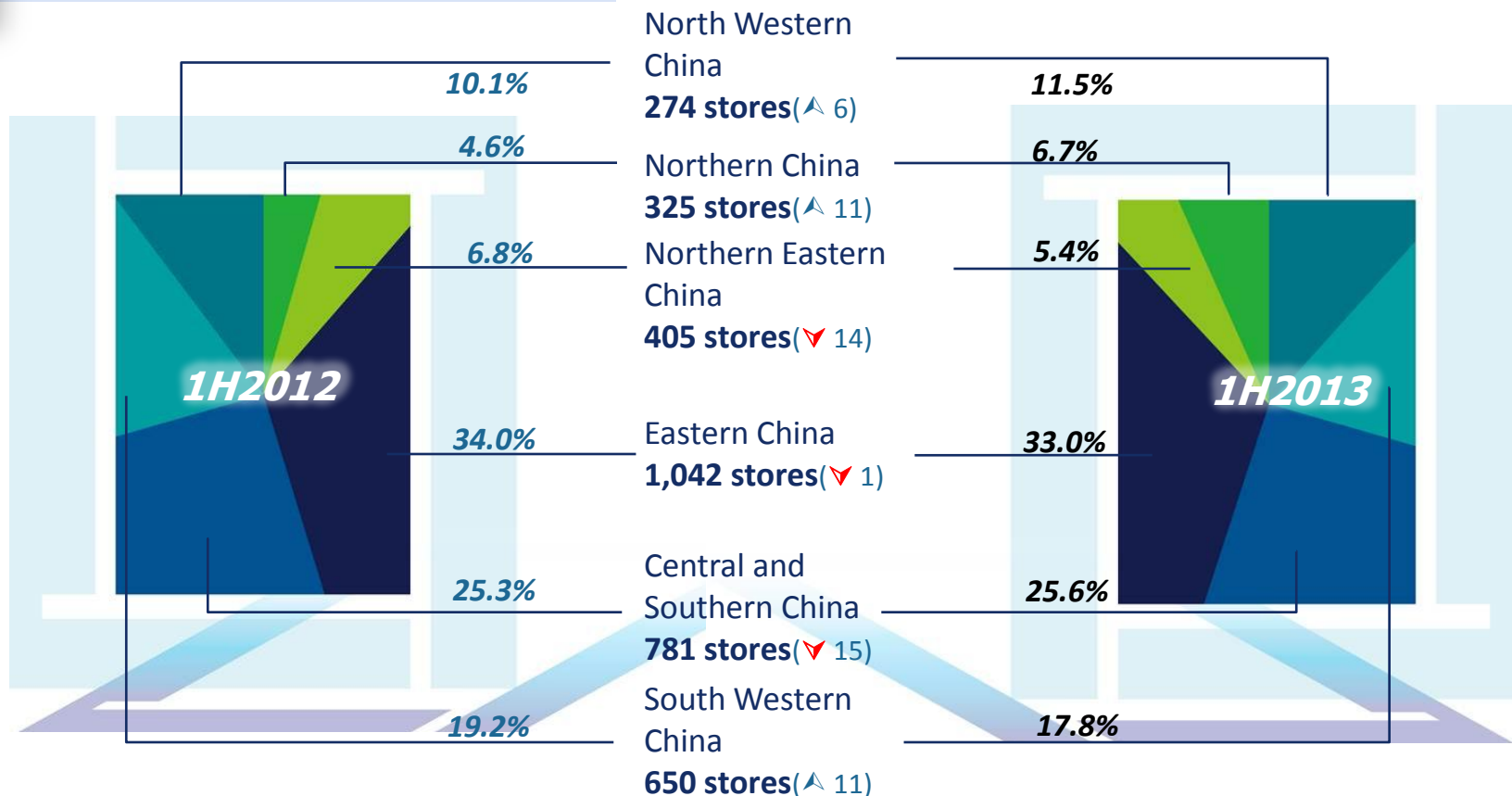


Enhance brand image by upgrading store

- Continued the store revamp programme for “LILANZ” undertaken since the latter half of 2012
- Upgrade the store front to enhance and reinforce brand image as the emphasis of brand promotion.
- Renovated approximately 300 “LILANZ” stores during the first half of 2013
- The plan for renovating 700 to 800 stores by the end of the year remained on track.

Nationwide Distribution Network

Sales contribution by region



LILANZ

- 3,201 stores as of 30 June 2013
- Despite the decrease of 26 stores, total retail area slightly increased 0.3% to 360,000m² from 31 Dec 2012

L2

- 276 stores as of 30 June 2013
- With the addition of 24 stores, total retail area reached 29,500m², up 10.5% from 31 Dec 2012

Sales Channel Management

Regular monitoring of sales channels

- Encouraged distributors to clear old inventories by taking various measures, including:
 - ✓ Operate discount stores for a period of about 30 days before the store renovation
 - ✓ Set up temporary promotion counters in department stores



Elevating distributors' management skills and efficiency

- Continue to provide training for distributors and their management teams
- Elevating the retail management skills and sales technique as well as refining management of chain business for distributors



