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LILANZ 利郎
CHINA LILANG LIMITED
中國利郎有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1234)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

The Board of Directors (the “Board”) of China Lilang Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2014. This announcement, containing the full text of the 2014 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014 (RMB million)	2013 (RMB million)	Changes (%)
Turnover	1,090.5	1,092.5	-0.2
Gross profit	445.8	436.7	+2.1
Profit from operations	295.0	275.0	+7.3
Profit for the period	248.1	242.3	+2.4
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	20.7	20.2	+2.5
— Diluted	20.6	20.1	+2.5
Shareholders' equity per share	211.9	199.3	+6.3
Interim dividend per share	HK12 cents	HK12 cents	—
Special interim dividend per share	HK5 cents	HK5 cents	—
	(%)	(%)	(% points)
Gross profit margin	40.9	40.0	+0.9
Operating profit margin	27.1	25.2	+1.9
Net profit margin	22.7	22.2	+0.5
Return on average shareholders' equity ⁽¹⁾	9.8	10.1	-0.3
Effective tax rate	26.6	20.2	+6.4
Advertising and promotional expenses and renovation subsidies (as percentage of turnover)	9.0	8.3	+0.7
	As at 30 June 2014	As at 31 December 2013	As at 30 June 2013
Average inventory turnover days ⁽²⁾	70	76	66
Average trade receivables turnover days ⁽³⁾	76	80	90
Average trade payables turnover days ⁽⁴⁾	53	54	50

Notes:

- (1) Return on average shareholders' equity is equal to profit for the period divided by the average of the beginning and closing balance of total shareholders' equity.
- (2) Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by cost of sales and multiplied by the number of days in the relevant period.
- (3) Average trade receivables turnover days is equal to the average of the beginning and closing trade receivables balance divided by turnover (including value-added tax) and multiplied by the number of days in the relevant period.
- (4) 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 relevant period.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The global economy was recovering moderately in the first half of 2014, and economic growth in developed countries accelerated noticeably in the second quarter. The PRC government stepped up the restructuring of the country's economy in the first half of the year, bringing about steady economic growth. According to the National Bureau of Statistics of China, the PRC's GDP grew by 7.5% year on year in the second quarter, up from the 7.4% growth in the first quarter. The employment market and price level stability remained. The income of both the urban and rural residents increased rapidly, but that did not give any obvious impetus to the retail sales. The operating environment of the retail sector remained challenging. Statistics of the China National Commercial Information Center show that the retail sales of the top 100 major domestic retailing enterprises decreased by 0.2% year on year in the first half of the year, mainly due to the significant decrease in retail sales of jewelry products. Retail sales of apparel products recorded a moderate increase of 1.2% in value but a decrease in volume.



Menswear industry in the PRC is still subject to the weak market sentiment, showing no obvious improvement in sales. The industry continued with aggressive retail discounts and store realignment. Channel inventory of the industry is improving albeit slowly. China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries, known as the "Group") has targeted to upgrade its core competitiveness since last year. In addition to channel inventory clearance and channel management improvement, the Group also invested in research and development of products to increase the proportion of its original products with an aim to address the issue of product homogeneity. Besides, the Company also improved the competitiveness of its products and brands through strengthening its research and development and supply chain management as the Group implements the strategy of "improving product quality without raising the price". The aforesaid measures began to yield results during the period as the Group outperformed other industry players, as reflected by various performance indicators of its retail channel. Channel inventory was brought back to a healthy level and the average same-store sales recorded low single digit growth.



FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2014, turnover slightly decreased by 0.2% year on year to approximately RMB1,090.5 million from RMB1,092.5 million for the same period last year. Turnover for the first half of the year was mainly attributable to the shipments of orders for the spring/summer collections and certain fall collections for 2014. The slight decrease in turnover reflected the effect of the weak retail market and also the decline in the average selling price of its products as the Group implements its strategy of "improving product quality without raising the price" and shares the fruit of its cost-saving measures with the consumers. The average unit price of the spring/summer products under "LILANZ" showed a mid-single digit percentage decline, while the average unit price of the spring/summer products under "L2" experienced a low-single digit percentage increase. As for fall collections under these two brands, their average unit price approximated that of the fall collections for 2013.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Sales of the core brand "LILANZ" amounted to RMB991.7 million, down by 2.1%. Sales of the sub-brand "L2" amounted to RMB95.3 million, up by 20.2%. Sales of "LILANZ" and "L2" accounted for approximately 90.9% (the first half of 2013: 92.7%) and 8.7% (the first half of 2013: 7.3%) respectively of the total turnover.

