

(For Immediate Release)

# LILANZ 利郎

## China Lilang Announces 2012 Annual Results Net Profit for the Year Amounted to RMB627 million Enhance Brand Competitiveness and Ensure Sales Channels Remained Healthy

### Financial Highlights:

| <i>RMB million</i>                   | For the year ended 31 December |            |           |
|--------------------------------------|--------------------------------|------------|-----------|
|                                      | 2012                           | 2011       | Change    |
| Turnover                             | <b>2,793.4</b>                 | 2,708.0    | +3.2%     |
| Gross profit                         | <b>1,124.0</b>                 | 1,055.5    | +6.5%     |
| Gross profit margin                  | <b>40.2%</b>                   | 39.0%      | +1.2 p.p. |
| Profit attributable to shareholders  | <b>626.8</b>                   | 623.1      | +0.6%     |
| Basic earnings per share (RMB cents) | <b>52.2</b>                    | 51.9       | +0.6%     |
| Dividend per share                   |                                |            |           |
| - Final dividend                     | <b>HK19 cents</b>              | HK19 cents | -         |
| - Special final dividend             | <b>HK6 cents</b>               | HK6 cents  | -         |

(13 March 2013 – Hong Kong) **China Lilang Limited** ("China Lilang" or the "Company", together with its subsidiaries, known as the "Group"; stock code: 1234), one of the leading menswear companies in China, is pleased to announce its annual results for the year ended 31 December 2012.

For 2012, the Group's turnover rose 3.2% year-on-year to reach RMB2,793.4 million. Gross profit amounted to RMB1,124.0 million, posting a 6.5% growth. Gross profit margin increased by 1.2 percentage points to 40.2%, meeting the Group's target for gross profit margin improvement. Profit attributable to shareholders increased by 0.6% to RMB626.8 million. Basic earnings per share were RMB52.2 cents, up by 0.6%. The Board of Directors recommended a final dividend of HK19 cents per share and a special final dividend of HK6 cents per share. The total payout for the year amounted to HK44 cents per share, representing a payout ratio of 67.8%.

Furthermore, the Group continued to maintain solid financial position. As at 31 December 2012, the Group had a net cash balance of RMB1,373.0 million, while net cash per share increased to RMB1.14.

Commenting on the 2012 results, Mr. Wang Dong Xing, Chairman and Executive Director of China Lilang, said, "China's economic growth slowed noticeably in 2012, coupled with unfavourable weather conditions, such as a rainy spring and summer and a short autumn, sales growth of our menswear products were adversely affected. Also, the aggressive discounts offered by some men's clothing brands also undercut our sales performance. Faced with various uncertainties, we revised the order placement policy with our distributors early last year. At the same time, we slowed down the pace of opening new stores in order to reduce channel inventory risks. On the other hand, we strengthened our competitiveness by conducting training for distributors, enhancing retail and supply chain management, upgrading the store image, and continuing to invest in research and development."

Sluggish economic conditions and bad weather caused the deceleration in sales of the Group's products. Because of this, turnover remained generally stable throughout the year. To ensure that the channel was in a healthy position, the Group cancelled part of the winter orders which were worth approximately RMB140.0 million in sales value. In addition, because Chinese New Year was in February in 2013, more winter orders had been delivered in January 2013, which affected the sales for the second half of 2012. For the full year, overall sales volume and average selling price of the Group increased slightly by 1.0% and 1.8%, respectively.

During the year, sales of the Group's core brand "LILANZ" and sub-brand "L2" registered year-on-year growths of 0.3% and 50.5%, respectively, and accounted for approximately 92.6% and 6.9% of total turnover. In spite of such a challenging economic environment, the Group still attaches great importance to brand positioning and the profitability of the distributors and thus insists on maintaining a consistent pricing and retail discount policy. As a result, sales for "LILANZ" were slower during the year. Sales volume dropped by 2.7% year-on-year, while the average selling price increased slightly by 3.1% due to a change in product mix. "L2" has been more sensitive to the macroeconomic situation and also the competition from international brands, therefore the Group carefully reviewed the product positioning strategy of "L2" by focusing on trendy casual wear. The average price of "L2" decreased by 2% due to a change in product mix.

