

LILANZ 利郎

China Lilang Announces 2021 Interim Results

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Revenue Up 23.9% to RMB1,354 Million Net Profit Amounts to RMB271 Million Interim Dividends of HK18 Cents per Share

(Hong Kong - 23 August 2021) - **China Lilang Limited** (“China Lilang” or the “Company”, together with its subsidiaries the “Group”; stock code: 1234) has today announced its unaudited 2021 interim results.

Results Highlights

- Revenue increased by 23.9% to RMB1,354 million
- Net profit was RMB271 million
- Earnings per share was RMB22.7 cents
- Interim dividends totaled HK 18 cents per share
- Sell-through rate of products has increased after around 40% of the Core Collection stores have been converted to the consignment model starting from the 2021 Spring and Summer Collections
- As most of the stores of the Smart Casual Collection have switched to direct-to-retail model since mid-2020, store efficiency gradually improved and the inventory level continued to decline
- Total retail sales of the Group's products in the first half of the year increased by 25%-30% year-on-year

Mr. Wang Dong Xing, Chairman and Executive Director of China Lilang, said,

"Although the COVID-19 pandemic has flared up in parts of China, it is still generally under control. The domestic economy has exhibited a trend of steady and positive development, and the pent-up consumer demand has been gradually released. In the first half of the year, China Lilang steadily implemented a series of business model reforms, optimised the retail network, and increased product competitiveness. As a result of these efforts, total retail sales of the Group's products increased by 25% to 30% year-on-year".

For the first half of the year ended 30 June 2021, revenue increased by 23.9% year-on-year to RMB1,354 million. Profit from operations was RMB 308 million. Net profit and earnings per share rose 0.9% to RMB271 million and RMB22.7 cents respectively.

During the period, the Group maintained a sound financial position and sufficient cash flow. The board of directors has resolved to pay an interim dividend of HK 13 cents per share (2020 Interim: HK 12 cents) and a special interim dividend of HK 5 cents per share (2020 Interim: HK 5 cents) continuing to maintain a relatively high dividend payout ratio.

China Lilang implemented a series of business model reforms during the period. Approximately 40% of the Core Collection stores have been converted to the consignment model starting from the 2021 Spring and Summer Collections. Stores operating under the consignment model share inventories via the online warehouse, so the sell-through rate of the Spring and Summer Collections has increased as a result. As for the Smart Casual Collection, the shift of most of the stores to the direct-to-retail model since mid-2020 has gradually helped optimise store efficiency and the inventory level continued to decline. During the period, the Group turned its online stores into a self-operating model, strengthening the management and control of e-commerce channels. The Group also continued to expand the virtual inventories of physical stores through the stores in WeChat Mall to improve the sales efficiency per store.

Besides, the Group continued to pragmatically support distributors in optimising the retail network by closing underperforming stores while opening stores in carefully selected suitable shop locations in quality shopping malls in order to achieve higher store efficiency. The Group has started rolling out the seventh-generation store image of the Core Collection to existing stores with about 100 stores completing renovation in the first half of the year. The Smart Casual Collection has started to optimise the store locations and to enhance the retail space arrangement of stores in various regions by stages. Such restructuring of the store network in Xi'an and Zhengzhou has already been completed. As at the end of June 2021, LILANZ had a total of 2,708 retail stores nationwide, representing a net decrease of 53 stores. Among them, the number of stores in shopping malls increased to 821, accounting for 30.3% of the total store count and 32.7% of the total retail area; 287 were independent specialty stores for the Smart Casual Collection; and the number of outlet stores increased to 40.

New retail remains one of the Group's top priorities for business development. It has comprehensively capitalised on the complementary advantages of online and offline services. More new products were launched online during the period, marking the start of the new model of launching fast-developed products by using the Group's in-house production plant's capability to swiftly produce small batch orders. In addition, the Group has leveraged the WeChat platform and its stores in WeChat Mall to increase store efficiency. Total retail sales value of online stores for the period increased by 15% to 20% year-on-year.

During the period, while adhering to its strategy of providing products that represent excellent value-for-money, the competitive advantages of the products were demonstrated and the efficiency improved. The proportion of originally designed products was maintained at about 70% of the products sold. The project to gradually upgrade the fashion elements and design of products of the Smart Casual Collection was completed in the 2021 Spring and Summer Collection. The Group increased the markup rate of particular products based on product design and market competitiveness starting with the Spring and Summer Collection in 2021, thereby boosting the gross profit margin. In addition, to be able to launch more fast-developed products online, the Group began to develop new suppliers to source materials for fast-developed products since last year, and leveraged the capability of the Group's own production plant in swiftly producing small batch orders.

