

# LILANZ 利郎

## China Lilang Announces 2021 Annual Results

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**Revenue Up 26.1% to RMB3,380 Million    Net Profit at RMB468 Million**  
**Total Dividend for the Year at HK34 Cents Per Share**

(Hong Kong - 18 March 2022) - **China Lilang Limited** (“China Lilang” or the “Company”, together with its subsidiaries the “Group”; stock code: 1234) has today announced its 2021 annual results.

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### Results Highlights

- Revenue increased by 26.1% to RMB3,380 million
- Net profit was RMB468 million
- Earnings per share was RMB39.09 cents
- The Board of Directors has resolved to pay a final dividend of HK11 cents per share and a special final dividend of HK5 cents, thus maintaining a stable payout ratio throughout the year
- The reform of the sales model and the successful implementation of the channel optimisation, product rejuvenation and internet-plus strategies; with a healthier channel inventory and a stronger foundation for brand development

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

*"Amid the challenging business environment, China Lilang actively adopted flexible marketing strategies and leveraged its strong sales management and inventory control capabilities to minimise the impact of the extreme weather conditions during the year. The Group achieved a satisfactory sales performance thanks to the reform of the sales model and the successful implementation of the channel optimisation, product rejuvenation and internet-plus strategies".*

For the year ended 31 December 2021, the Group’s revenue increased by 26.1% year-on-year to RMB3,380 million. Profit from operations decreased by RMB119 million to RMB533 million, which was mainly due to inventory provision. Excluding inventory provision, profit from operations increased by RMB3.5 million. The smart casual collection was fully converted to a direct-to-retail model during the year, and the retail gross profit margin and selling expenses were higher than those of the wholesale business. Operating profit margin decreased by 8.5 percentage points to 15.8%. Excluding inventory provision, the operating profit margin was 19.4%. Net profit was RMB468 million, mainly attributable to the decision to cease development of professional sports footwear products and to clear off-season inventory including the buy-back inventory in early 2021 amounting to RMB390 million during the year, resulting in a provision of RMB122 million for product inventory. Earnings per share were RMB39.09 cents, a year-on-year decrease of 16.0%.

During the year, the Group maintained a healthy financial position with sufficient cash flows. The Board of Directors recommended payment of a final dividend of HK11 cents per share and a special final dividend of HK5 cents per share. Together with the interim dividend already paid, total dividend for the year amounted to HK34 cents, maintaining a stable payout ratio.

During the year, the Group actively reformed its sales model by introducing a consignment model for the core collection. By the end of 2021, a total of 966 stores had been converted to franchise stores, representing approximately 40% of the total number of core collection stores. Following the conversion, franchisees have real-time access to online warehouses and quick replenishment functions, which allows for more flexible product deployment and can reduce the pressure on franchisees to stock large quantities in stores. Thus, a healthy inventory level can be maintained in the long run to achieve higher store efficiency.

On the other hand, the smart casual collection stores and online stores were switched to a direct-to-retail model in 2020 and 2021, respectively. By the end of December 2021, the Group operated a total of 2,733 stores, including 290 smart casual collection direct-to-retail stores, a net increase of three stores. The operations have been running smoothly. The Group has also adopted a prudent store opening approach by strategically increasing the number of direct-to-retail stores, stores in shopping malls and outlets, as well as continuing to consolidate and develop its nationwide sales network through long-term partnerships with distributors to reach more customers across China.

The conversion of online stores to direct-to-retail stores has further enhanced the Group's control over its online business, strengthened the complementary advantages of online and offline services and created more room for business development. To alleviate the impact of reduced foot traffic at physical stores on retail stores and distributors amid the outbreak of the Pandemic, the Group stepped up efforts to develop the e-commerce business, with a particular focus on the development of stores in the WeChat Mall, which not only allows the stores to increase their virtual product display, but also avoid the pressure of physical storage space, thereby improving the sales efficiency of each store. During the year, the Group's retail sales through online channels increased by 20% to approximately RMB500 million, reflecting the Group's effective use of e-commerce to clear inventory, while continuing to expand online sales.

