

China Lilang Limited
中國利郎有限公司

Stock Code: 1234

(Incorporated in the Cayman Islands with limited liability)

2012 ANNUAL RESULTS

March 2013

LILANG



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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 3.2% year-on-year to RMB2,793.4 million



Net profit increased by 0.6% to RMB626.8 million



Basic earnings per share is RMB52.2 cents, up by 0.6% year-on-year



Gross margin increased 1.2 percentage points to 40.2%



A final dividend of HK19 cents per share and a special final dividend of HK6 cents per share were proposed



Turnover of “LILANZ” up 0.3% to RMB2,586.7 million, contributing 92.6% of the Group’s total



Turnover of “L2” grew 50.5% to RMB194.1 million, contributing 6.9% of the Group’s total



“LILANZ” had 3,227 retail stores while “L2” had 252 retail stores as at the end of December 2012



Received many major awards which affirmed the Group’s achievement in fashion design and building brand image



Net cash position with net cash per share increased to RMB1.14

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

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1. Financial Highlights



Financial Highlights

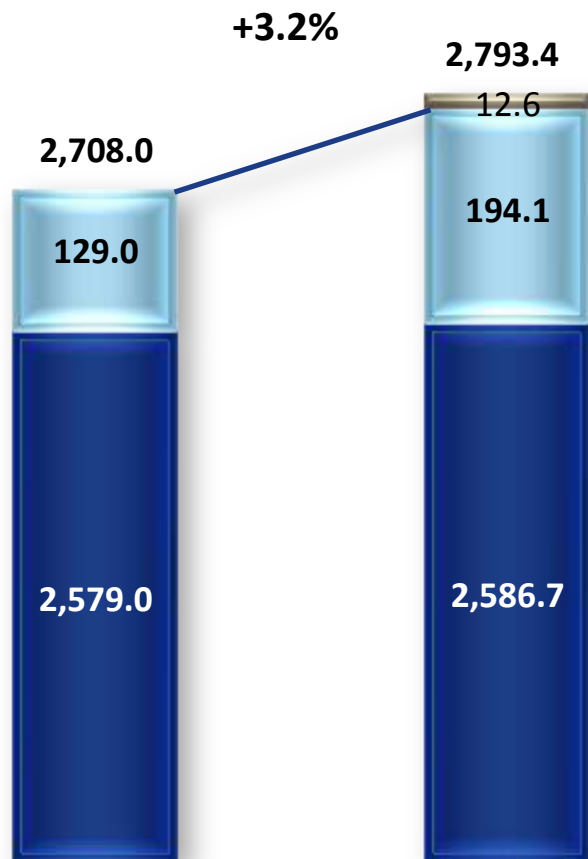
For the year ended 31 December

	2012	2011	Change
Turnover (RMB million)	2,793.4	2,708.0	3.2%
Gross profit (RMB million)	1,124.0	1,055.5	6.5%
Profit from operations (RMB million)	709.4	703.7	0.8%
Profit attributable to equity shareholders (RMB million)	626.8	623.1	0.6%
Basic EPS (RMB cents)	52.2	51.90	0.6%
Dividend per share (HK cents)			
<i>Includes: Final (HK cents)</i>	19.0	19.0	-
<i>Special final (HK cents)</i>	6.0	6.0	-
<i>Interim (HK cents) (Distributed)</i>	13.0	11.0	18.2%
<i>Special interim (HK cents) (Distributed)</i>	6.0	5.0	20.0%
Profitability ratios			
<i>Gross margin (%)</i>	40.2	39.0	+1.2 p.p.
<i>Operating margin (%)</i>	25.4	26.0	-0.6 p.p.
<i>Net margin (%)</i>	22.4	23.0	-0.6 p.p.
Effective tax rate (%)	18.3	17.2	+1.1 p.p.
A&P expenses (as percentage of turnover) (%)	9.1	8.2	+0.9 p.p.