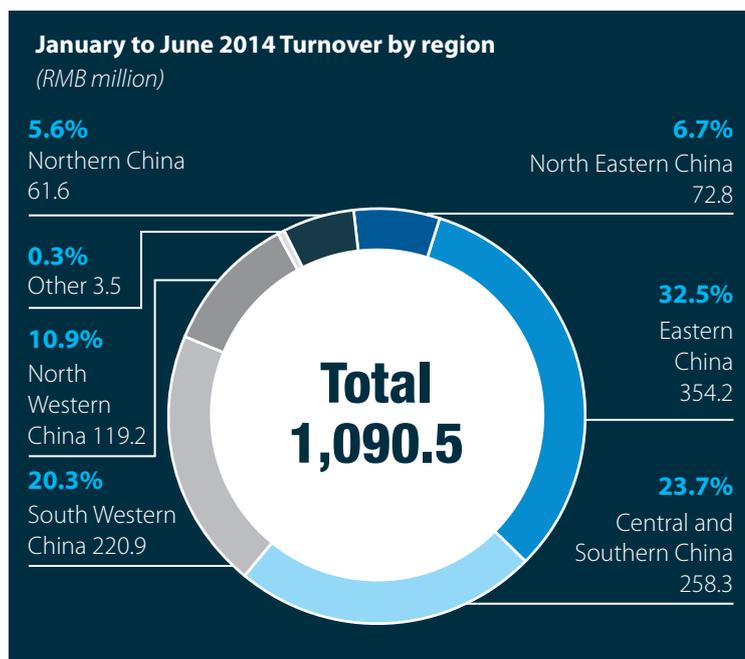
Among the various product categories, tops remained the major contributor in terms of sales and accounted for 67.5% (the first half of 2013: 61.6%) of the total turnover. Sales of tops increased by 8.9% year on year.

Turnover by Region

For the first half of the year, sales performances were mixed across regions. Both of the North Eastern China and South Western China regions recorded double-digit growth. While sales in South Western China continued to reap the economic benefits of the

Western Development Program, sales in North Eastern China for the period improved as the Group continued to consolidate the shop-in-shops in department stores in the region like it did in 2013. It also opened larger stand-alone stores in street level and in shopping malls during the first half of the year. The Group's sales in Northern China decreased by 15.4%, considerably underperforming other regions, especially in Shanxi province where 18 stores were closed during the period in response to the slowing local economy, making it the province with the highest rate of store closures during the period. Sales in Eastern China and Central and Southern China were still the major contributors to the Group's turnover, and together accounted for 56.2% of the total turnover (the first half of 2013: 58.7%). The Group's number of stores in Eastern China and Central and Southern China accounted for 52.6% of its total (the first half of 2013: 52.4%).

As for the sub-brand "L2", the Group continued to strategically expand into Henan, Shaanxi, Hunan and Hubei, the four provinces with better growth potential. The total turnover contributed by these four markets increased by 40.9% as compared to the corresponding period of last year, and accounted for 41.2% of the total turnover of "L2" for the period.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Turnover by region for the period was set out below:

Region	Six months ended 30 June				
	2014		2013		Changes %
	RMB million	% of turnover	RMB million	% of turnover	
Northern China ⁽¹⁾	61.6	5.6%	72.8	6.7%	-15.4%
North Eastern China ⁽²⁾	72.8	6.7%	59.5	5.4%	+22.4%
Eastern China ⁽³⁾	354.2	32.5%	387.5	35.5%	-8.6%
Central and Southern China ⁽⁴⁾	258.3	23.7%	253.1	23.2%	+2.1%
South Western China ⁽⁵⁾	220.9	20.3%	193.9	17.7%	+13.9%
North Western China ⁽⁶⁾	119.2	10.9%	125.7	11.5%	-5.2%
Others ⁽⁷⁾	3.5	0.3%	0	0	—
Total	1,090.5	100.0%	1,092.5	100.0%	-0.2%

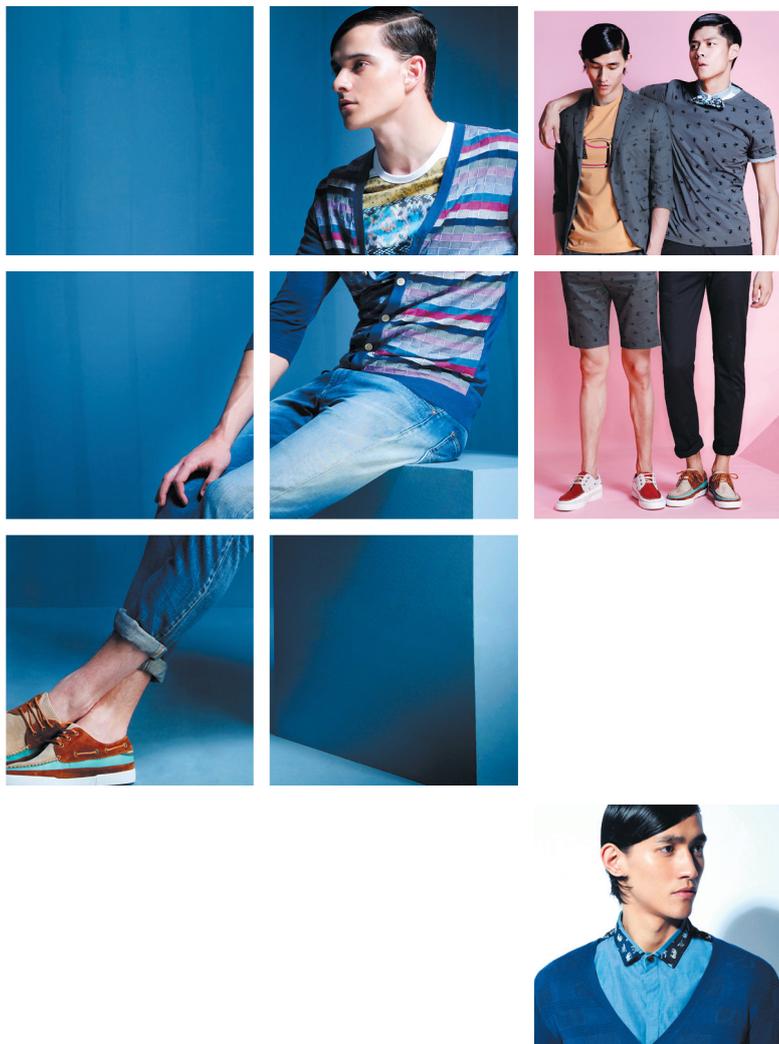
- (1) Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
(2) North Eastern China includes Heilongjiang, Jilin and Liaoning.
(3) Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.
(4) Central and Southern China includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.
(5) South Western China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.
(6) North Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.
(7) Others represent the sales revenue of the trading operation of the Group's subsidiary in Hong Kong.

