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**LILANZ 利郎**

China Lilang Limited 中國利郎有限公司

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# 2010 Annual Results

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**March 2011**



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# Agenda

1. Financial Highlights

2. Business and  
Operational Review

3. Prospects and Strategies

4. Open Forum



# Results Highlights

Turnover rose by 31.6% y-o-y to RMB2,053.0 million

Profit attributable to equity shareholders rose by 38.2% to RMB418.7 million; Earnings per share is RMB34.89 cents, up by 13.0% y-o-y

Product average selling price increased by 23.2%, sales volume increased by 6.9%

Total number of retail outlets increased by 12.7% to 2,885 stores

Core brand, "LILANZ", had 2,805 retail stores as at the end of 2010

The Group officially launched sub-brand "L2" which had 80 retail outlets as at the end of 2010

Proposed final dividend of RMB12 cents per share. Together with the interim dividend of RMB5 cents per share paid, total dividends for the year is RMB17 cents, payout ratio of around 49%

**We aim to strengthen our position as one of the leading business casual menswear enterprises in the PRC**



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# Financial Highlights

<i>(RMB million)</i>	<i>For the year ended 31 December</i>		<i>Change</i>
	<b>2010</b>	2009	
Turnover	<b>2,053.0</b>	1,559.9	+31.6%
Gross profit	<b>778.0</b>	551.1	+41.2%
Profit from operations	<b>488.4</b>	338.8	+44.2%
Profit attributable to equity shareholders	<b>418.7</b>	303.0	+38.2%
EBITDA	<b>504.4</b>	350.6	+43.9%
Basic EPS (RMB cents)	<b>34.89</b>	30.87	+13.0%
Dividend per share (RMB cents)	<b>17</b>	11	+54.5%
Includes: Final dividend (RMB cents)	<b>12</b>	11	+9.1%
Interim dividend (RMB cents)	<b>5</b>	N/A	N/A
<b><i>Profitability ratios</i></b>			
<i>Gross margin (%)</i>	<b>37.9</b>	35.3	+2.6 p.p.
<i>Operating margin (%)</i>	<b>23.8</b>	21.7	+2.1 p.p.
<i>Net margin (%)</i>	<b>20.4</b>	19.4	+1.0 p.p.
<b><i>Effective tax rate (%)</i></b>	<b>14.2</b>	8.8	+5.4 p.p.
<b><i>Expense as a % of turnover</i></b>			
<i>Advertising and promotional expenses (%)</i>	<b>8.8</b>	9.0	-0.2 p.p.

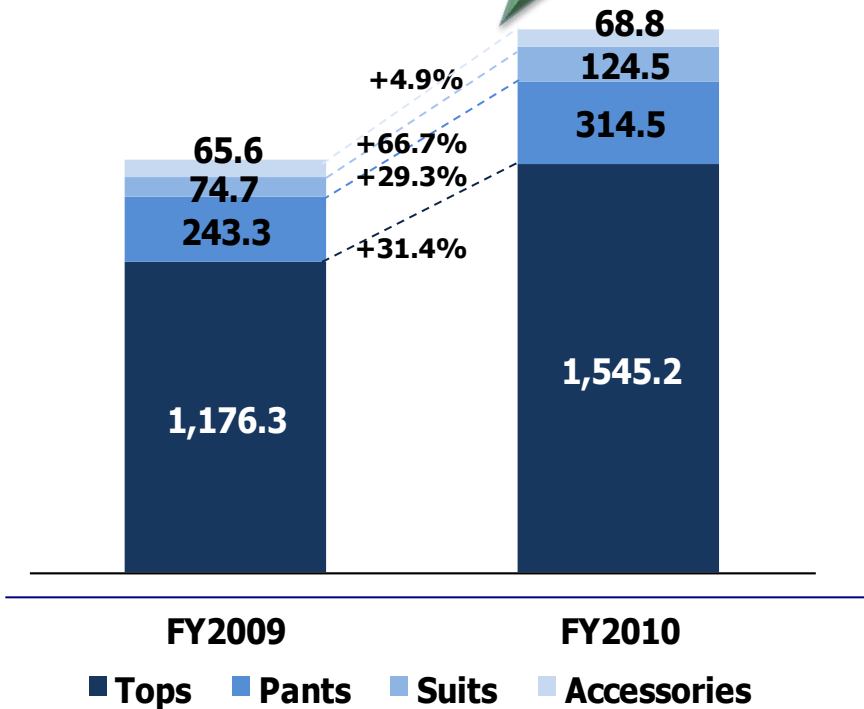


# Robust Turnover Growth

## Turnover

(RMB million)

