

LILANZ 利郎
CHINA LILANG LIMITED
中國利郎有限公司



Annual Results 2014

Hong Kong, March 2015

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Agenda

- Annual Results Highlights
- Financial Review
- Business and Operational Review
- Outlook and Strategy
- Open Forum



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RESULTS
HIGHLIGHTS

Outperformed Other Industry Players

Menswear industry in the PRC remained weak in 2014

- Retail consumption slowed down
- Indiscriminate and extensive expansion in the past led to excess inventory and winding-up of retail stores
- Channel inventory clearance was drawing to a close, and operating environment has improved

China Lilanz's performance indicators continued to improve



- Sales proportion of original products increased
- Products are better value for money
- Product designs are more individualized to give distinctive brand image
- Completed nation-wide store network restructuring, store closing cycle ended
- Channel inventory is back to a healthy level
- Retail discounts narrowed with expanding average same-store sales growth

2014 Annual Results Financial Highlights

(RMB million)	FY2014	FY2013	Change
Turnover	2,433.0	2,298.6	+5.8%
Gross profit	1,035.7	979.8	+5.7%
% of Turnover	42.6	42.6	- p.p.
Profit from operations	680.8	582.0	+17.0%
% of Turnover	28.0	25.3	+2.7 p.p.
Net Profit	554.9	516.1	+7.5%
% of Turnover	22.8	22.5	+0.3 p.p.
Earnings per share			
Basic (RMB cents)	46.17	42.97	+7.4%
Diluted (RMB cents)	46.06	42.88	+7.4%
Final dividends per share			
Final (HK cents)	17.0	16.0	+6.3%
Special final (HK cents)	6.0	5.0	+20.0%
Net cash per share (RMB)	1.61	1.37	+17.5%



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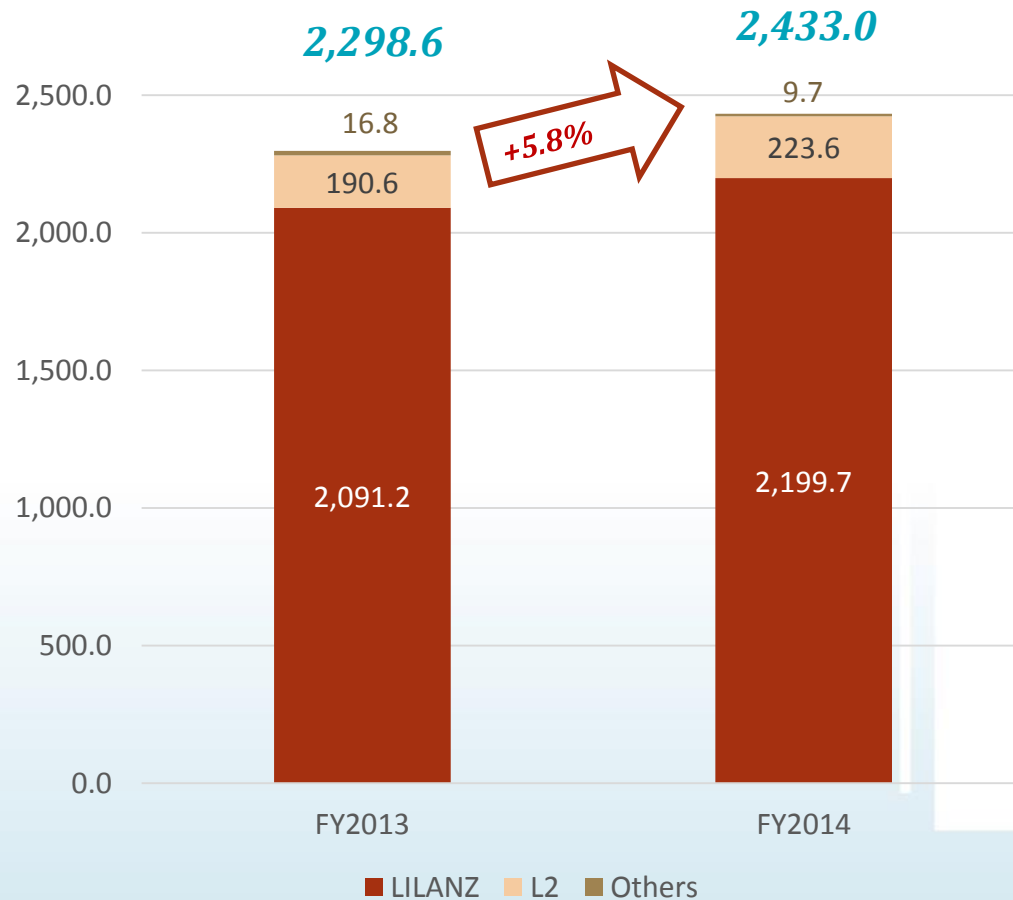


FINANCIAL
REVIEW

Turnover Analysis

Total Turnover & Turnover By Brand

(RMB million)