Gross Profit and Gross Profit Margin

The gross profit margin increased by 0.9 percentage point to 40.9% from 40.0% for the first half of 2013. The increase in the gross profit margin reflected the steady prices of raw materials and the positive effects of reduced costs which resulted from the increasing proportion of original products in sales. Cost of in-house production, including subcontracting charges, accounted for 48.3% (the first half of 2013: 44.6%) of the total cost of sales, up by 3.7 percentage points.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



For the first half of 2014, the cost of sales decreased by 1.7% to RMB644.7 million (the first half of 2013: RMB655.8 million). Total research and development costs increased by 20.6% to RMB35.4 million as the Group stepped up its product research and development to enhance its products' originality.

Selling and Distribution Expenses

The selling and distribution expenses decreased by RMB6.0 million to RMB109.6 million, and accounted for 10.0% of the total turnover, down by 0.6 percentage point year on year. The amount for the period included a provision wrote back for trade receivables of RMB14.5 million. Excluding the provision wrote back, the selling and distribution expenses increased by RMB8.5 million to RMB124.1 million. In particular, advertising expenses and renovation

subsidies increased by RMB7.6 million to RMB97.7 million, and accounted for 9.0% of the total turnover, up by 0.7 percentage point when compared to 8.3% for the corresponding period of last year.

Administrative Expenses

The administrative expenses amounted to RMB44.3 million which approximated that of the corresponding period of last year, accounting for approximately 4.1% of the total turnover.

Other Operating Expenses

The other operating expenses amounted to RMB0.1 million. This compared to RMB4.6 million for the corresponding period last year which was mainly related to the donation to the earthquake relief in Ya'an, Sichuan.

Profit from Operations

Profit from operations increased by 7.3% to RMB295.0 million from RMB275.0 million for the first half of 2013. The operating margin increased from 25.2% to 27.1%.

Net Finance Income

For the first half of 2014, the Group recorded a net finance income of RMB43.2 million, representing a year-on-year increase of RMB14.6 million, which mainly reflected the improved cash position of the Group since the latter half of 2013 and better treasury management.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Income Tax

The effective income tax rate for the period under review rose to 26.6% as compared to 20.2% for the first half of 2013. The Advanced and New Technology Enterprise tax concession which had been granted to one of the Group's PRC subsidiaries expired in 2013. The application for the extension of such concession for the period from 2014 to 2016 is pending for the tax authority's approval. Accordingly, provision has been made for tax payable at the standard income tax rate in the interim financial report on a conservative basis.

Net Profit

For the six months ended 30 June 2014, net profit was RMB248.1 million, representing an increase of 2.4%. Net profit margin was 22.7%, up by 0.5 percentage point year on year. Earnings per share were RMB20.7 cents, representing an increase of 2.5% year on year.

Net profit attributable to the sub-brand "L2" increased to RMB3.6 million (the first half of 2013: RMB1.1 million).

Interim Dividend

The Board recommended the payment of an interim dividend of HK12 cents (the first half of 2013: HK12 cents) per ordinary share and a special interim dividend of HK5 cents (the first half of 2013: HK5 cents) per ordinary share in respect of the financial period, representing a total dividend payment of approximately HK\$204.2 million (equivalent to approximately RMB163.8 million). The interim dividend and special interim dividend will be paid in cash on or about 5 September 2014 to shareholders whose names appear on the register of members of the Company on 27 August 2014.

BUSINESS REVIEW**Retail and Distribution Network**

Changes in the number of stores in different regions during the period were as follows:

Region	Number of stores			As of 30 June 2014
	As of 1 January 2014	Opening during the period	Closing during the period	
Northern China	330	11	28	313
North Eastern China	367	10	43	334
Eastern China	1,011	35	94	952
Central and Southern China	806	35	50	791
South Western China	656	20	25	651
North Western China	285	9	20	274
	3,455	120	260	3,315

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The recovery of retail consumption market is slower than expected, driving the Group to speed up the realignment of the retail network and slow down the opening of new stores. China Lilang continued to help distributors optimize their store networks. On the one hand, the Group closes non-profitable stores and combines or relocates stores with low-efficiency in response to the business environment; on the other hand, the Group has changed its strategy of opening stores in provincial capital and prefecture-level cities by opening stores in shopping malls instead of opening street level stores in view of the change in consumption habit.