Enhancement of brand value and product mix led to a rapid growth in turnover

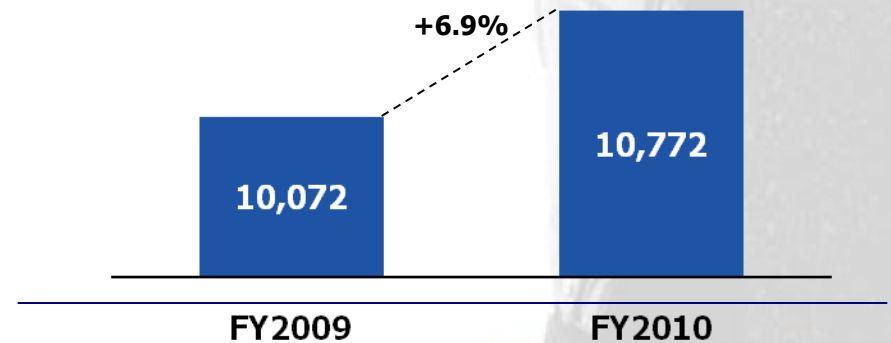


## Average Unit Selling Price

	FY2009	FY2010	Change
Tops	176	226	28.4%
Pants	97	109	12.4%
Suits	364	377	3.6%
Accessories	100	95	-5.0%
<b>Overall ASP</b>	<b>155</b>	<b>191</b>	<b>23.2%</b>

## Total Sales Volume

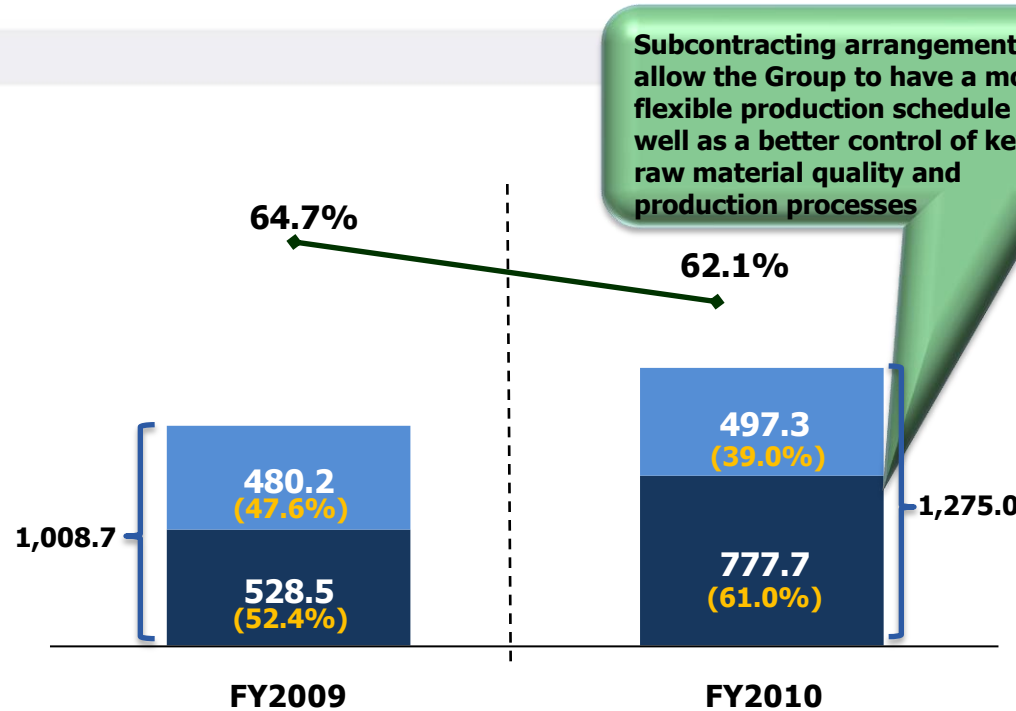
(Volume '000)