Moderate Turnover Growth

Turnover

(RMB million)



2011

■ LILANZ

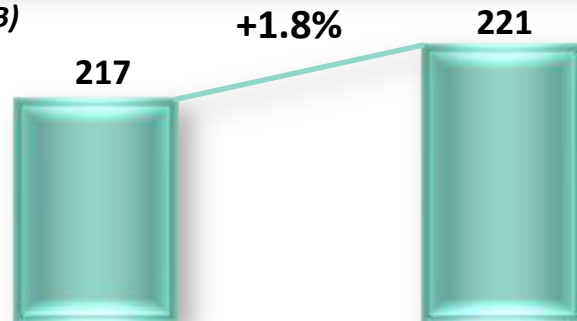
■ L2

■ Others

2012

Average Selling Price

(RMB)

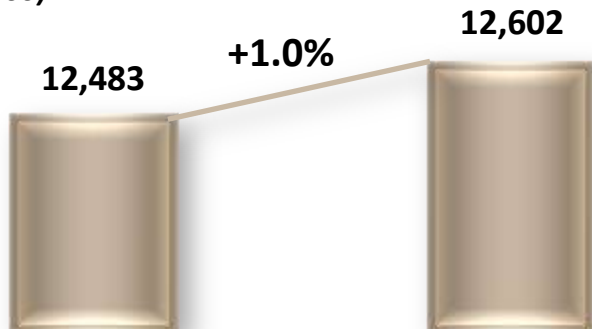


2011

2012

Total Sales Volume

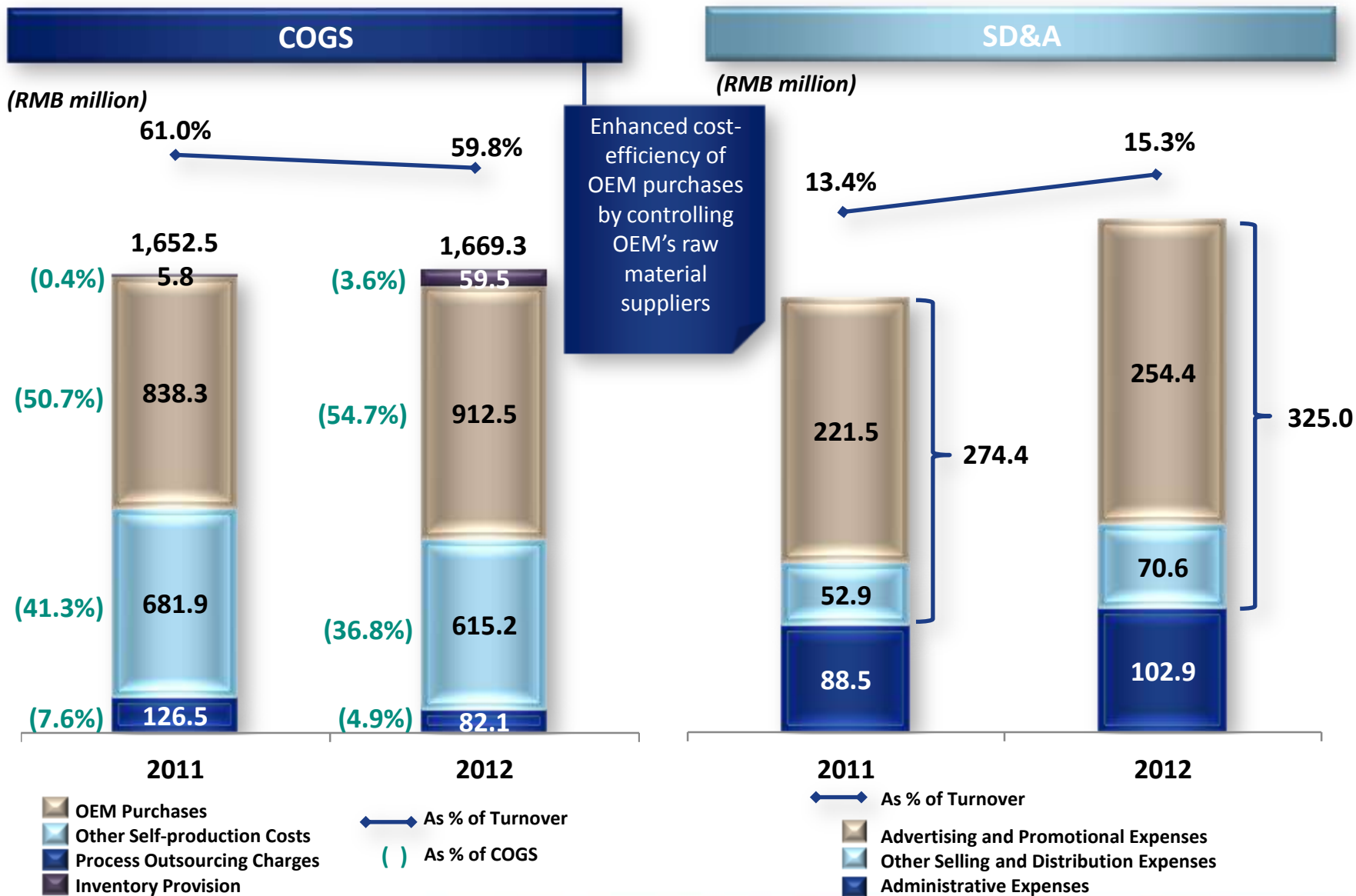
(Pcs '000)