For the first half of 2014, "LILANZ" recorded a net decrease of 158 stores, and the pace of opening new stores fell short of our expectations. "L2" had a net increase of 18 stores, and the target of a net increase of 20 to 30 stores for the whole year remains unchanged. As of 30 June 2014, the Group had 3,315 stores in total.

Besides, the Group continued the revamp program for "LILANZ" stores to enhance and consolidate its brand image. The Group has renovated about 300 "LILANZ" stores in the first half of 2014, and it is expected that the whole store revamp program will be completed in early 2015.

Sales Channel Management

The Group sells products to the distributors on a wholesale basis, who in turn sell the products to end consumers through retail stores operated by themselves or by their sub-distributors.

During the period under review, "LILANZ" had 67 distributors and 1,284 sub-distributors. There were a total of 3,022 "LILANZ" retail stores, of which 3 were self-operated flagship stores, 1,089 were directly operated by distributors and 1,930 by their sub-distributors. In terms of store category, 2,156 were stand-alone stores and the remaining 866 are shop-in-shops in department stores. The total area of the retail stores was approximately 345,000 square meters (31 December 2013: 360,000 square meters), representing a decrease of 4.2%.

As of 30 June 2014, "L2" had in aggregate 37 distributors (9 of which were also the distributors of "LILANZ") and 73 sub-distributors. There were a total of 293 "L2" stores, of which, a total of 111 stores were in Henan, Shaanxi, Hunan and Hubei, the target markets for expansion in the last two years, and accounted for 37.9% of the total number of "L2" stores. The store network comprises one self-operated flagship store, 209 stores directly operated by distributors and 83 by their sub-distributors. In terms of store category, 140 were stand-alone stores and 153 were shop-in-shops in department stores. The total area of the retail stores was approximately 32,100 square meters (31 December 2013: 29,500 square meters), representing an increase of 8.8%.

In view of the increasing popularity of online sales in China, the Group also paid close attention to the potential of e-business channel. However, since the current online sales market in China is mainly focused on discount sales with relatively low profitability for the vendors, the Group has not expanded online sales aggressively. During the period, the Group continued to sell "LILANZ" and "L2" products through its

online sales platforms. Except for out-of-the-season products, the products and their prices offered on the online sales platforms are the same as those in the brick-and-mortar stores.

The Group continued to monitor the channel inventories through the ERP system connected to all the stand-alone stores. During the period under review, in order to clear inventories, the Group continued to encourage the distributors to place orders based on their respective inventory levels and estimated sales performance. The Group also encouraged the distributors to operate discount stores prior to store renovation and to set up temporary promotion counters in department stores. Currently, channel inventories are at a relatively healthy level.

In addition, the Group plans to provide training for the management teams of the distributors in the second half of 2014, that covers topics about the upgrade and planning of distribution channels and also the planning for the transformation from wholesale to retailing for brands, with an aim of further strengthening the management of retail channels.

Product Design and Development

Product homogeneity is still a serious issue in the PRC menswear industry. The Group believes that product design and development is the key to success in the industry. As such, the Group continued to strengthen its design team and enhance product originality.

In 2013, the Group set up an international research and development team for its core brand "LILANZ". Headed by a group of designers from abroad,

the team brings in new ideas by adding innovative and international taste and elements to the brand's fashionable yet simple product style and designs, providing more diverse products to customers. The 2014 spring/summer collections incorporated the new design concepts from the team and were well received by the market. During the first half of the year, a newly recruited accessory designer has been added to the design team. It is expected that this would help increase the sales and gross profit margin of accessories. The local design team also produced better product designs that blended new design ideas and their experiences in China's menswear market under the leadership of the chief designer from abroad.

The restructuring of "L2" product line was largely completed last year. Currently, products under this brand are mainly trendy casual wear which better suits the needs of its target customers. The Group will adhere to this positioning of the products and will continue to strengthen its product design and development.

In addition, the Group actively promotes individuation in its product designs and increases the proportion of original products in its sales, so as to further differentiate its products from those of other market players. Furthermore, the Group will continue to control its cost and to implement the policy of "improving product quality without raising the price" so as to enhance the value for money of its products, thus making them more competitive in the market. In the long term, the Group aims to raise the proportion of its original designs in sales to 70%.

Marketing and Promotion

In order to raise the efficiency of its promotional campaigns, the Group continued to place advertisements through various channels, such as setting up billboards in a dozen of airports in China and the airport in Bangkok, Thailand, as well as putting soft-sell advertisements in magazines and newspapers. The Group continued to engage Mr. Chen Dao Ming (陳道明), a famous actor in China, as its spokesperson for "LILANZ". A micro film was made during the period and is planned to be officially broadcasted in September or October this year both online and on television.

Trade Fairs

The 2014 fall and winter trade fairs were respectively held in the first and the second quarters of this year. The continued improvements in trade fair orders indicated that channel inventories have returned to a relatively healthy level, and also reflected the distributors' confidence in the Group's products.