In order to pave the way for the reform, the Group reorganised its business priorities during the year. As the Group's previous strategic attempt to include professional sports footwear products did not provide satisfactory results and the turnover of certain products was slow, and considering that the Group's core competitiveness lies in leather footwear and leisure sports footwear products, the Group decided to cease development of professional sports footwear products and devise a plan to clear the existing inventory at reduced prices. Consequently, a one-off provision of RMB59.2 million was made during the year. The existing inventory will be cleared through various channels as soon as possible.

Looking ahead to 2022, the external environment is complex and volatile, with the pandemic showing no signs of abating and geopolitical uncertainties. The central government's increased support for the real economy will be conducive to the continuous escalation of consumer demand. The Group is cautiously optimistic about China's retail market for the year.

With the reform of sales channels largely completed, the Group has more effective control over its sales channels. In addition to ensuring a healthy channel inventory and improving store efficiency, it can feasibly promote the complementary advantages of the WeChat Mall and physical stores, thus promoting product sales.

China Lilang is committed to leveraging the advantages of its existing sales channels this year, further optimising its sales network, and improving its retail management to achieve better store efficiency and higher product sell-through rates, with the aim of further promoting healthy growth from the existing foundation. In 2022, the Group aims to grow its total retail sales by no less than 10%. At the same time, the Group will cautiously plan its store network across the country. The total number of stores is expected to increase by 50 to 150 in 2022. The Group will continue to open stores in select shopping malls in provincial capitals and prefecture-level cities, and will continue to open stores in outlet malls as the usual channel for inventory clearance.

In addition, the Group will further develop the online sales and offline delivery model, introduce better service models, provide more convenient and considered shopping experiences to customers, and strengthen customers' loyalty to the Lilang brand. In view of the positive response to the launch of special e-commerce products in online stores in 2021, the Group will be more proactive in launching new e-commerce products this year to attract the attention of consumers, thereby boosting online sales growth. The Group will also continue to make good use of online platforms for promotional clearance. The Group aims to achieve e-commerce sales growth of not less than 10% in 2022.

In terms of product positioning, the Group will continue to implement the strategy of “providing excellent value-for-money products” and streamline its product portfolio, with a focus on developing competitive business and casual apparel for men. The smart casual collection will further enhance the fashion and design elements of the products. The Group also plans to strengthen the expansion of new stores for smart casual collection in three provinces and cities, including Zhengzhou (Henan), Xi'an (Shaanxi), Suzhou and Wuxi (Jiangsu), where these are higher spending power cities and our brands are widely recognized by customers, as key target markets, improve operational efficiency, and strive to set a benchmark for other smart casual collection stores.

In addition to the aforementioned, to better prepare for logistics arrangements during the e-commerce peak seasons, Phase I of the new logistics centre is expected to commence operation before May 2022. The new logistics centre will be powered by an intelligent system, which is expected to facilitate the effective delivery of goods to stores and further enhance inventory management.

**Chairman Wang Dong Xing** concluded:

*"The Group is cautious about the economic environment in the first half of 2022. The rapid changes in both the Pandemic and the economic environment have given rise to additional challenges for apparel businesses, but also facilitated industry consolidation and presented a competitive environment in favour of competent enterprises. Nevertheless, once the uncertainty of the Pandemic situation and economic environment fades away, the sustainable and healthy development of China's economy will benefit from restored consumer confidence and a better release of retail consumption demand. In the long run, China Lilang will continue to focus on bringing stylish and cost-effective menswear to its customers. We believe that the unique design, originality and diversity of our products will enhance the competitiveness of our brand, further differentiate it from competitors and consolidate the Group's leading position in the menswear industry, thereby enabling the sustainable and long-term growth of the business".*

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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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