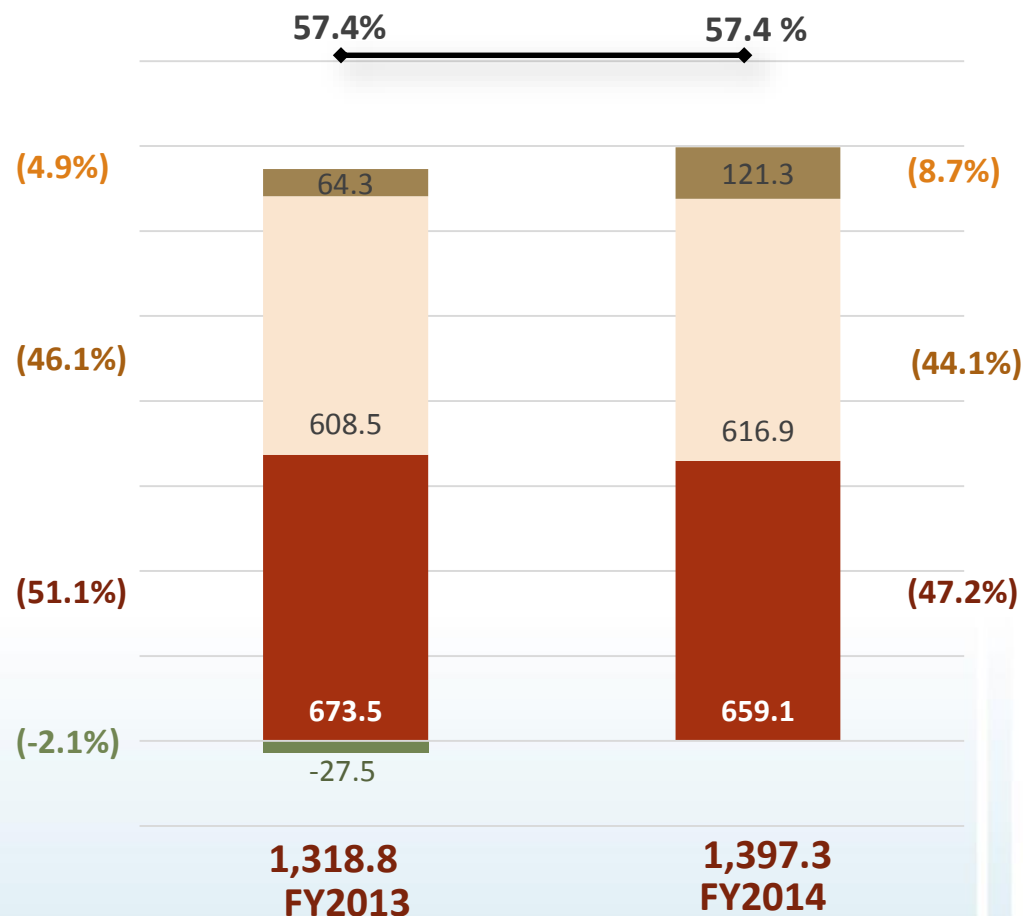


Turnover change due to:

- Measures to boost brand image and product designs drove stable volume growth with more competitive products
- ASP fell slightly under the strategy of “improving product quality without raising the price”
- Trade fair results on an uptrend during 2014, and delivery on schedule
- Sales of LILANZ and L2 accounted for 90.4% and 9.2% respectively of turnover

Cost of Goods Sold

(RMB million)



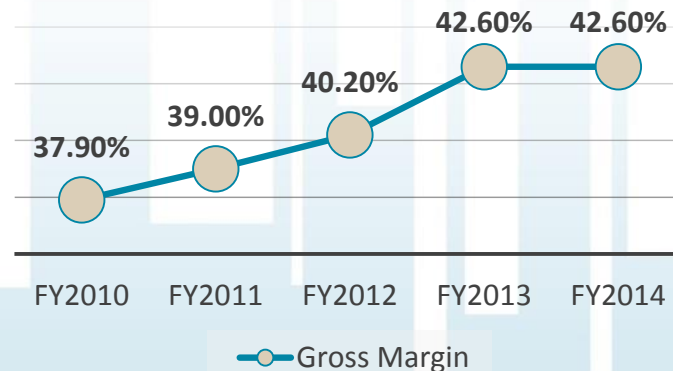
■ OEM purchases ■ Other self-production costs
■ Process outsourcing costs ■ Inventory write-off

↔ As % of turnover

() As % of COGS

Gross profit margin stable at 42.6%

- Slight pressure on GP margin under “improving product quality without raising price” strategy
- Production cost savings from:
 - Slightly lower raw materials prices
 - Increased proportion of original products
- Self production cost (including process outsourcing) ratio up by 1.8 p.p. to 52.8%
- R&D cost increased by 20.3% to RMB81.1 million