# Competitive Cost Structure

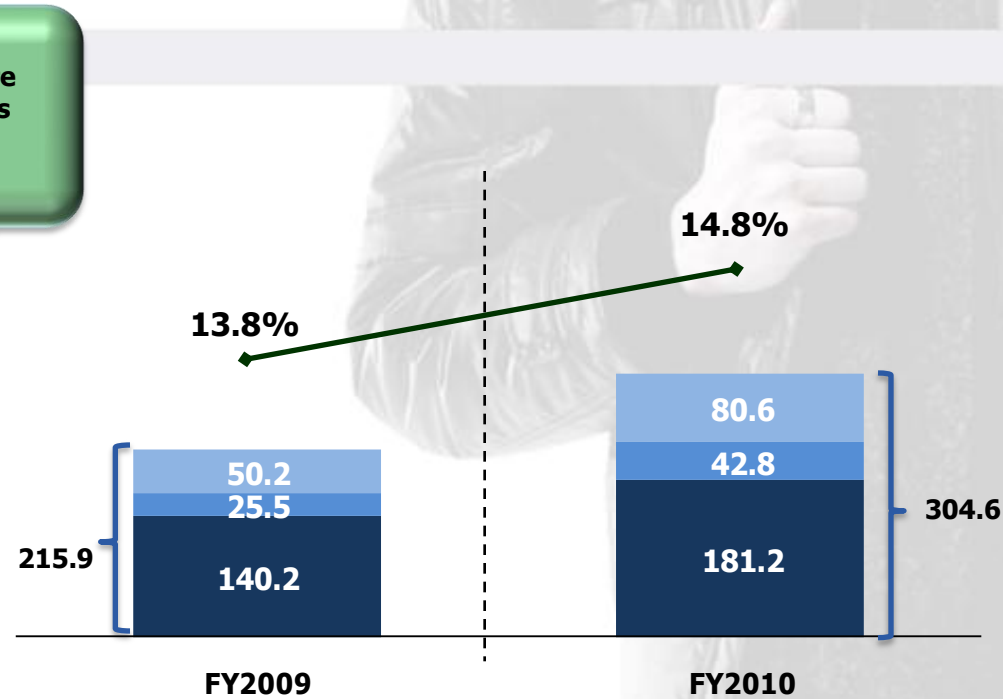
## COGS

(RMB million)



## SG&A

(RMB million)



■ Self-Production  
■ OEM Purchases  
— As % of Turnover  
( ) As % of COGS

■ Advertising and Promotional Expenses  
■ Other Selling and Distribution Expenses  
■ Administrative Expenses  
— As % of Turnover