2011

2012

Effective control over Cost of Sales, and SD&A



Profit and Margins

Gross Profit and Gross Margin

(RMB million)

39.0%

40.2%

1,055.5

1,124.0

2011

2012

Contributed by
successful
streamline of
supply chain

EBITDA and EBITDA Margin

(RMB million)

26.7%

26.3%

722.8

734.8

2011

2012

Operating Profit and Operating Margin

(RMB million)

26.0%

25.4%

703.7

709.4

2011

2012

Net Profit and Net Margin

(RMB million)

23.0%

22.4%

623.1

626.8

2011

2012

Well Managed Working Capital Cycle

	As at		
	31 Dec 2012	31 Dec 2011	30 Jun 2012
Average Inventory Turnover Days ⁽¹⁾	55	45	59
Average Trade Receivables Turnover Days ⁽²⁾	74	63	76
Average Trade Payables Turnover Days ⁽³⁾	(47)	(65)	(58)
Average Net Trade Working Capital Turnover Days	82	43	77

Average Inventory Turnover

- Average inventory turnover increased mainly due to:
 - More 2012 winter collections delivered in January as the 2013 Chinese New Year was in February.
 - The Group cancelled winter orders with inventories valued at RMB39.6 million (net of provision) at year end.

Average Trade Receivables Turnover

- Additional trade credits have been extended to distributors

Average Trade Payables Turnover

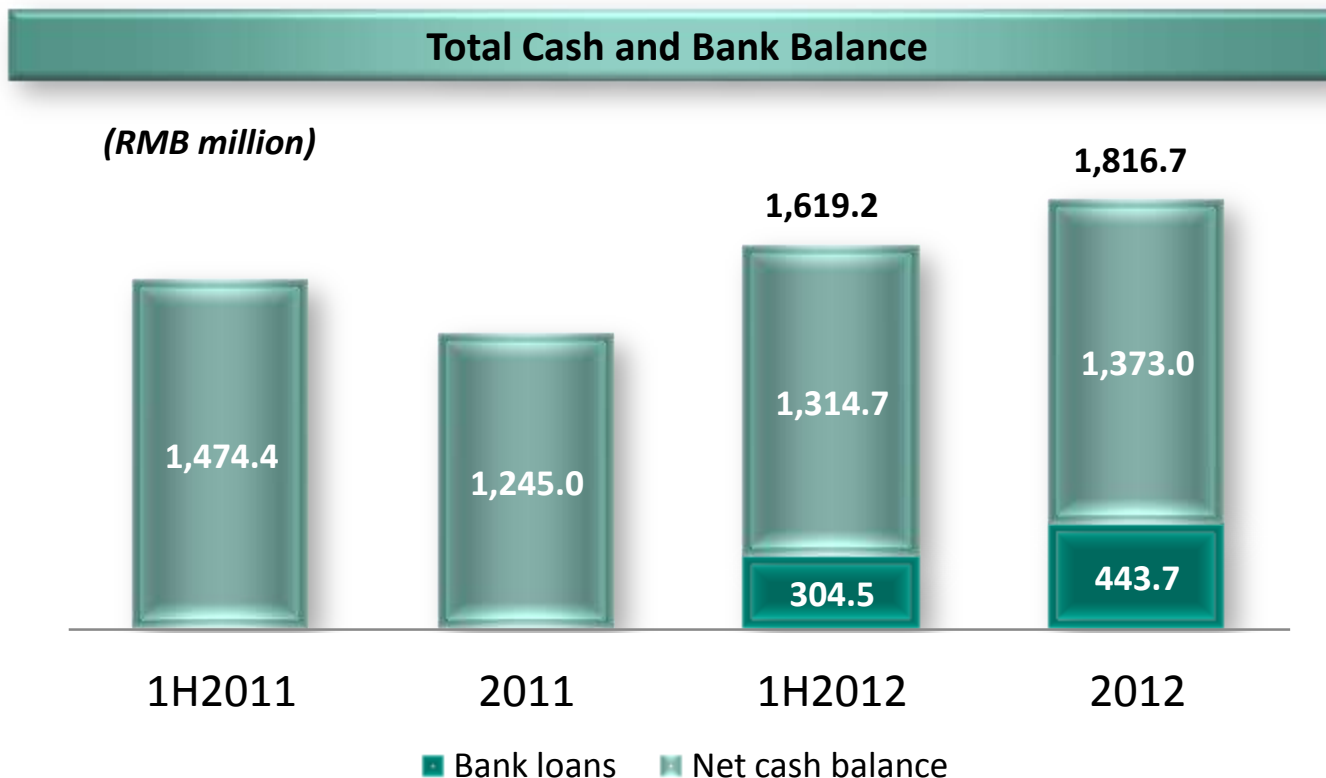
- Reduced the use of bills which have longer repayment terms to obtain more favorable prices from suppliers since late 2011

(1) Calculated as average of beginning and ending inventory balance divided by cost of sales and multiplied by 366 days

(2) Calculated as average of beginning and ending trade and bills receivables balance divided by revenue (including value-added tax) and multiplied by 366 days