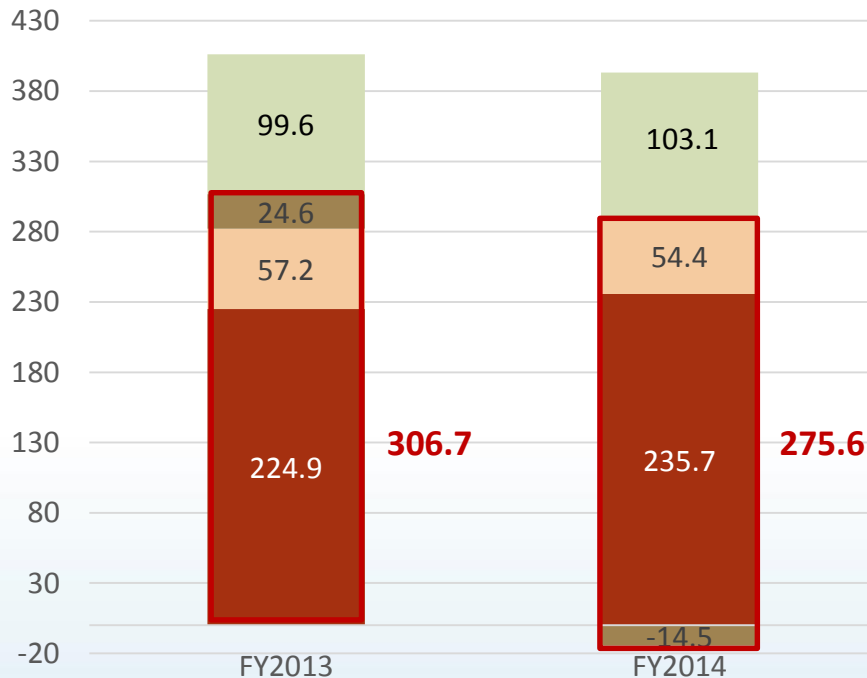


SD&A Expenses

SD&A Expenses

Total Amount

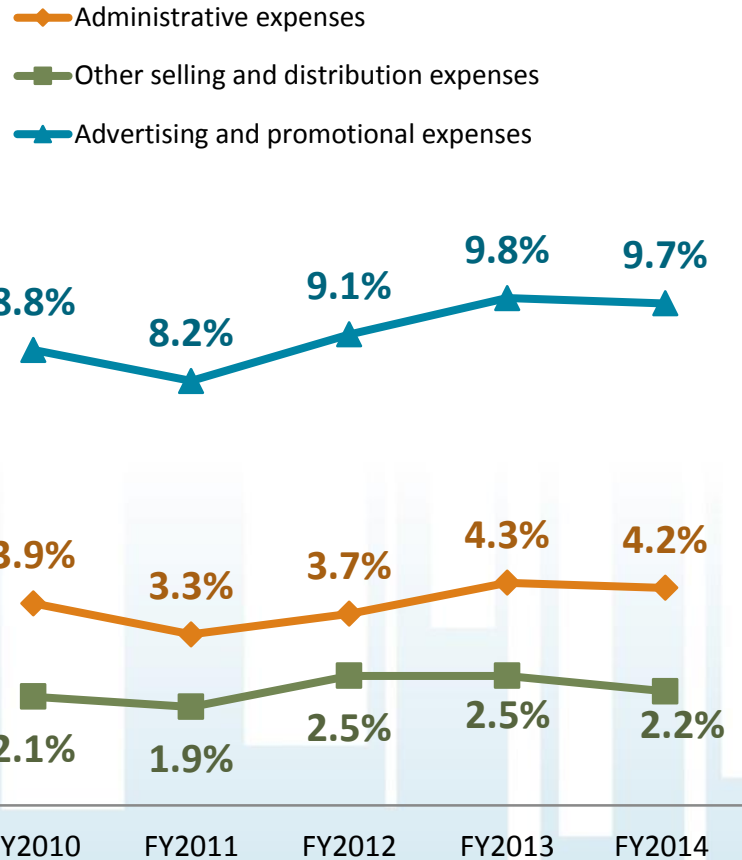
(RMB million)



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

SD&A Expenses

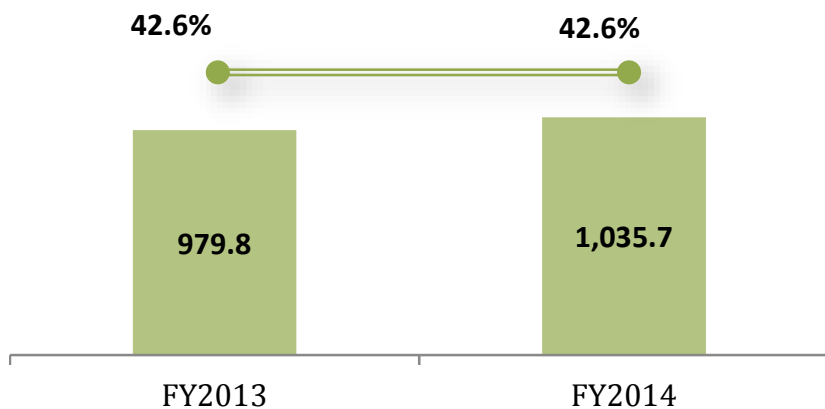
As % of Turnover



Increased Profit and Margins

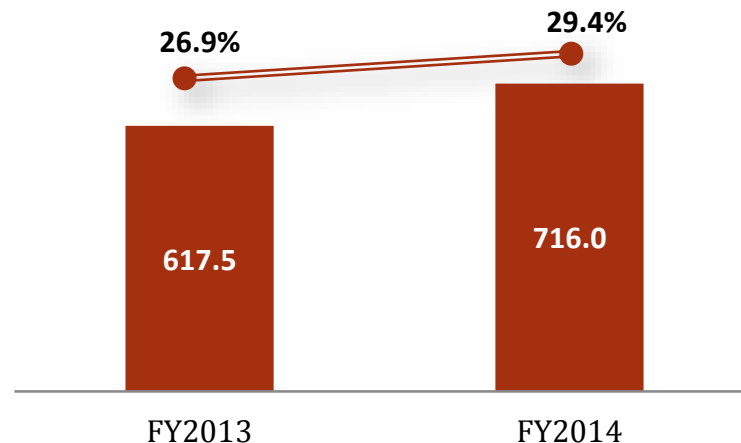
Gross Profit & Margin

(Unit: RMB million)



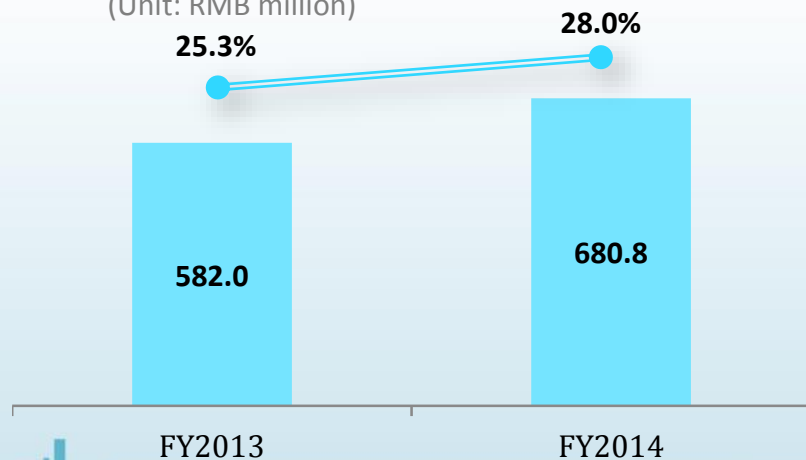
EBITDA & Margin

(Unit: RMB million)



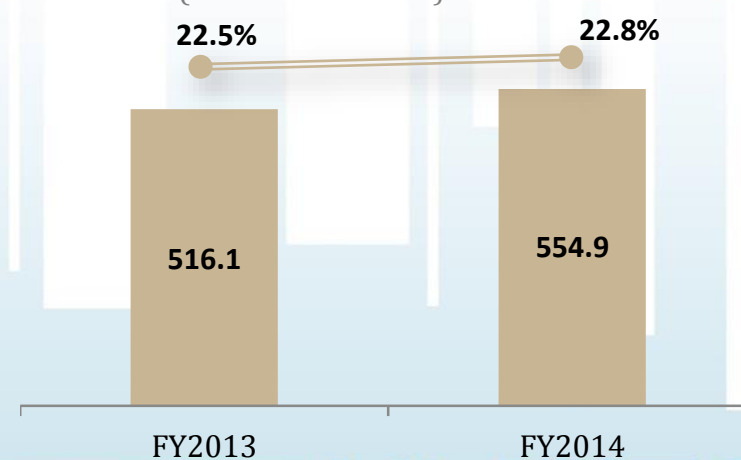
Operating Profit & Margin

(Unit: RMB million)