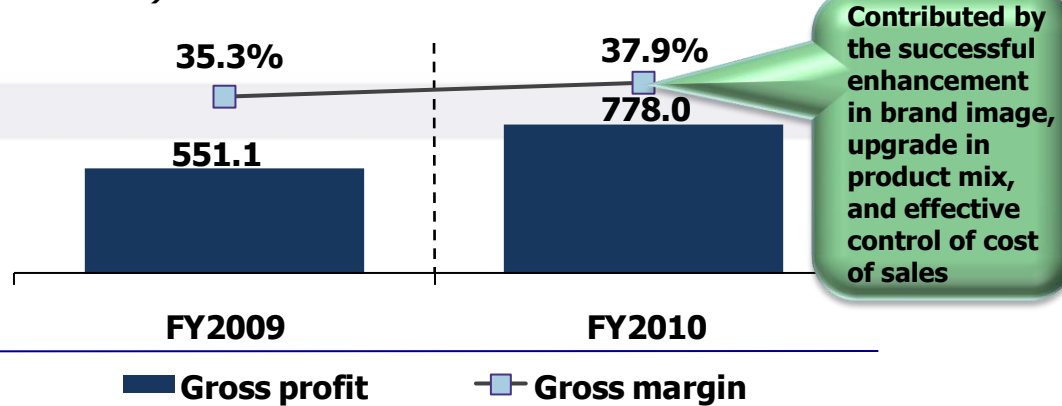




# Solid Margin Expansion and Superior Profitability

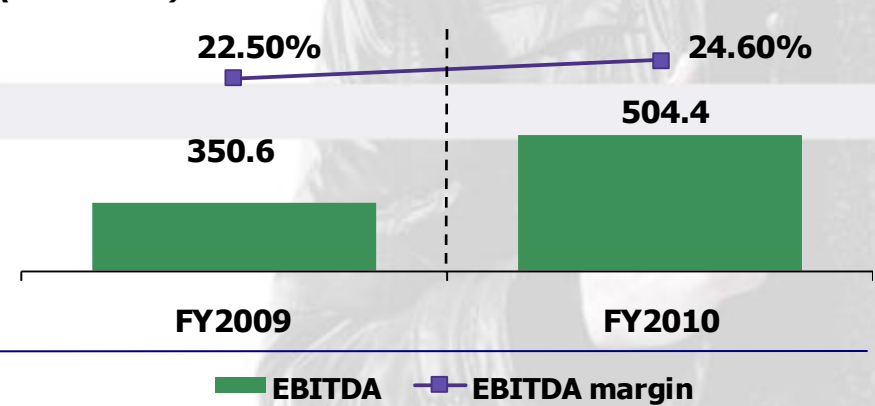
## Gross Profit and Gross Margin

(RMB million)



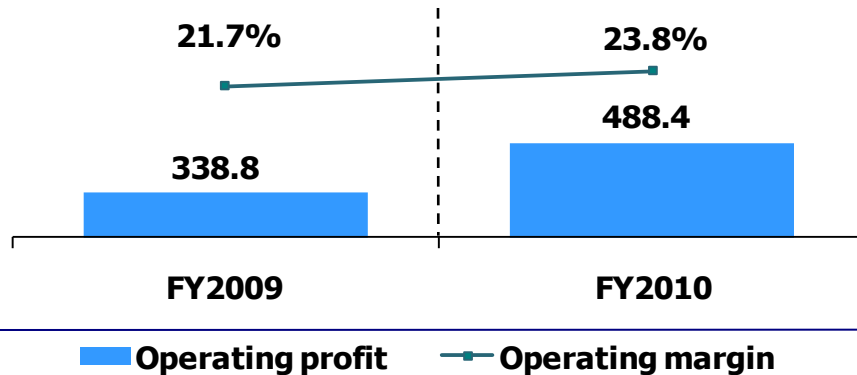
## EBITDA and EBITDA Margin

(RMB million)



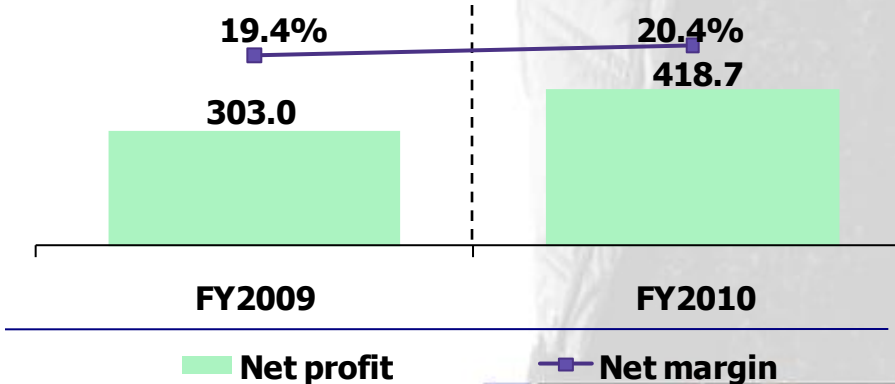
## Operating Profit and Operating Margin

(RMB million)



## Net Profit and Net Margin

(RMB million)



# Well Managed Working Capital Cycle

	FY2010	FY2009
<b>Average Inventory Turnover Days<sup>(1)</sup></b>	<b>47</b>	58
<b>Average Trade and Bills Receivable Turnover Days<sup>(2)</sup></b>	<b>65</b>	66
<b>Average Trade and Bills Payables Turnover Days<sup>(3)</sup></b>	<b>86</b>	72

*(1) Calculated as average of beginning and ending inventory balance divided by cost of sales and multiplied by 365 days*