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
- Easy access to sales and inventory data of the stores in greater accuracy
- Respond promptly to various issues and come up with products which meet market needs better



Product Design and Development

Formed international R&D team for LILANZ, helps to strengthen the position as a trend-setter

- Set up international R&D team for “LILANZ”
- Headed by designers from abroad to add innovative and international taste and elements to the brand’s fashionable yet simple product style and designs
- New designs expected to emerge in the 2014 Spring/Summer collections

Enhanced L2 growth capability with more focused product line structure

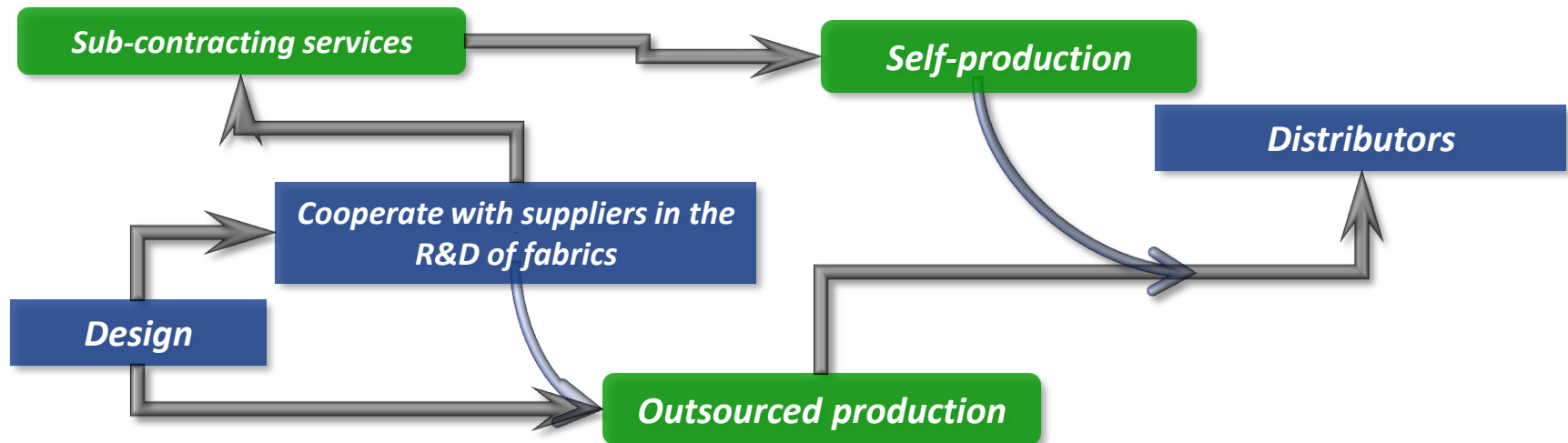
- Restructuring of “L2” product line largely completed.
- Focusing on the trendy casual features, the line better suits the needs of its target customers.

Closer cooperation with suppliers to enhance product design and cost efficiency

- The product design and development team of over 100 staffers for “LILANZ” and a 35-strong team for “L2” continued to develop new fabrics in closer cooperation with suppliers so as to further control production costs, enhance products’ value for money and maintain the uniqueness of fabrics used.



Production and Supply Chain



High efficiency in production

- Closed down production plant in Changting, Fujian Province in the first half of 2013 to improve efficiency in production management
- Self-production now entirely carried out in the plant in Wuli, Fujian Province.
- Continued the measures adopted last year to step up control on material procurement for outsourced productions, effecting further control on production costs.



3. Prospects and Strategies

Prospects and Strategies

Prudent and flexible operation strategy

(1) Adheres to its brand positioning by avoiding aggressive sales discounts;(2) Escalate R&D efforts and strengthen the supply chain management to further enhance quality and value-for-money of its products

Enhance retail management

Continue to arrange training on retail management for distributors

Maintain a proper pace for store opening

(1)“LILANZ”, store opening target for 2013 is about 200 and about 200 under-performing stores are expected to be closed (2)“L2”, the store opening target for 2013 is 70 to 90 and approximately 50 stores are expected to be closed (3) Continue to implement store revamp project to build a new image for “LILANZ”, target to revamp 700 to 800 stores in 2013

Invest in product innovation and offer more value for money

(1) Allocate more resources to product and fabric research and development; and (2) require more OEM suppliers to use designated fabric suppliers to improve product quality and uniqueness.



Clear channel inventory

Continue to clear the channel inventory through temporary discount stores

Upcoming trade fairs

The Group is confident that channel inventory level will continue to improve and will be restored to a healthy level as a result of remedial measures taken. The 2014 spring/summer trade fairs are to be held in late August to early September. With the channel inventory of the 2013 spring/summer products near to a normal level, the management is confident that the trade fair results would improve compared with the 2013 winter trade fair.



4.Open Forum

Appendix – Sales Fairs

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	Order value	Delivery of order to start in
2013 Spring and Summer	-9%	January 2013
2013 Autumn	-26%	June 2013
2013 Winter	-16%	August 2013

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	Order value	Delivery of order to start in
2013 Spring and Summer	+17%	January 2013
2013 Autumn	Flat	June 2013
2013 Winter	+ Low single-digit	August 2013