Net Profit & Margin

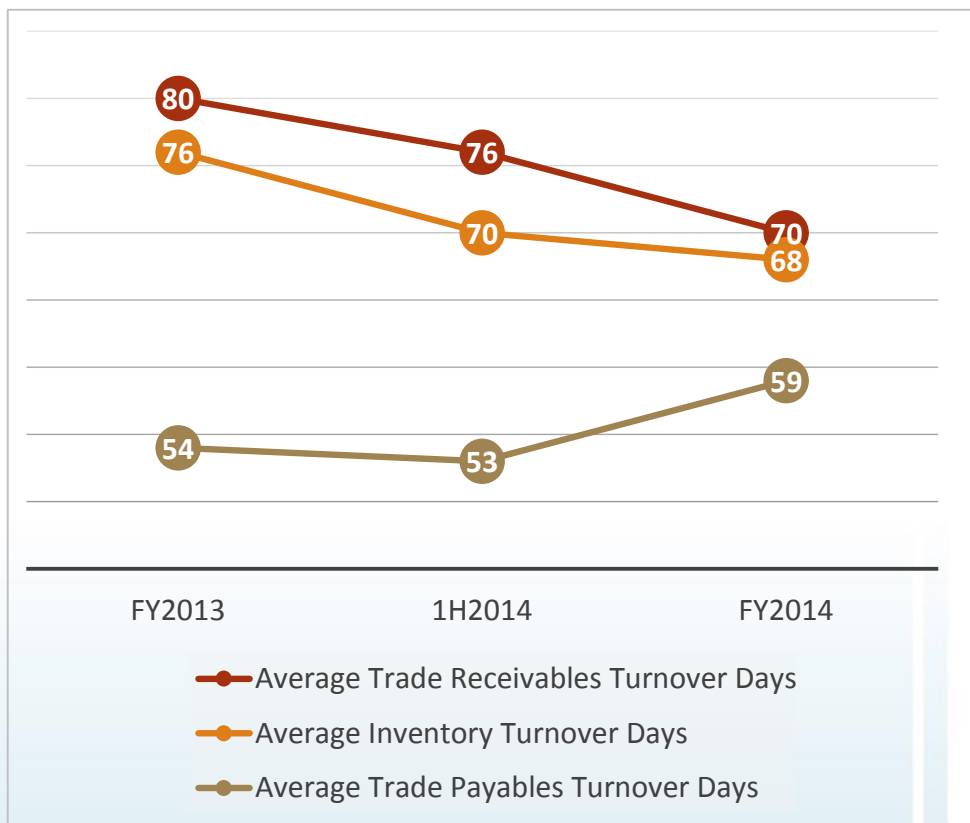
(Unit: RMB million)



Working Capital Cycle

Turnover Days

(Unit: Days)



Working capital cycle shortened

Trade Receivables

- Average turnover days decreased by 10 days to 70 days
- Year-end balance increased by 22.0% due to sales growth of 2014 winter collections and extended credit terms granted to some distributors to encourage them to open large-scale stores in shopping malls
- Provision for doubtful debts of RMB10.1 million as at December 2014

Inventory

- Inventory turnover days dropped by 8 days to 68 days mainly because of the 8.2% decrease of the inventory balance from December 2013

Trade Payables

- Average turnover days increased to 59 days as longer payment terms were adopted for new suppliers

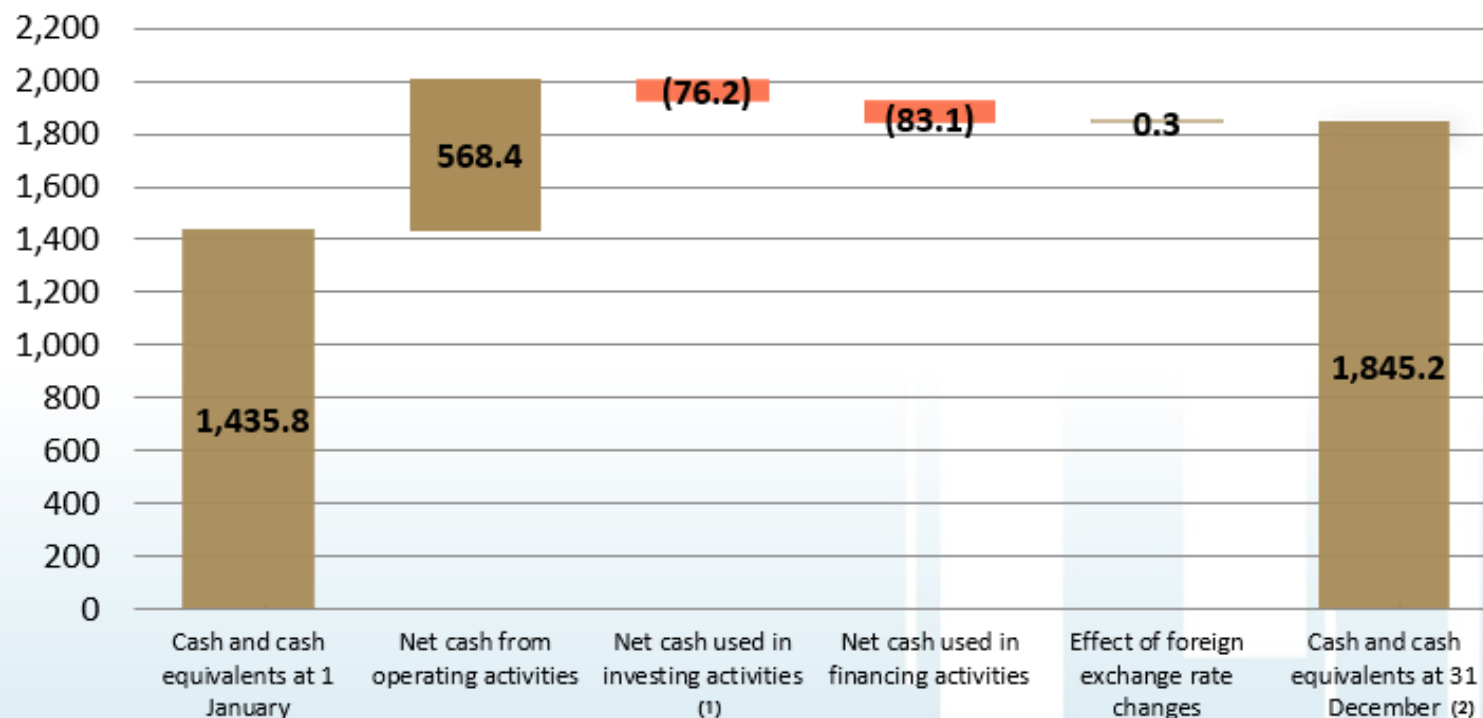
Remarks:

- 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.