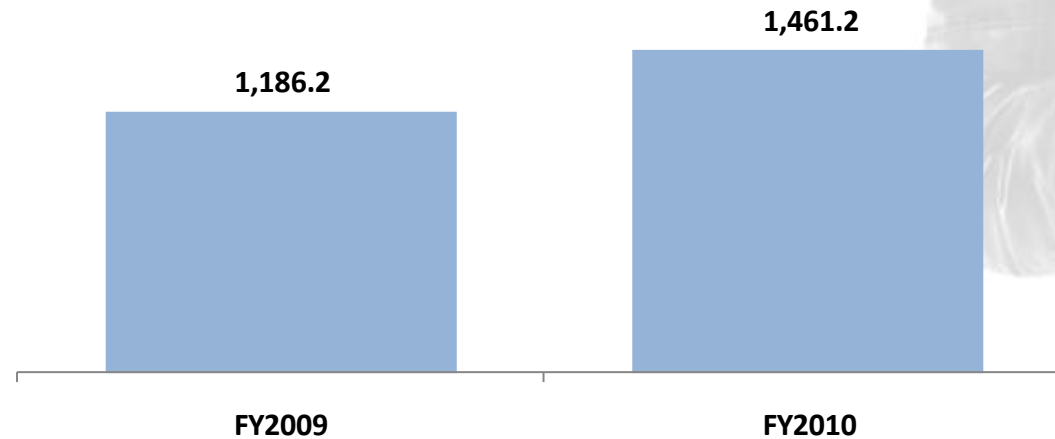
*(2) Calculated as average of beginning and ending trade and bills receivables balance divided by revenue (include value-added tax) and multiplied by 365 days*

*(3) Calculated as average of beginning and ending trade and bills payable balance divided by costs of sales and multiplied by 365 days*

