

LILANZ 利郎

China Lilang Announces 2019 Annual Results

Revenue up by 15.5% and Net Profit up by 8.1% Full Year Dividends Total HK57 Cents Per Share

(19 March 2020 - Hong Kong) China Lilang Limited (“China Lilang” or the “Company”, together with its subsidiaries, known as the “Group”; stock code: 1234) has today announced its 2019 annual results.

Results Highlights

- Revenue up by 15.5% to RMB3,658 million
 - Profit from operations up by 11.1% to RMB 980 million; Net profit up by 8.1% to RMB 812 million
 - Earnings per share up by 8.1% to RMB67.82 cents
 - Proposed final dividend of HK21 cents per share and special final dividend of HK10 cents per share; full year dividends per share increased by 5.6% to HK57cents
 - Total number of retail stores up by 145 to 2,815 and the number of stores in shopping malls increased to about 780, accounting for almost 28% of total store count
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Mr. Wang Dong Xing, Chairman and Executive Director of China Lilang, said:

“The transformation of retail channels continued during the year under review. The increasing number of shopping malls has dispersed consumer traffic. In addition, the abnormally high temperatures nationwide in the fourth quarter of the year, the traditional peak season for the retail sector, added more challenges to the apparel industry. Brand and product competitiveness, retail management and shop location have become increasingly important determinants of operating efficiency. Adhering to the strategy of providing products with excellent value-for-money, China Lilang continued to enhance the fashion elements and design of products in order to stand out from its peers and maintained steady growth in results during the year”.

For the year ended 31 December 2019, revenue of the Group increased by 15.5% year-on-year to RMB3,658 million. To relieve distributors from the pressures of excessive fall and winter inventories resulting from the mild winter, the Group provided rebates to distributors as incentives to offer discount clearance sales. Provision for such rebates was made in 2019 and deducted from revenue. Profit from operations increased by 11.1% to RMB980 million. The operating margin decreased by 1.0 percentage point to 26.8%. Net profit was up by 8.1% to RMB812 million. Net profit margin declined by 1.5 percentage points to 22.2%. Earnings per share were RMB67.82 cents, up by 8.1%.

The Group remained financially robust with healthy cash flows. The Board of Directors recommended the payment of a final dividend of HK21 cents per share and a special final dividend of HK10 cents per share. Together with the interim dividends paid, total dividend for the year amounts to HK57 cents per share, once again maintaining a relatively high payout ratio.

China Lilang continued to expand its sales network, and pragmatically supported distributors in opening new stores or relocating existing stores to better locations. By the end of December 2019, there was a total of 2,815 LILANZ retail stores nationwide, representing a net increase of 145 stores during the year. The total retail floor area increased by 7.0% as compared with the end of 2018 to about 406,400 sq m. The number of stores in shopping malls increased to about 780, accounting for almost 28% of the total store count. Of these, specialty stores for the smart casual collection increased by 78 to 290.

During the year, the Group has improved its store performance by enhancing retail management. Retail stores in operation for more than 18 months recorded mid single-digit same-store sales growth on average during the year.

Furthermore, online retail remains one of China Lilang's top priorities for future business development. The Group promotes the business of its core collection and smart casual collection by actively integrating online services with offline physical in-store experiences while optimising its logistics services. Apart from having online stores on major online sales platforms for both the core and smart casual collections, the Group also provides customer relations management services via the WeChat platform. During the year, the Group has boosted online customer flows by organising various promotional activities, including the launch of limited edition products online, placing advertisements on renowned web portals, commissioning influencers to promote products, and collaborating with Baidu. In particular, a special promotion was held on the Double Eleven Online Shopping Festival, and sales on that day increased significantly over the previous year. This has not only helped distributors to destock, but also boosted customer flows.

Looking into 2020, China Lilang will adopt a prudent strategy and focus on the optimisation of the existing store network, the improvement of retail management and store performance. The Group will continue to facilitate distributors to open stores in quality shopping malls for better store efficiency. However, considering that certain underperforming distributors or low efficiency street stores will be closed, the target store count remains at a level similar to the end of 2019.

For the core collection, the Group will continue to encourage distributors to operate more direct-retail stores and further improve channel management in different aspects. For the smart casual collection, the Group plans to replace the current consignment model with a direct-retail model in autumn 2020 to strengthen various management areas such as inventory, market expansion, brand marketing and training of retail personnel. In the medium-to-long-term, the smart casual collection employing the direct-retail model is expected to increase its contribution to the Group's profitability.

To better manage the inventory level, the Group has reduced the percentage of pre-orders for the smart casual collection since its 2019 fall trade fair. This measure will be extended to the core collection starting from the 2020 fall trade fair. While reducing pre-order levels, sufficient production capacity will be prepared for replenishment orders. In addition to revising the pre-order level to mitigate inventory risk, the Group also plans to open more stores in outlet malls and department stores starting in 2020 so as to reduce channel inventories in a more timely manner.

The smart casual collection will continue to be expanded into provincial capitals in 2020, such as Zhengzhou, Xi'an, Hefei, Changsha, Guiyang and Nanchang. Whereas in Hangzhou, Wenzhou, Suzhou, Nanjing, Qingdao and Tianjin, stores will only be opened in key shopping areas. In Beijing, Shanghai and other first-tier cities, instead of opening new stores, the Group will focus on brand promotion to support business development in other markets. As for product positioning, the Group plans to enhance the fashion and design elements of the smart casual collection to improve the pricing structure of the collection, which will not only ensure the product quality in order to gain customers' favour, but will also help to improve the profitability of the brand.

As for the online retail business, apart from further boosting customer flows and enhancing online marketing, the Group will continue to drive online sales through launching online special editions and IP crossover products. The first batch of IP crossover products for the 2020 spring and summer collections has been launched and corresponding marketing activities are underway.

To publicise the brand, the Group will continue its brand promotion through Baidu, MicroBlog Tik Tok and various online and social media channels, as well as a range of activities. Meanwhile, the seventh-generation store image for the core collection will be rolled out to 100-200 existing stores, using different decorative materials, subject to different market position of the stores, in order to achieve better cost efficiency.

The coronavirus outbreak starting from January this year has hit hard on the retail sales of the 2020 spring products. The Group will reduce the production of the 2020 fall products to facilitate the destocking of the spring channel inventories. It will also consider granting sales rebates to distributors who are most affected as subsidies for offering discount clearance sales of the spring products. Despite strong retail performance before the Lunar New Year in January, the total retail sales of "LILANZ" in the first quarter are expected to drop by more than 40% year-on-year. The Group estimates that the financial performance for the first half of the year will be adversely affected.

Chairman Wang Dong Xing concluded:

“The epidemic will have some impact on the retail market in the first half of the year; but we expect its impact on our business to be temporary. In mid-March, about 70% of LILANZ stores have resumed operation. We expect business will resume normal operations by autumn and winter at the soonest. For the second half year, a no less than mid single-digit growth target for total retail sales of LILANZ products has been set. As a well-established menswear enterprise, the Group believes that China Lilang has distinctive advantages in both original designs and value-for-money of its products. The Group will further improve its retail and channel management to enhance store efficiency. The Group is confident that it will continue to outperform other industry peers in this challenging operating environment. In the long run, we will retain our multi-brand development strategy, with the aim of improving the competitiveness and price-to-value ratio of our products, further consolidating our leading position in the menswear industry and realising sustainable long-term growth.”

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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 and manufactures high-quality business and casual apparel for men and sells under the LILANZ brand across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC.

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