Cash Flow

Cash and cash equivalents

(RMB million)



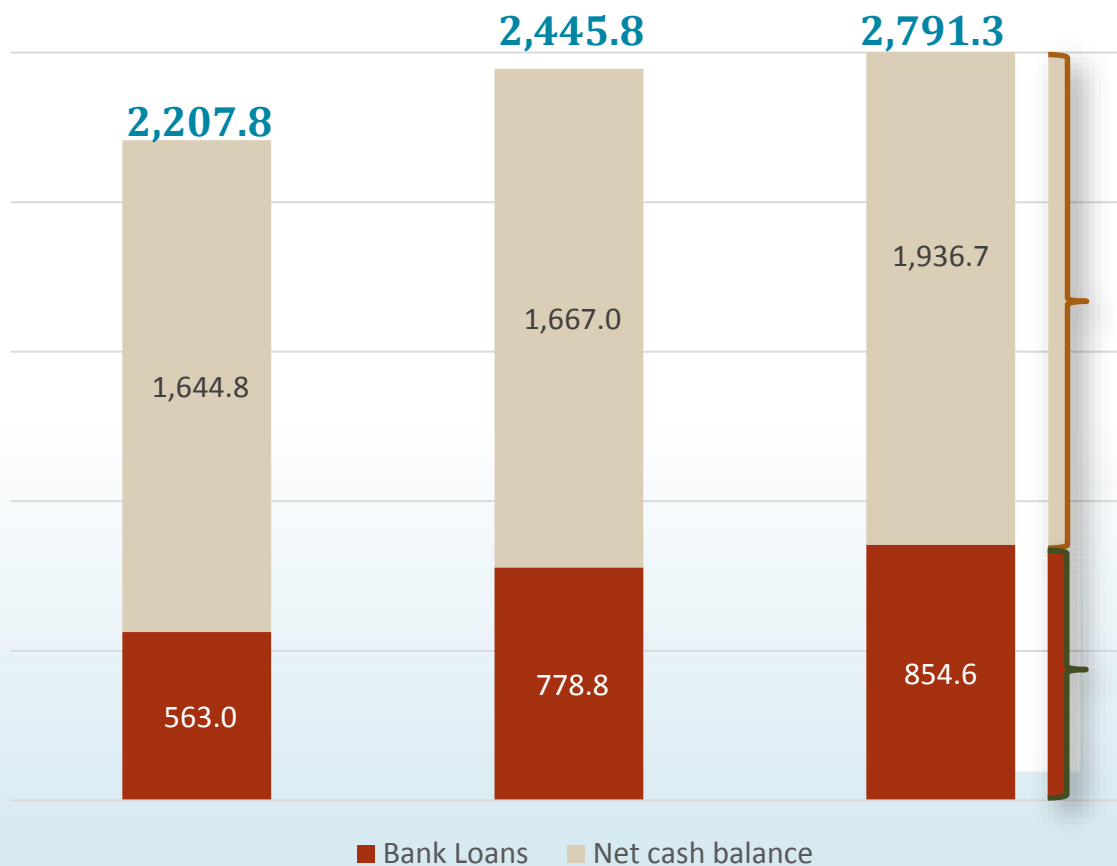
(1) Included placements of time deposits and pledged bank deposits with maturity over 3 months

(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 RMB1.94 billion, up from RMB1.64 billion at the end of 2013

Secured by pledged bank deposits

31 December 2013

30 June 2014

31 December 2014

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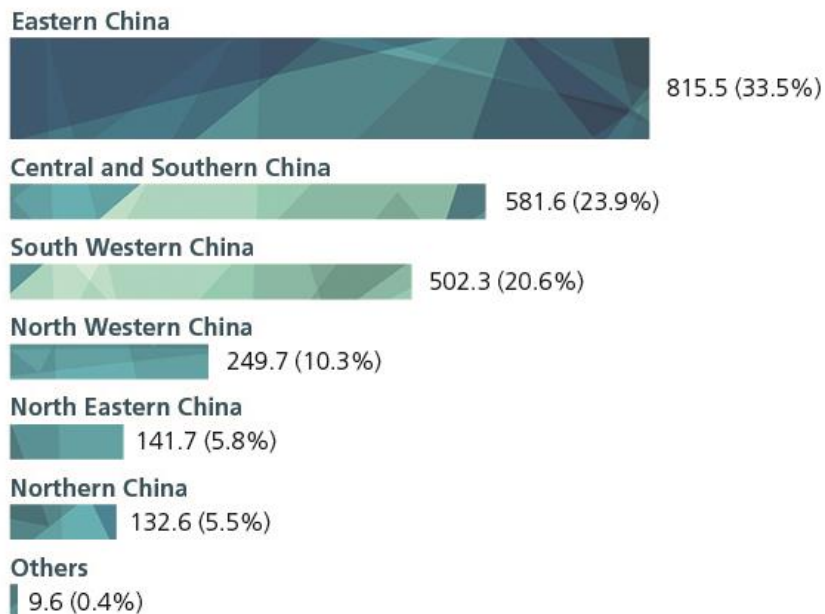