# Strong Cash Position

## Bank and Cash Balance

*(RMB million)*

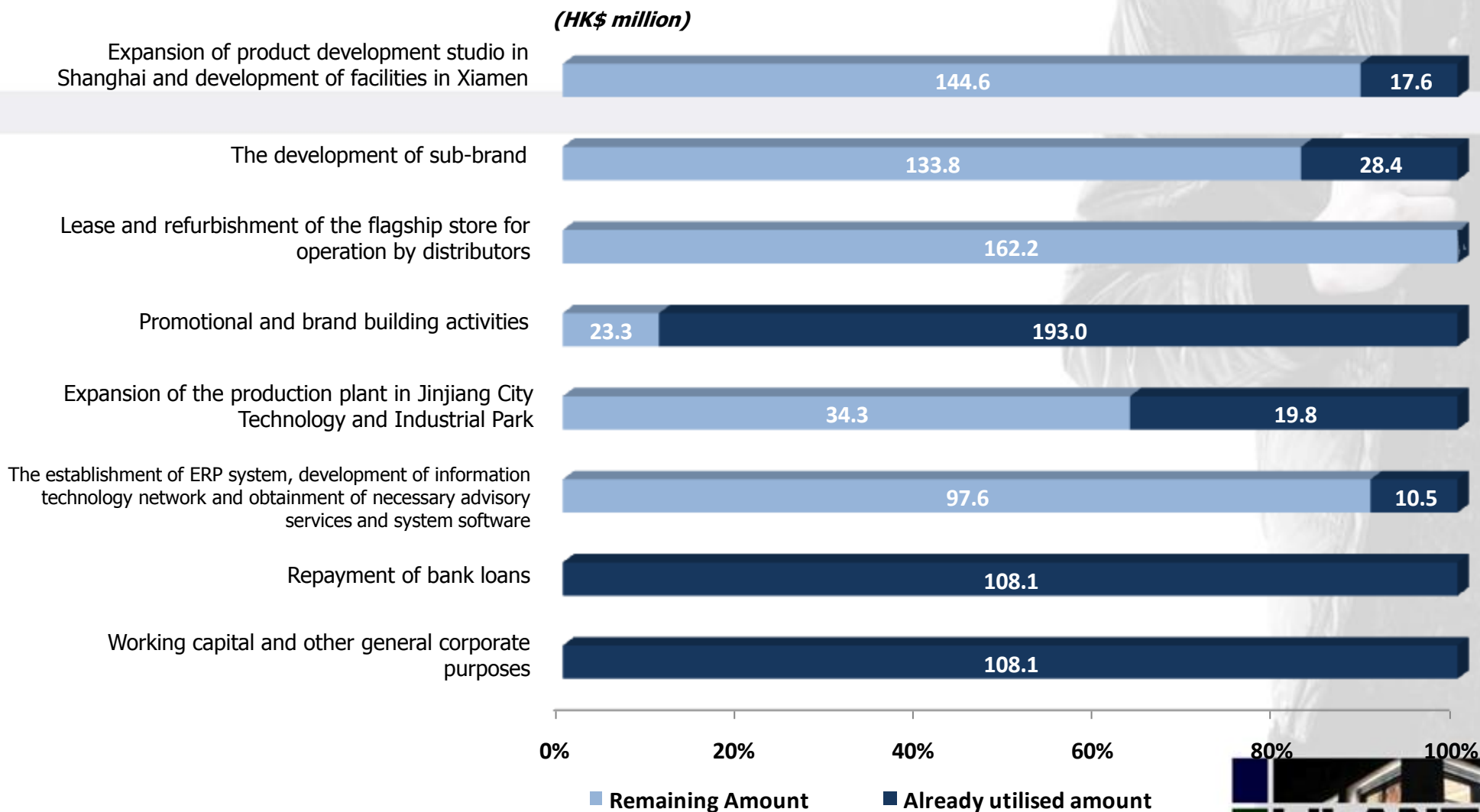



- The Group does not have any interesting-bearing debt



# Use of Proceeds

Net proceeds from listing amounted to HK\$1.08 billion, utilized HK\$485.5 million (approximately 44.9%), remaining balance of HK\$595.8 million





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# Enhance Brand Value through Marketing and Promotions

## Moderate Promotional Activities

- Puts great emphasis to the long-term development of its brands, and actively enhances the brands' values through various marketing and promotional activities
- Placed a large billboard advertising display at the Shanghai Hongqiao Airport
- Increased advertising spending in CCTV during the Asian Games in Guangzhou to coincide with the launch of winter collections
- Distributors launched regional promotion programs in coordination with business needs, such as offering VIP discount upon the opening of new shops, advertising on road side billboards as well as in regional magazines



## Spokesperson Strategy

- Mr. Chen Dao Ming (陳道明) continued as the spokesperson for "LILANZ" brand
- Mr. Daniel Wu (吳彥祖) as the spokesperson for the "L2" brand
- The two spokespersons possess distinguished characteristics and represent the respective philosophy of the two brands, thus accentuating the brand image





# Renovation of Retail Outlets' Layout and Design to Enhance Brand Image

Retail stores as one of the important channels for advertising and enhancing brand image

- Since 2008, the Group subsidized distributors to renovate the layout and design of retail outlets in phases
- By the end of 2010, all stores had completed the renovations
- Plan to further up-grade the first batch of renovated stores in 2011 to improve the display spacing and to further enhance store image