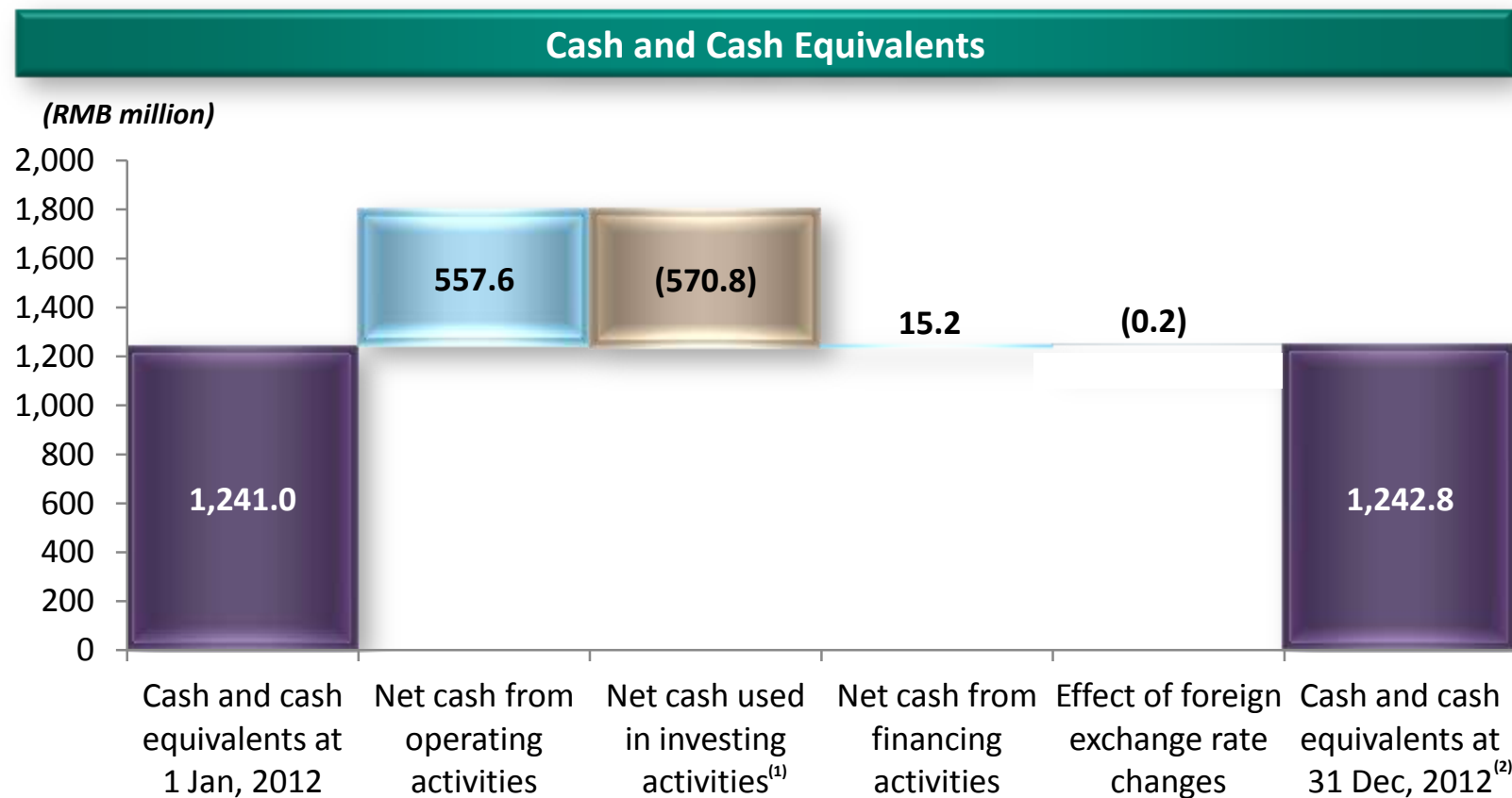
(3) Calculated as average of beginning and ending trade and bills payables balance divided by cost of sales and multiplied by 366 days

Strong Cash Position



- Cash and bank balance includes time deposits with maturity over 3 months and pledged bank deposits totalling RMB100.0 million and RMB470.0 million respectively
- At 31 December 2012, the Group had bank loans totalling RMB443.7 million (30 June 2012: RMB304.5 million) which were fully secured by pledged bank deposits.

Cash Flow Statement



(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.

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2. Business and Operational Review