**BUSINESS &
OPERATIONAL
REVIEW**

Nationwide Distribution Network

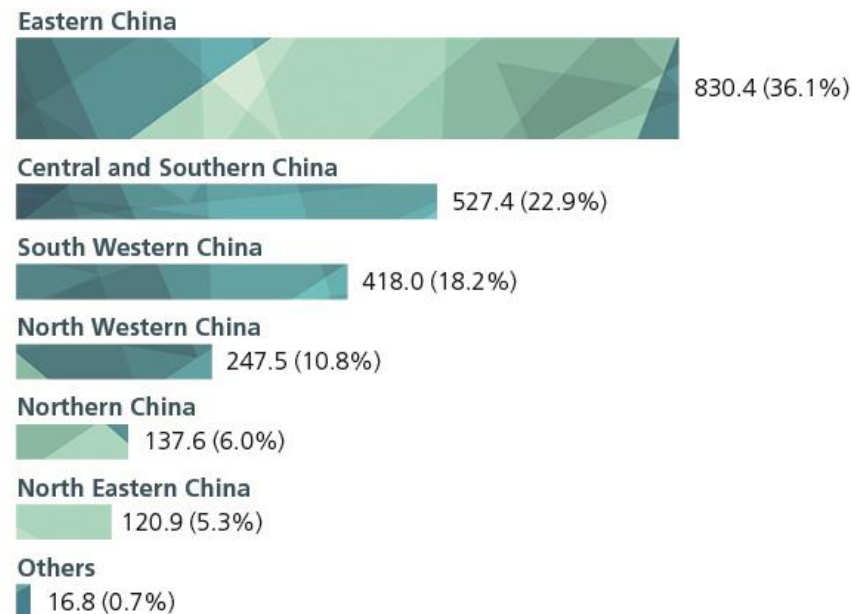
2014

Turnover by Region
RMB million (% of turnover)



2013

Turnover by Region
RMB million (% of turnover)



Group store count	2014 Dec 31	2014 Jan 1	Change
Eastern China	850	1,011	-161
Central and southern China	740	806	-66
South Western China	615	656	-41
North Eastern China	305	367	-62
Northern China	295	330	-35
North Western China	274	285	-11
Total store count	3,079	3,455	-376

	No. of stores renovated
2012	280
2013	750
2014	680
2015	250 - 300 (Expected)

Sales Channel Management

Paying close attention to the potential of e-business channel

- Operate online flagship stores for LILANZ and L2
- L2 also uses various online shopping platforms for inventory clearance
- Products are at the same price on online sales platforms and brick-and-mortar stores except for out-of-the-season inventories



Managing sales channel

- Monitor sales and channel inventories through ERP system
- Operate discount stores prior to store renovation and temporary promotion counters in department stores to clear out-of-the-season inventories



Enhancing the management skills and efficiency of distributors

- Training programs provided for the distributors:
 - (1) upgrade and planning of distribution channels;
 - (2) transformation from 'brand wholesaling' to 'brand retailing'

Brand	LILANZ	L2	Total
Total no. of retail stores	2,783	296	3,079
Total area of retail stores (sq.m.)	301,400	32,600	334,000
Change	-8.0%	+9.4%	-6.5%

Product Design and Development

- Promote individuation in its product designs and further differentiate its products from market peers
- 2014 products of LILANZ incorporating new design concepts from the international R&D team were well received by the market
- Increased proportion of original products
- A new accessory designer joined the international design team in early 2014 with an aim to increase sales and profitability of accessory
- L2 focuses on trendy casual wear which better suits the needs of target customers



LILANZ 利郎

L2

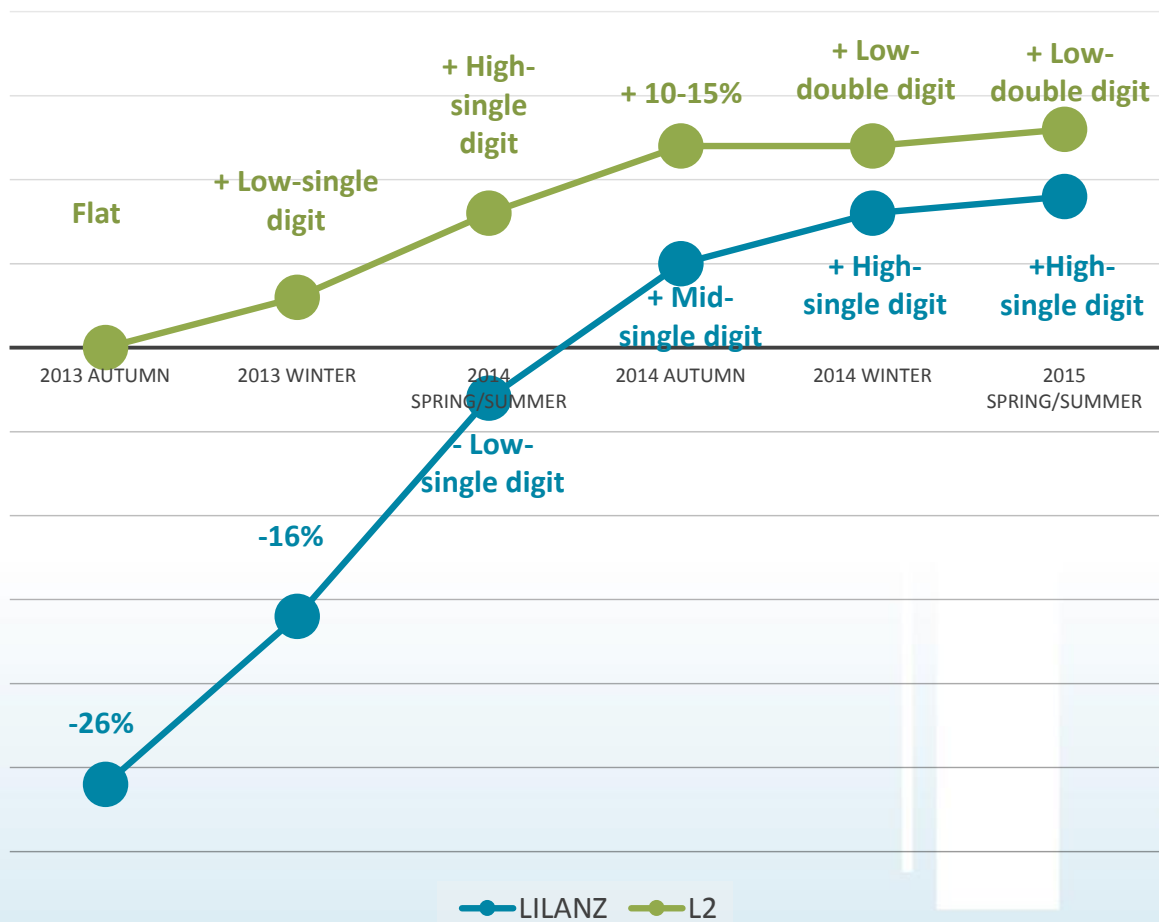
Marketing and Promotion



- Continue to engage Mr. Chen Dao Ming (陳道明), as the spokesperson for “LILANZ”. A micro film was made during the year and available for viewing on the internet since December
- Putting soft-sell advertisements in magazines and newspapers
- Placing pre-movie advertisements in cinemas
- Setting up billboards in a dozen of airports in China and the airport in Bangkok, Thailand