As for brand promotion and management, the Group organised a series of activities with an aim to revitalise its brand. In addition to hiring KOLs to showcase new products on platforms such as Tiktok and Xiaohongshu, the Group also rejuvenated the brand through crossover products of the Core Collection with *China Daily* and the Smart Casual Collection with the science fiction film “The Three-Body Universe” for the 2021 Spring and Summer Collection. The Group continued to carry out brand promotion activities with Han Han, its brand ambassador, including sponsoring the New Year’s Eve talk show "2021: Speaking the Truth" participated by Han Han and also making a short film with the theme of positive emotions after the pandemic for broadcast on various online media and in high speed train. The "I Look Great with the World" commercial shot with Han Han and Li Dan, and launched by the Group, garnered the "Creative Communication Gold Case" prize at the 10th ADMEN International Awards (第十屆 ADMEN 國際大獎) in 2021, and won the Gold Award at the 2021 IAI Awards (IAI 傳鑒國際廣告獎). Besides, the Group won the "2020-2021 Innovative and Advanced Retail Enterprise" honour at the "Golden Coordinates" Award Presentation Ceremony of Zhujiang Investment • China Commercial Property.

Looking ahead to the second half of 2021, the Group will adopt a prudent and flexible business strategy, in order to steadily expand its business. It will focus on optimising the existing store network to enhance store efficiency. It will continue to strictly select and open stores in suitable shop locations within quality shopping malls in provincial capitals and prefectural-level cities to replace street-level stores operating at low efficiency. Meanwhile, the Group will also add stores in outlets as a recurring channel for inventory clearance. It will continue to optimise the store network for the Smart Casual Collection and enhance the retail space arrangement of stores in various regions by stages. It plans to improve stores in Hefei, Nanchang, Changsha and other cities in the second half of the year. The Group will also organise training for distributors to strengthen their skills in using the WeChat platform to attract traffic and increase sales, thus further boosting store efficiency and the sell-through rate of products, and ultimately boosting the stable growth of sales. With an emphasis on quality, **the Group's annual target is to add 50 to 100 stores in 2021. The target total retail sales growth for 2021 is 15% or more.**

As for new retail business, the Group will continue to organise various activities on Weibo, Tiktok and other online portals, and will launch more fast-developed products online, as well as launching the limited edition environmentally-friendly products online in the 2021 Fall and Winter Collections.

As for brand promotion, crossover products of the Core Collection with *China Daily* and the Smart Casual Collection with the science fiction film “The Three-Body Universe” will continue to be launched in the autumn and winter seasons. The renovation of the seventh-generation store interior design for the Core Collection will be rolled out to around 400 stores in the second half of the year. The Smart Casual Collection will also launch a refurbished store decor in the second half as planned. A fashionable and fresh brand image of new stores is set to attract more customers.

By adhering to the strategy of providing products that represent excellent value-for-money, the Group will continue to enhance the personality-themed and original designs of its collections to provide greater value-for-money and differentiate itself from its peers. It is expected that the proportion of originally designed products will be further increased to around 75% in the 2021 Winter Collection.

Operations at the new headquarters in Fujian have begun in February 2021, providing a new stage for the Group's development. Phase I of the new logistics centre aims at commencing operation before the 11 November shopping day, which will effectively enhance the inventory management and the logistics efficiency of the Group.

Chairman Wang Dong Xing concluded:

"As the Sino-US tension continues, coupled with the ongoing pandemic abroad and within China, the pace of recovery in each country varies. The overall environment is still affected by uncertainties. Nevertheless, China is speeding up the construction of a new development pattern of dual-cycle mutual circulation, steadily implementing the promotion of domestic demand, and the upswing in consumer demand is expected to continue. The Group is therefore cautiously optimistic about the development of the retail market in China. In the long run, China Lilang will retain its multi-brand strategy, as it endeavours to strengthen its product competitiveness and value-for-money to further consolidate its leading position in the menswear sector in China and realise sustainable long-term growth to reward its shareholders, staff and customers for their support".

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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.

For further inquiries, please contact:

Keris Leung / Phoebe Leung / Rachel Lau

Tel: (852) 2864 4863 / 2114 4172 / 2864 4824

Email: chinalilang@sprg.com.hk