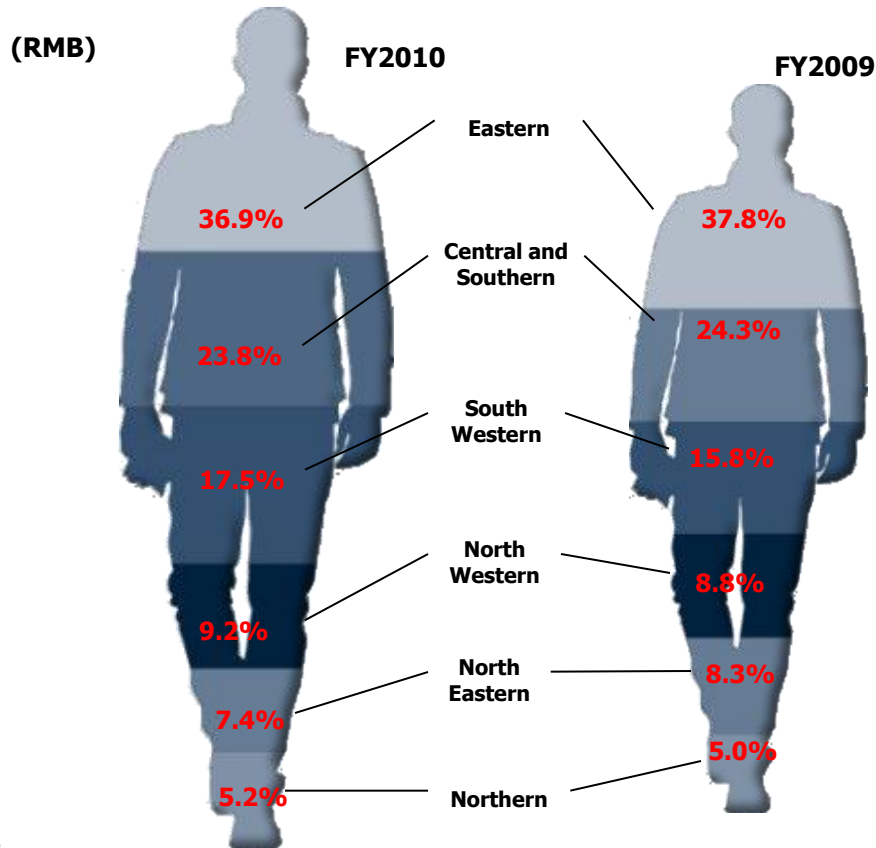


# Extensive and Well-managed Nationwide Distribution Network

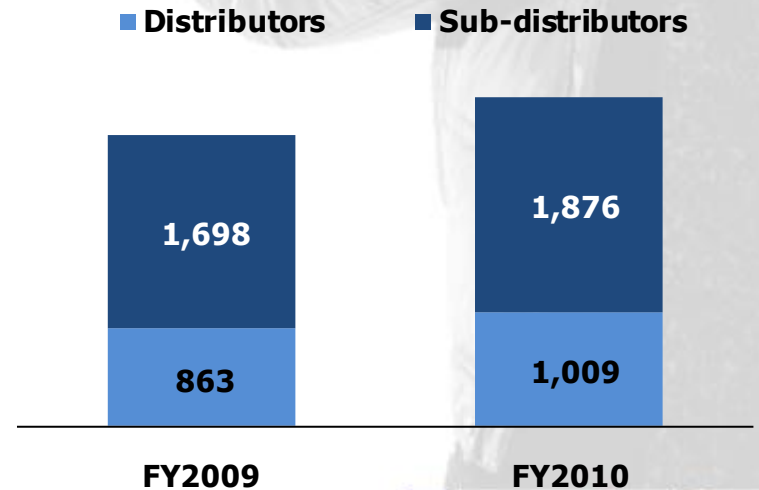
- At the end of 2010, "LILANZ" has a total area of retail outlets of 299,000 m<sup>2</sup>, increased y-o-y by about 7%
- Sub-brand "L2" has a total retail outlet area of 8,200 m<sup>2</sup>

Region	Number of stores	
	2010	2009
Eastern	859	807
Central and Southern	626	562
North Western	226	189
South Western	532	439
Northern	266	227
North Eastern	376	337
<b>Total</b>	<b>2,885</b>	<b>2,561</b>

## Turnover by Region



## Stores breakdown by ownership



# Sales Channel Management

## Improve retail management system

- Since late 2009, the Group embarked on developing software systems with a plan to connect the sales and inventory situation of each retail outlet on-line, enabling the Group to obtain sales data more promptly
- By the end of 2010, the first stage of system development has been completed as planned. Warehouse inventory systems of all "LILANZ" distributors are now connected online
- A system connecting to the inventory systems of some of the retail stores operated by distributors are in trial run
- Inventory systems of all "L2" stores are connected online

**2010**

- First stage completed – warehouse inventory systems of all "LILANZ" distributors are connected online

**2012**

- Cover all retail outlets

## Improve sales efficiency of individual outlet

- Assisting distributors in designing and launching a sales incentive commission plan
- Speeding up the process of shipment and slotting of products to improve the sales of various product line





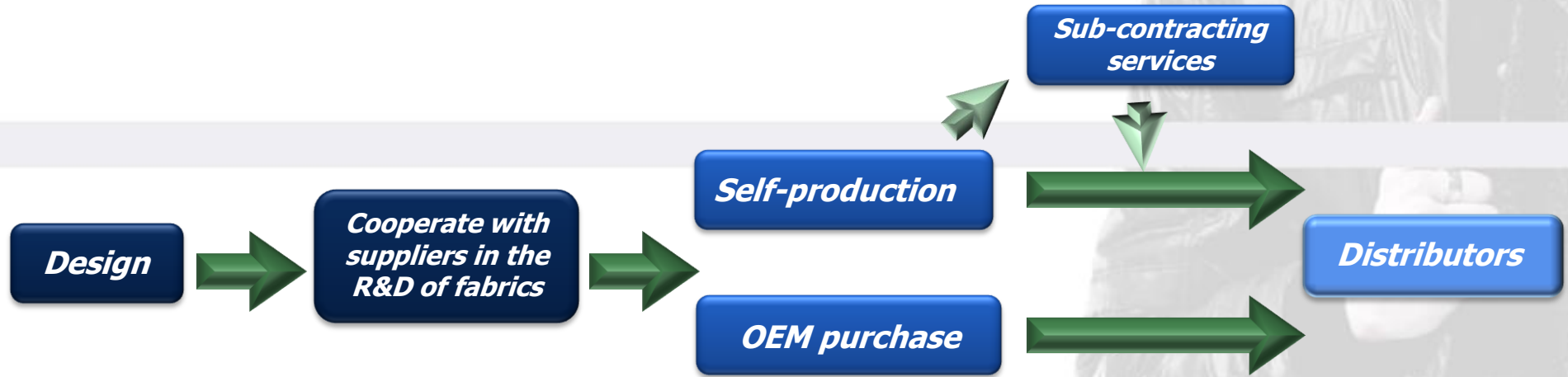
# Continue to Enhance Product Design and Development Capabilities