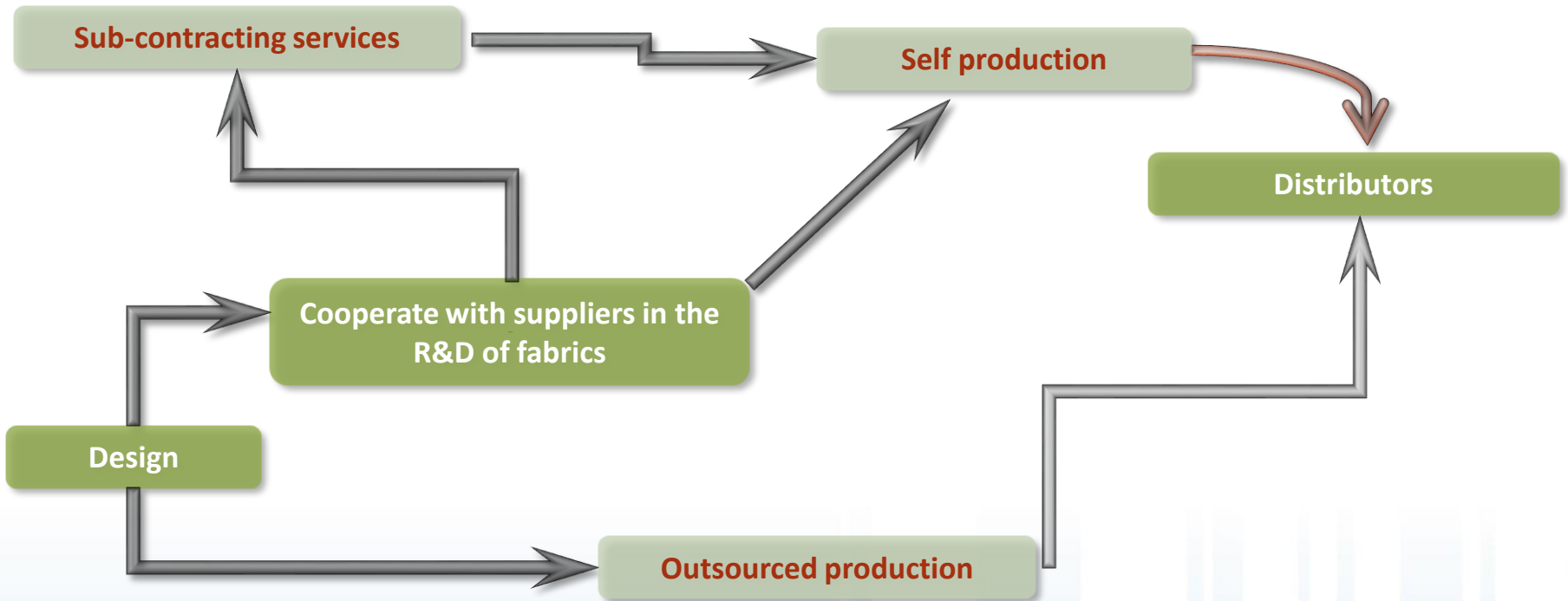


Trade Fair Results



- Sequential improvement of trade fair results
- 2015 Spring/Summer products shipment commenced in January 2015

Production and Supply Chain



- Continue to improve its supply chain management and control costs by identifying more cost-efficient fabric suppliers and processing plants
- Enhance the fabric texture and workmanship skills to make the products more comfortable
- Share the benefits of its improved supply chain management with the consumers by offering them products of better value for money

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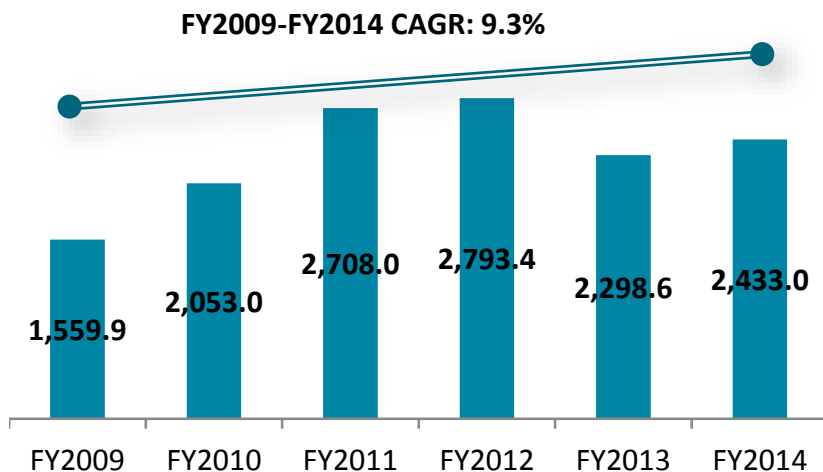


**OUTLOOK
& STRATEGY**

Growth in five years since listed

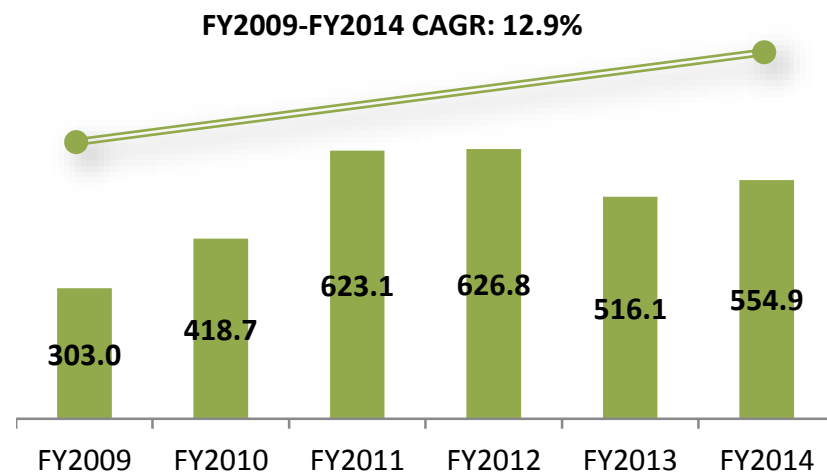
Turnover

(Unit: RMB million)