Brand Marketing and Promotion



Enhance brand image by upgrading store

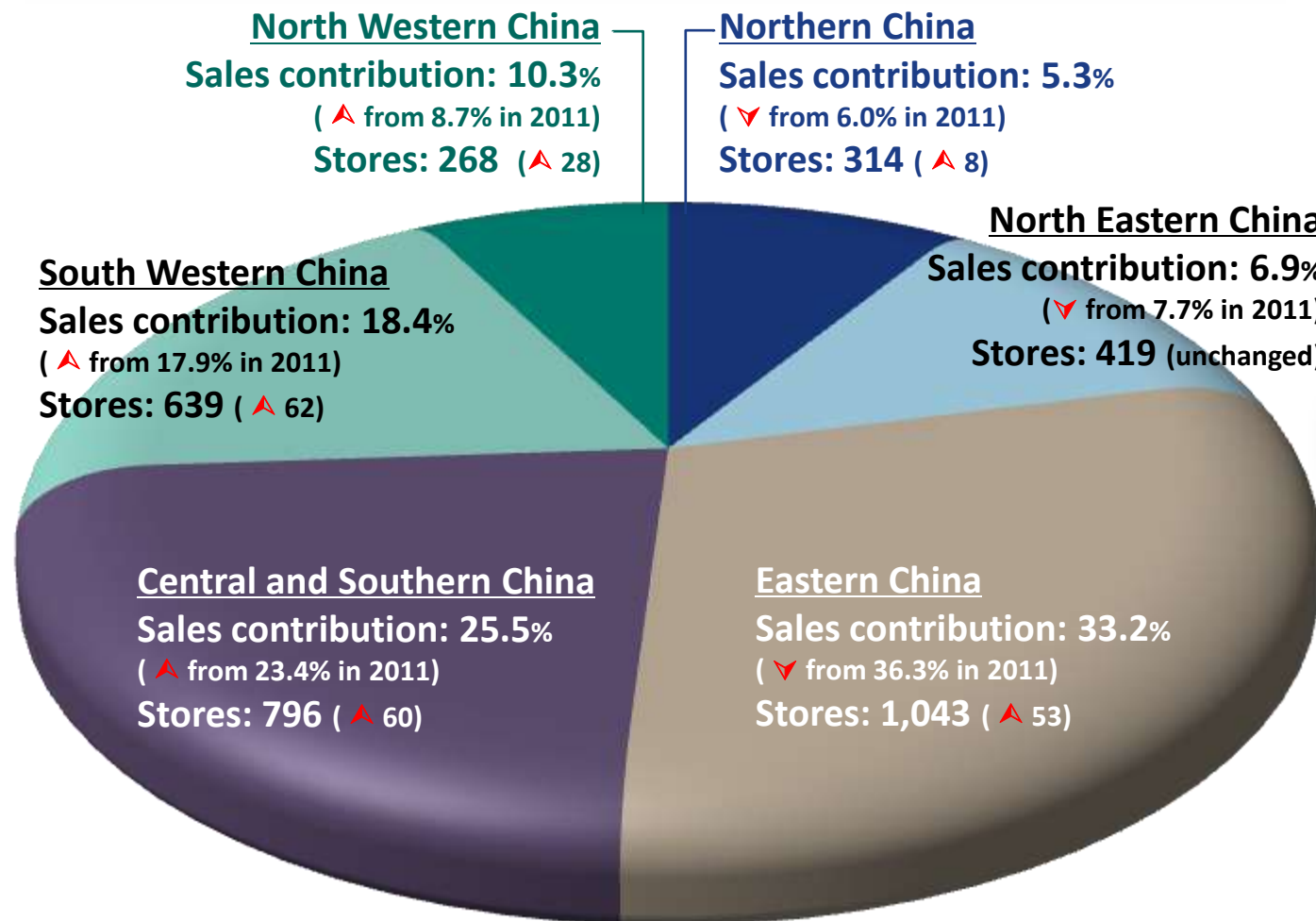
- Introduced new third-generation store image for retail outlets in 2H 2012 and about 280 stores were renovated
- Based on “bamboo” concept, stores are elegantly and fashionably designed by employing high-end metallic materials and bright lighting effect
- Utilizing island cabinet to improve sales efficiency
- Plan to renovate 700 to 800 stores in 2013 and complete renovation of all retail outlets by 2015

Effective and targeted marketing strategies

- Regular promotions and advertising activities: advertising on CCTV, magazines and online, and billboards at Shanghai Hongqiao Airport
- Billboard placement at the Bangkok airport targeting outbound-travelling consumers with high spending power
- Increased spending on advertising on CCTV during UEFA Eurocup in June and Olympic Games in July/August
- Produced new television commercial featuring Chen Dao Ming for “LILANZ” in New York
- Renewed contract with Chen Dao Ming as spokesperson for “LILANZ”

Nationwide Distribution Network

Turnover by Region



LILANZ

- 3,227 stores as of 31 December 2012
- With the addition of 195 stores, total retail area reached 359,000m², up 10% from 31 Dec 2011