At the fall trade fair, the core brand "LILANZ" recorded a mid-single digit growth in total order value, and this was the first growth for the brand since its 2013 spring/summer trade fair. The sub-brand "L2" registered a growth between 10% and 15% in total order value, which was higher than that of its 2014 spring/summer trade fair. The average unit prices of the autumn collections under both brands were similar to those of the 2013 fall collections.

At the winter trade fair, the core brand "LILANZ" recorded a high-single digit growth in total order value, and this was the second such growth for this brand since the 2014 fall trade fair. The sub-brand "L2" had a low double digit growth in total order value. Results of these trade fairs reflected the gradual recovery of distributors' confidence. The average unit prices of "LILANZ" and "L2" for the winter collections recorded mid-single digit and low single digit decreases respectively, reflecting the changes in the product mixes and also the continuation of the strategy of "improving product quality without raising the price".

Shipment of the orders placed at the 2014 fall trade fair commenced in June 2014, while shipment of the orders placed at the 2014 winter trade fair is expected to commence in August 2014.

Production and Supply Chain

During the period under review, the Group continued to improve its supply chain management and controlled costs by identifying more cost-efficient fabric suppliers and processing plants. While reducing the proportion of OEM purchases and increasing the proportion of original product designs in sales, the Group implemented the strategy of "improving product quality without raising the price" and shared the benefits of its improved supply chain management with the consumers by offering them better value for money products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Awards

At The Third Huazun Award (第三屆華尊獎) presentation ceremony, "Lilanz" and "L2" were honored with the titles of the "Leading Brand of the PRC Menswear Industry"(中國男裝行業領導品牌) and "The Most Favorite Brand among the PRC Young and Fashionable Consumers" (中國年輕時尚消費者最喜愛首選品牌) respectively.

PROSPECTS

China is expected to post a steady economic growth and to continue restructuring its economy in the second half of 2014. The development of the menswear market has been limited by the issues of product homogeneity and channel inventory. Some small brands with less competitive advantage will probably be supplanted or acquired by stronger competitors amid the continuing industry consolidation. This helped pave the way for the healthy development of the industry.

To capture the opportunities arising from the industry consolidation, China Lilang had made an early step to enhance its core competitiveness last year and has since been making good progress. For the second half of the year, the Group will continue with the policy of "improving product quality without raising the price". The Group will further strengthen the research and development and its supply chain management with an aim of increasing the proportion of its original products

in sales and of enhancing the products' value for money. The move will improve the competitiveness of its products and brands.

Also, the Group will leverage "LILANZ"'s brand equity in the third- and fourth-tier cities, and further consolidate and increase its market share by capitalizing on the opportunities that arise from the industry's restructuring. In the second half of the year, the Group will continue to realign those "LILANZ" stores of low efficiency and maintain a conservative approach to the opening of new stores to improve operation efficiency. As for "L2", the Group will expand the brand's retail network with a net increase of 20 to 30 stores in 2014 as scheduled. "L2" will continue to expand its business in the four provinces with potential for growth, namely Henan, Shaanxi, Hunan and Hubei. Meanwhile, the revamp program for "LILANZ" stores will continue. It is expected that 700 to 800 stores will be renovated this year and the revamp program for all the stores will be completed in early 2015.

The construction of the proposed new headquarters of the Group is expected to commence in the fourth quarter of 2014 and to be completed in 2017.

The Group adheres to its philosophy of providing fashionable, quality and individualized products for consumers and is optimistic about the long-term development of the menswear market in China. The 2015 spring/summer trade fair will be held in late August, and management is confident that the trade fair order will continue to grow. Meanwhile, as various measures are progressing smoothly, it is expected that the retail stores of the Group will be able to achieve a low or mid-single digit average growth in same-store sales in the second half of the year.

Facing the challenging market, China Lilang will follow a multi-brand strategy and will proactively enhance product competitiveness and the value for money to further consolidate its leading position in the menswear industry. This will enable it to sustain long-term growth and reward its shareholders, employees and customers for their support.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

	Six months ended 30 June	
	2014 RMB million	2013 RMB million
Operating cash inflow	188.5	333.1
Capital expenditure	(10.5)	(14.0)
Free cash inflow	178.0	319.1
Cash and bank balances (including pledged bank deposits)	2,445.8	1,897.2

As at 30 June 2014, the Group's total cash and bank balances were mostly held in Renminbi (92.9%).

As at 30 June 2014, cash and cash equivalents of the Group amounted to RMB1,456.2 million (placements of fixed deposits and pledged deposits held at banks with maturity over 3 months totalling RMB170.0 million and RMB819.5 million respectively were regarded as investing activities in the condensed consolidated cash flow statement), representing an increase of RMB20.4 million as compared with the cash and cash equivalents balance of RMB1,435.8 million as at 31 December 2013. The increase was attributable to:

- Cash inflows from operating activities amounting to RMB188.5 million.
- Cash outflows from investing activities amounting to RMB175.4 million, comprising mainly increases in placements of fixed deposits and pledged deposits held at banks with maturity over three months by RMB10.0 million and RMB207.5 million respectively, and capital expenditure for property, plant and equipment and intangible assets totalling RMB10.5 million, net of interest income.
- Cash inflows from financing activities amounting to RMB7.1 million, mainly attributable to the net proceeds from bank loans of RMB215.9 million, net of the payment of final dividend and special final dividend totalling RMB203.1 million in respect of the year ended 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Bank Loans