In terms of turnover by region, Eastern China region and Central and Southern China region continued to be the major contributors of the Group's turnover and together accounted for 58.7% of the total turnover. Central and Southern China region and North Western China region recorded the fastest growth in sales for the year, and still maintained a double-digit sales growth despite the current economic environment. In particular, North Western China had the highest sales growth. The sales there rose by 22.1% during the year. The sub-brand "L2" mainly targeted Eastern China region and Central and Southern China region. Sales in these areas together accounted for approximately 72.3% of the total sales of "L2". During the year, the Group re consolidated the sales network of "L2" and focused on the expansion in four main provinces, namely Henan, Shaanxi, Hunan and Hubei. It is expected that the sales contribution from Central and Southern China and North Western China will continue to increase.

Among all product categories, tops remained as the main product category by sales, accounting for 70.8% of total turnover. During the year, the Group continued to improve the fabric and quality of trousers. As a result, sales and average price of the trousers rose by 9.6% and 6.0% respectively. Sales of accessories increased by 33.5% and accounted for 5.6% of total turnover. Among the accessories, sales of shoes doubled.

The 2013 autumn trade fairs will be held from mid-March to early April. In view of the relatively high channel inventory level from autumn 2012 as compared to the previous year, the Group expects the orders of 2013 autumn trade fairs to decrease year-on-year. However, assuming that the overall business environment does not deteriorate, the Group is confident that the situation for the 2013 winter trade fair will stabilize after the adoption of various measures.

During 2012, to cope with challenges posed by the economy and industry conditions in China, the Group scaled back the plan for opening new shops and reconsolidated retail outlets which had low efficiency. The Group has made steady progress in opening mega stores. During the year, a total of six mega stores were opened. The self-operated flagship stores in Xian and Zhengzhou had begun pilot operation in late 2012.

As of 31 December 2012, there were 64 distributors and 1,472 sub-distributors for the "LILANZ" brand, operating a total of 3,227 retail outlets. The total area of "LILANZ" retail outlets was approximately 359,000 square meters, representing an increase of 10% for the year. As for the "L2" brand, there were 41 distributors and 68 sub-distributors operating a total of 252 retail outlets. The total area of "L2" retail outlets was approximately 26,700 square meters, representing an increase of 6% for the year. Moreover, the latest third-generation design for the Group's "LILANZ" retail stores was launched in the second half of 2012. The Group finished renovating about 280 retail outlets in the second half of 2012.

As at 31 December 2012, the Group's working capital turnover ratio was maintained at a healthy level. For the period, the Group's average inventory days was 55 days; average trade receivables turnover days was 74 days, and average trade payables turnover days was 47 days.

Chairman Wang Dong Xing concluded, "While the business environment still remains challenging, as one of the leading menswear companies in China, China Lilang continues to implement a prudent and flexible business strategy. Our overriding objectives are to enhance our competitiveness and ensure the sales channels remained healthy. We will continue to strengthen our brand image, product design, as well as the management of retail channels and inventories. This year we will continue to upgrade about 700-800 'LILANZ' stores to the third-generation store image. At the same time, we will provide training programmes to distributors on retail management in order to strengthen the management of retail sales channels. In addition, we will not aggressively roll out stores until the economy sees signs of revival. For the time being, we target to open 200-300 new 'LILANZ' stores, but will also shut down about 200 underperforming stores. As for 'L2', we will continue to optimise our store network and focus on the four key provinces with higher growth potential, where we target to open about 70-90 stores. However, we will also close down 50 underperforming 'L2' stores. In 2013, China Lilang will focus on sharpening its competitive edges in order to pursue more business opportunities and embrace the challenges ahead."

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## **About China Lilang**

China Lilang is one of the leading PRC menswear enterprises. As an integrated fashion enterprise, the Group designs, sources, manufactures and sells high-quality business casual and fashion casual menswear. Its products are sold across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC under its core brand "LILANZ" and sub-brand "L2". Its menswear products include suits, jackets, shirts, trousers, sweaters and accessories.

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