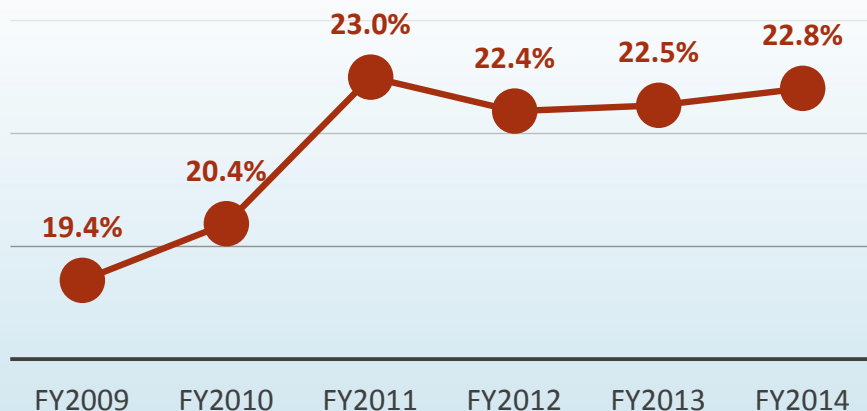
Net Profit

(Unit: RMB million)



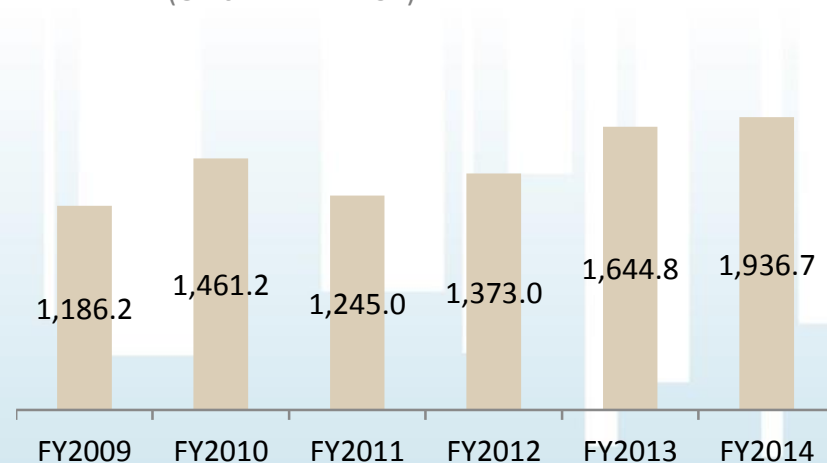
Net Margin

(Unit: RMB million)



Net Cash balance

(Unit: RMB million)



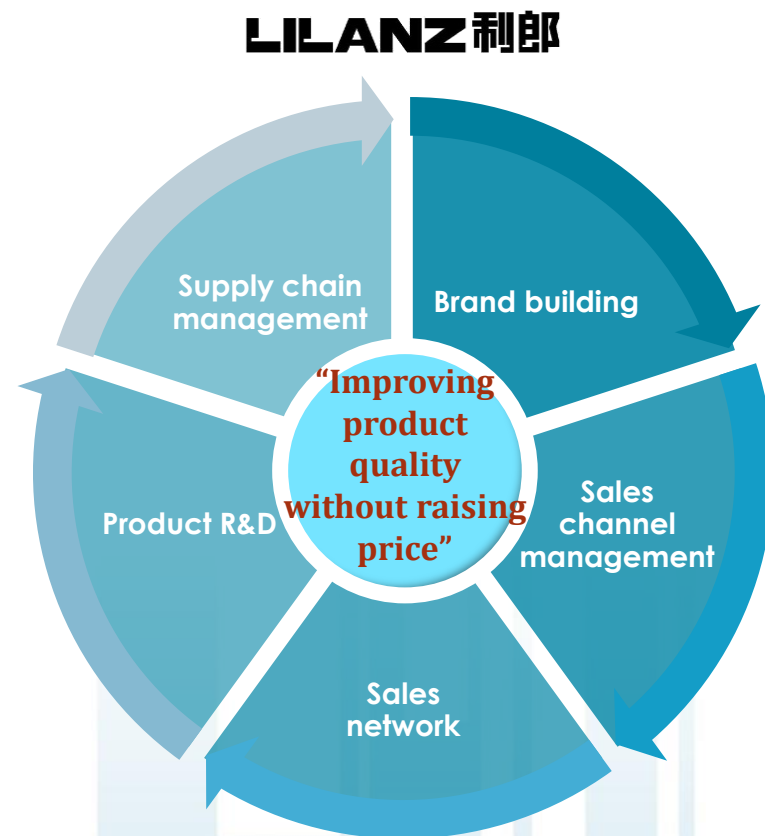
Prudent and Flexible Operation Strategy

Enhance core competitiveness

- Continue to implement the strategy of **“improving product quality without raising the price”**
- Raise the proportion of original products in sales
- Further enhance value for money of its products by improving product design, workmanship and materials

Management of retail network

- Focus on improving store efficiency to capture the opportunities arising from the industry consolidation
- Maintain a prudent approach to store opening in 2015
 - “LILANZ”: keep the existing number of store count
 - “L2”: 20-30 net increase
- Open large-scale stores in shopping malls in provincial capitals and prefecture-level cities
- Continue the renovation program of “LILANZ” stores with the remaining 250 to 300 stores scheduled to be completed in 2015



We are cautiously optimistic about the prospects for 2015, expecting satisfactory growth at 2015 Autumn Trade Fair, and target to achieve mid-to-high-single digit SSS growth

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**OPEN
FORUM**