As at 30 June 2014, the Group had bank loans totalling RMB778.8 million (31 December 2013: RMB563.0 million). The net cash position as at 30 June 2014 was as follows:

	As at 30 June 2014 RMB million	As at 31 December 2013 RMB million
Cash and bank balances (including pledged bank deposits)	2,445.8	2,207.8
Less: Total borrowings	(778.8)	(563.0)
Net cash	1,667.0	1,644.8

As at 30 June 2014, the Group's bank loans were denominated in Hong Kong dollars (80.9%) and US dollars (19.1%), all fully secured by pledged bank deposits and were repayable as follows:

	As at 30 June 2014 RMB million	As at 31 December 2013 RMB million
Within 1 year or on demand	778.8	418.3
After 1 year but within 2 years	—	144.7
Total bank loans	778.8	563.0

All bank loans are at floating interest rates.

Trade Working Capital Ratios

The Group's average inventory turnover days was 70 days for the period. This compared to 76 days for the year ended 31 December 2013 and 66 days for the same period last year. As at 30 June 2014, the inventory balance of RMB224.7 million mainly represented raw materials and products for the autumn and winter collections. Shipment of the autumn orders had started in June and shipment of winter orders would commence in August.

The average trade receivables turnover days for the period was 76 days. This improved from 80 days for the year ended 31 December 2013 and 90 days for the same period last year. The turnover days based on the period end balance was 82 days which was similar to 83 days for the same period last year. The balance of trade receivables increased by RMB80.1 million as compared to that of 31 December 2013. As in previous years, additional trade credits have been extended to certain distributors during the peak period of product delivery from June to September. Consistent with the accounting treatment adopted for the

year ended 31 December 2013, full provision had been made for overdue trade receivables totalling RMB10.1 million at 30 June 2014. Provision wrote back for the period amounted to RMB14.5 million as overdue balance reduced.

The Group's average trade payables turnover days was 53 days for the period, which was similar to the number for the year ended 31 December 2013.

PLEDGE OF ASSETS

As at 30 June 2014, deposits with certain banks totalling RMB819.5 million (31 December 2013: RMB612.0 million) were pledged as securities for bank loans and bills payable.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2014, the Group had total capital commitments of RMB246.1 million, primarily related to the proposed construction of a new headquarters and the development of the ERP system. The construction of the new headquarters is expected to commence in the fourth quarter of the year and to be completed by 2017. These capital commitments are expected to be financed by internal resources of the Group.

As at 30 June 2014, the Group had no material contingent liabilities.

FINANCIAL MANAGEMENT POLICIES

The Group continues to control financial risks in a prudent manner. The functional currency of the Company is the Hong Kong Dollars and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly recognised in equity as a separate reserve. As the Group conducts business transactions principally in Renminbi, the exchange rate risk at the Group's operational level is not significant. Accordingly, the Group does not employ any financial instruments for hedging purposes.

HUMAN RESOURCES

As at 30 June 2014, the Group had 2,010 staff. Total staff costs for the period amounted to approximately RMB62.0 million (the first half of 2013: RMB59.2 million).

The Group places great emphasis on recruiting and training quality personnel. We recruit talents from universities and technical schools and provide pre-employment and on-going training and development opportunities to our staff members. Our training programs cover areas such as sales and production, customer service, quality control, sales fairs planning, workplace ethics and other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees based on factors such as market rates, workload, responsibility, job complexity as well as the Group's performance. The Group has also adopted a pre-IPO share option scheme and a share option scheme to recognise, reward and promote the contribution of the employees to the growth and development of the Group.

REVIEW REPORT OF THE AUDITOR



REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA LILANG LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 15 to 34 which comprises the consolidated balance sheet of China Lilang Limited (the "Company") as of 30 June 2014 and the related consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 August 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014 — unaudited
(Expressed in Renminbi)

	Notes	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Turnover	3	1,090,520	1,092,475
Cost of sales		(644,714)	(655,767)
Gross profit		445,806	436,708
Other revenue		3,241	2,774
Selling and distribution expenses		(109,581)	(115,616)
Administrative expenses		(44,313)	(44,249)
Other operating expenses		(105)	(4,569)
Profit from operations		295,048	275,048
Net finance income	4	43,179	28,597
Profit before taxation	5	338,227	303,645
Income tax	6	(90,136)	(61,393)
Profit for the period		248,091	242,252
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside the mainland of the People's Republic of China (the "PRC")		(13,763)	6,299
Total comprehensive income for the period		234,328	248,551
Earnings per share	7		
Basic (cents)		20.7	20.2
Diluted (cents)		20.6	20.1

The notes on pages 20 to 34 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 19.