L2

- 252 stores as of 31 December 2012
- With the addition of 16 stores, total retail area reached 26,700m², up 6% from 31 Dec 2011

Sales Channel Management



Improve channel control and retail management

- Strengthened channel control by developing ERP system for accessing the sales and inventory records of individual stores
- All stand-alone stores were connected by the end of 2012
- Conducted intensive training for the distributors and their management teams
- Training programs: retail management , franchise and chain stores business management, methods of coping with the dynamics of the changing market

Enhance channel inventory management

- Implemented a new ordering policy since 2012 fall trade fair to lower the ordering rate placed by distributors in the trade fair from 85%-90% to 80%
- New policy offered greater flexibility for distributors to help control level of inventory and improve risk management
- Encouraged distributors to operate 1 to 2 discount stores in each province
- Arranged inventory clearance sales in stores before opening or renovation
- Organized temporary promotion counters in department stores at the end of seasons to actively clear inventories

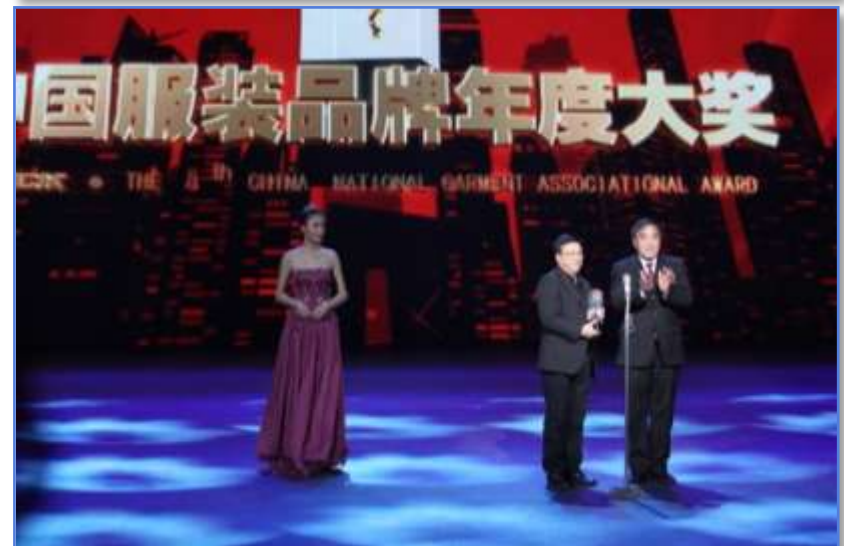
Strategically reorganized and expanded store network

- Consolidated store network and closed some underperforming stores in Northern China and North Eastern China
- Reconsolidated the sales network of “L2” and focused on 4 high-potential provinces: Henan, Shaanxi, Hunan, Hubei