## Product Design and Quality


- Develop unique fabrics jointly with suppliers of raw materials to produce menswear of exquisite simplicity with high quality tailoring techniques
- Fashionable, unique and creative designs not only appeals to consumers, but can also add value to the product
- The design and product development team for "LILANZ", the Group's core brand, comprises over 100 people, headed by Mr. Ji Wen Bo, a famous designer in China
- The product design and development department for the sub-brand "L2" is located at the new product development centre in Shanghai, and its design team comprises approximately 30 members, headed by Mr. Wang Yu Tao, the winner of "Best Menswear Designer in China Fashion Grand Awards"
- Set up a product development centre in Guangzhou to nurture design talents in the second half of 2010, with more than 20 employees under design training



# Production and Supply Chain Enhancement



- Increasing the proportion of sub-contracting allows better control on the major fabrics used and enhances the flexibility to arrange complicated processes for self production, thus effectively intensify the control of product quality
- Continue to strengthen the control over raw material supply chain actively and purchase raw material of fabrics directly from producers
- Reduce the cost of fabrics, effectively alleviating the impact of soaring fabric prices
- Collaborate directly with suppliers in the R&D of unique quality fabrics to enhance the Group's products innovation, and to enlarge product differentiation



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# Prospects and Strategy

## Products

- Continue the personalized and fashionable style in product design
- Continue to strengthen the collaboration with fabric producers to jointly develop more innovative and premium quality fabrics
- Provide products of higher quality-price ratio
- Continue to upgrade the product mix to have more high value-added products

## Sales Network

- Continue to optimize the sales network
- To improve channel management, targeting to connect all retail outlets online and enhance the sales efficiency of individual retail stores
- Aim to open 200 to 250 "LILANZ" retail stores and 150 to 200 "L2" retail stores in 2011
- Continue to develop the online sales of "L2" and launch an online sales platform for "LILANZ" products

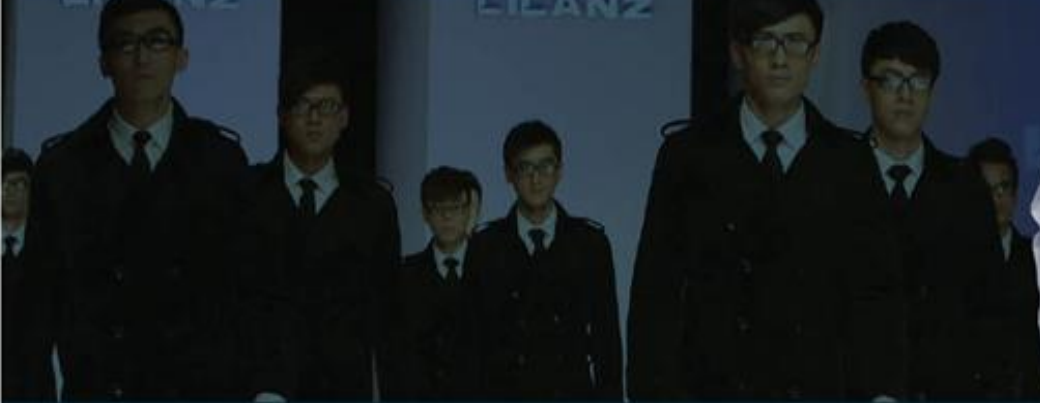
## Production and Supply Chain Enhancement

- In Q1 of 2011, reform and adopt the "Toyota Production System" in its existing production lines so as to improve to the production efficiency and quality control
- Plans to consolidate its supply chain and strengthen a long-term partnership with sizable and quality suppliers in the coming two years

## Brand Management

- Invest moderately in advertising and promotion, and continue to enhance "LILANZ" store image to further enhance brand image
- To open 20 flagship stores with size ranging from 300 to 500m<sup>2</sup> at commercial areas in provincial capital and prefecture-level cities to further improve its brand image
- Continue to promote "L2" and diversify its product range, to enhance brand image





# Open Forum



# Appendix – Sales Fairs