CONSOLIDATED BALANCE SHEET

At 30 June 2014 — unaudited
(Expressed in Renminbi)

	Notes	30 June 2014 RMB'000	31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment	8	292,797	303,311
Lease prepayments	9	35,383	35,790
Intangible assets	10	5,504	5,742
Deposits for purchases of fixed assets and land use rights	11	66,613	65,756
Deferred tax assets	18(b)	18,245	19,142
Pledged bank deposits	12	—	154,000
		418,542	583,741
Current assets			
Inventories	13	224,666	271,047
Trade and other receivables	14	682,071	592,535
Pledged bank deposits	12	819,501	458,000
Fixed deposits held at banks with maturity over three months	15	170,000	160,000
Cash and cash equivalents	15	1,456,249	1,435,788
		3,352,487	2,917,370
Current liabilities			
Bank loans	16	778,837	418,316
Trade and other payables	17	328,435	332,459
Current tax payable	18(a)	56,603	28,474
		1,163,875	779,249
Net current assets		2,188,612	2,138,121
Total assets less current liabilities		2,607,154	2,721,862
Non-current liabilities			
Bank loans	16	—	144,652
Deferred tax liabilities	18(b)	60,774	62,817
Retention payables		910	910
		61,684	208,379
Net assets		2,545,470	2,513,483

CONSOLIDATED BALANCE SHEET (CONTINUED)At 30 June 2014 — unaudited
(Expressed in Renminbi)

	30 June 2014 RMB'000	31 December 2013 RMB'000
Capital and reserves		
Share capital	105,843	105,826
Reserves	2,439,627	2,407,657
Total equity	2,545,470	2,513,483

The notes on pages 20 to 34 form part of this interim financial report.

Mr. Wang Dong Xing
*Chairman***Mr. Wang Liang Xing**
*Chief Executive Officer***Mr. Wang Cong Xing**
Executive Director

Hong Kong, 11 August 2014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
As at 1 January 2013	105,801	72,976	199,258	30,988	(23,850)	1,996,833	2,382,066
Changes in equity for the six months ended 30 June 2013:							
Profit for the period	—	—	—	—	—	242,252	242,252
Other comprehensive income for the period	—	—	—	—	6,299	—	6,299
Total comprehensive income for the period	—	—	—	—	6,299	242,252	248,551
Shares issued under share option schemes	11	460	—	(137)	—	—	334
Equity settled share-based payments	—	—	—	499	—	—	499
Dividends approved in respect of the previous year	—	—	—	—	—	(238,063)	(238,063)
As at 30 June 2013	105,812	73,436	199,258	31,350	(17,551)	2,001,022	2,393,327
As at 1 January 2014	105,826	616	199,258	31,589	(11,360)	2,187,554	2,513,483
Changes in equity for the six months ended 30 June 2014:							
Profit for the period	—	—	—	—	—	248,091	248,091
Other comprehensive income for the period	—	—	—	—	(13,763)	—	(13,763)
Total comprehensive income for the period	—	—	—	—	(13,763)	248,091	234,328
Shares issued under share option schemes	17	739	—	(214)	—	—	542
Equity settled share-based payments	—	—	—	260	—	—	260
Dividends approved in respect of the previous year	—	—	—	—	—	(203,143)	(203,143)
As at 30 June 2014	105,843	1,355	199,258	31,635	(25,123)	2,232,502	2,545,470

The notes on pages 20 to 34 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014 — unaudited
(Expressed in Renminbi)

	Notes	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations		251,673	420,839
PRC corporate income tax paid		(54,594)	(72,136)
PRC dividend withholding tax paid		(8,559)	(15,592)
Net cash generated from operating activities		188,520	333,111
Investing activities			
Payment for the purchase of property, plant and equipment, land use rights and intangible assets		(10,544)	(14,001)
Interest income received		52,232	17,446
Increase in fixed deposits held at banks with maturity over three months		(10,000)	(60,000)
Increase in pledged bank deposits		(207,501)	(4,000)
Other cash inflows arising from investing activities		422	284
Net cash used in investing activities		(175,391)	(60,271)
Financing activities			
Proceeds from bank loans		349,660	291,358
Repayment of bank loans		(133,791)	(298,939)
Dividends paid		(203,143)	(238,063)
Other cash outflows arising from financing activities		(5,602)	(8,777)
Net cash generated from/(used in) financing activities		7,124	(254,421)
Net increase in cash and cash equivalents		20,253	18,419
Cash and cash equivalents at 1 January	15	1,435,788	1,242,788
Effect of foreign exchange rate changes		208	(329)
Cash and cash equivalents at 30 June	15	1,456,249	1,260,878

The notes on pages 20 to 34 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 11 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those that were applied to the 2013 annual financial statements.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes which do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements.

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company. It has also been reviewed by the Company’s auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 14.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 12 March 2014.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company. None of those developments are relevant to the Group’s financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

3. TURNOVER

The principal activities of the Group are manufacturing and wholesaling of branded menswear and related accessories in the PRC. Turnover represents the sales value of goods sold less returns, discounts and value added taxes ("VAT").