Product Design and Development

Focus on style and quality to become the trend-setter

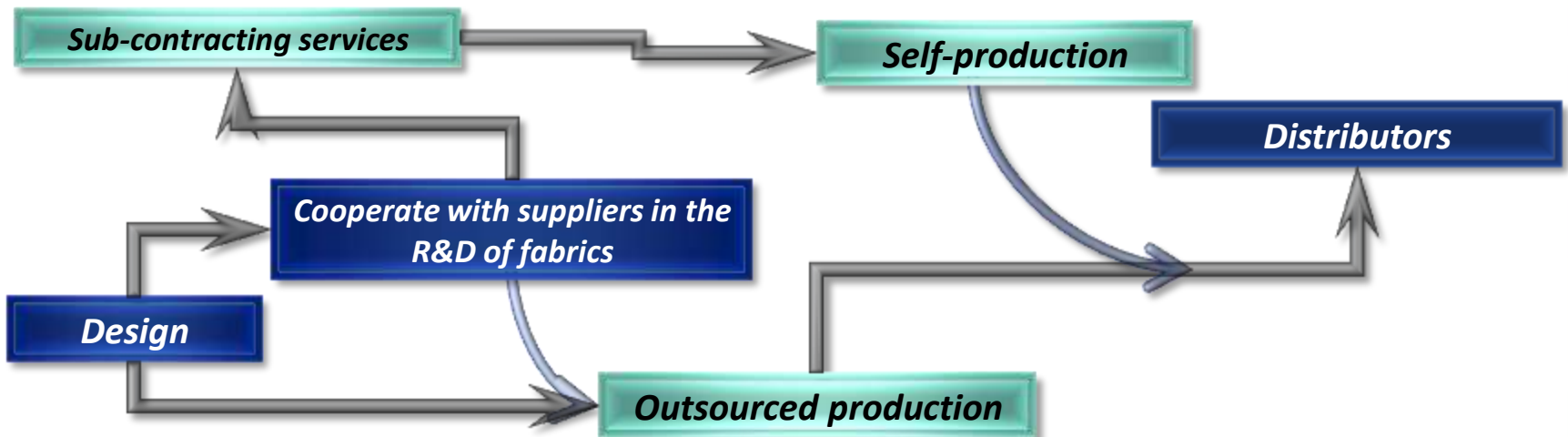
- Established a product planning department to support product design planning with market research and create products closely in line with consumer demand
- Benefits of product planning department are expected to transpire in 2013 Spring and Summer collections
- “LILANZ” was honoured with “Jack-The 8th China National Garment Association Award - Public Award”(傑克·第八屆中國服裝品牌公眾大獎), “2012 China Branding Award – Best Creative Design Award ” (二零一二年品牌中國大獎最佳創意設計獎), “Top 10 China Most Valuable Private Menswear Brands” (全國最具價值民營男裝品牌十強) and “Top 100 China Most Valuable Private Brands” (全國最具價值民營品牌百強), and “The 7th Asia’s 500 Most Influential Brands of the year 2012” (亞洲品牌500強)
- The product design team for “LILANZ” is located in Jinjiang with 100 people
- The product design team for “L2” is located in Shanghai with 35 members



Production and Supply Chain

Cost and Quality Control

- Strengthened cooperation with fabrics suppliers to control production costs while maintaining the uniqueness of products' fabrics
- Improved control over raw material procurement for outsourced production and required more OEM suppliers to purchase from designated fabrics suppliers
- Enhanced production flexibility and uplifted production capacity to meet replenishment orders by shifting orders from subcontracting arrangement to outsourced production



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3.Prospect and Strategies



Prospects and Strategies

The Group's overriding objectives in 2013 are to enhance its competitive edges and ensure its sales channel remained healthy. Measures to be adopted:

- ✓ **Cautiously expand store network** – (1) Target to open 200-300 “LILANZ” stores in 2013, and expect to shut down about 200 inefficient stores; (2) Continue to adjust its “L2” store network and focus on 4 provinces (Henan, Shaanxi, Hunan and Hubei) with growth potential; (3) Target to open 70-90 “L2” stores in 2013, and expect to shut down about 50 inefficient stores.
- ✓ **Upgrade store image** – Continue to adopt the new third-generation store image in another 700-800 “LILANZ” stores in 2013.
- ✓ **Enhance retail management** – Continue to arrange training on retail management for distributors.
- ✓ **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.



Upcoming trade fairs – The Group continue to encourage distributors to speed up their destocking process, we expect the sales for 2013 will be affected by the relatively high channel inventory for the spring, summer and autumn of 2012. The total order value of the autumn trade fair to be held during mid-March to early April 2013 is expected to decrease year-on-year. However, we are confident that the situation for the 2013 winter collection will stabilize.

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4. Open Forum



Appendix – Sales Fairs

LILANZ 利郎	Order value	Delivery of order to start in
2012 Fall	+16%	June 2012
2012 Winter	+11.5%	August 2012
2013 Spring and Summer	-9%	January 2013

L2	Order value	Delivery of order to start in
2012 Fall	+61%	June 2012
2012 Winter	+40.5%	August 2012
2013 Spring and Summer	+17%	January 2013