4. NET FINANCE INCOME

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Interest income	48,750	34,393
Interest on bank borrowings	(6,474)	(6,137)
Net foreign exchange gain	903	341
	43,179	28,597

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
(a) Staff costs (note (i)):		
Salaries, wages and other benefits	60,725	57,584
Contribution to defined contribution retirement plans	998	1,110
Equity settled share-based payment expenses (note 20)	260	499
	61,983	59,193
(b) Other items:		
Amortisation of lease prepayments	407	408
Amortisation of intangible assets	1,422	1,215
Depreciation (note (i))	15,835	14,500
Cost of inventories (note (i))	644,714	655,767
Loss on disposal of property, plant and equipment	95	420
Operating lease rental in respect of properties (note (i))	4,242	4,878
Research and development costs (notes (i) and (ii))	35,412	29,375
Subcontracting charges (notes (i) and (iii))	23,795	5,462
Write-back of provision for doubtful debts	(14,509)	—

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

5. PROFIT BEFORE TAXATION (continued)

Notes:

- (i) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, depreciation and operating lease rental in respect of properties totalling RMB80,256,000 (2013: RMB62,493,000) included in items disclosed above.
- (ii) Research and development costs include salaries, wages and other benefits totalling RMB16,810,000 (2013: RMB10,561,000) for employees in the design, research and development department, which are included in the staff costs as disclosed in note 5(a).
- (iii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Current tax		
Provision for PRC corporate income tax for the period (note 18(a))	80,531	50,127
Under-provision for PRC corporate income tax in respect of prior year	28	1,751
PRC dividend withholding tax (note v)	10,723	15,592
	91,282	67,470
Deferred tax		
Origination and reversal of temporary differences (note 18(b))	14,392	9,515
Distribution of dividends (note 18(b))	(10,723)	(15,592)
Effect on deferred tax balance at the beginning of the year resulting from a change in tax rate (notes iii and 18(b))	(4,815)	—
	90,136	61,393

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2014 and 2013.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Notes: (continued)

- (iii) Taxation for the Group's PRC subsidiaries is calculated using the income tax rates applicable to the subsidiaries. In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, one of the subsidiaries was granted Advanced and New Technology Enterprise status which entitles the subsidiary to a reduced income tax rate at 15% ("Tax Concession") for 2013. Application for an extension of the Tax Concession for the years 2014 to 2016 has been made and yet to be confirmed by the PRC tax authority. Accordingly, full provision for corporate income tax has been made for the six months ended 30 June 2014. The possible change in tax rate has been taken into account in the calculation of the deferred tax and the opening balance of deferred tax of the related subsidiary is re-estimated at the applicable tax rate.
- (iv) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. As all of the Group's PRC subsidiaries are directly owned by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of the PRC dividend withholding tax. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.
- (v) PRC dividend withholding tax represents tax charged by the PRC tax authority on dividends distributed by the Group's PRC subsidiaries during the period.

7. EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit for the period of RMB248,091,000 (2013: RMB242,252,000) and the weighted average number of ordinary shares in issue of 1,201,286,000 (2013: 1,200,911,000).

Weighted average number of ordinary shares:

	Six months ended 30 June	
	2014	2013
	'000	'000
Issued ordinary shares at 1 January	1,201,159	1,200,838
Effect of share options exercised	127	73
Weighted average number of ordinary shares	1,201,286	1,200,911

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

7. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period of RMB248,091,000 (2013: RMB242,252,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company.

Weighted average number of ordinary shares (diluted):

	Six months ended 30 June	
	2014 '000	2013 '000
Weighted average number of ordinary shares	1,201,286	1,200,911
Effect of deemed issue of shares under the Company's share option schemes for nil consideration	3,007	2,652
Weighted average number of ordinary shares (diluted)	1,204,293	1,203,563

8. PROPERTY, PLANT AND EQUIPMENT

	2014 RMB'000	2013 RMB'000
Net book value, as at 1 January	303,311	327,762
Additions	5,260	8,298
Disposals (net carrying amount)	(184)	(704)
Exchange adjustment (net carrying amount)	245	(135)
Depreciation charge for the period	(15,835)	(14,500)
Net book value, as at 30 June	292,797	320,721

9. LEASE PREPAYMENTS

Lease prepayments represent prepayments of land use rights on leasehold land located in the PRC. The Group is granted land use rights for a period of 50 years.

10. INTANGIBLE ASSETS

Intangible assets represent the enterprise resource planning and information technology system software developed.

The amortisation charge for the period is included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

11. DEPOSITS FOR PURCHASES OF FIXED ASSETS AND LAND USE RIGHTS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Deposit for land use rights (note (i))	64,993	64,993
Purchase of other fixed assets	1,620	763
	66,613	65,756

Note:

- (i) The deposit represented the cost of purchase of the land use rights for 50 years on leasehold land located in Jinjiang, Fujian Province, the PRC for the proposed construction of a new headquarters. The amount will be transferred to lease prepayments upon the issue of the land use rights certificate to the Group.

12. PLEDGED BANK DEPOSITS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Amounts pledged as security for bank loans (note 16)	819,168	612,000
Amounts pledged as security for bills payable (note 17)	333	—
	819,501	612,000
Representing:		
Current pledged bank deposits	819,501	458,000
Non-current pledged bank deposits	—	154,000
	819,501	612,000

The pledged bank deposits will be released upon the settlement of the relevant bank loans and bills payable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

13. INVENTORIES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Raw materials	60,083	17,647
Work in progress	11,907	120
Finished goods	152,676	253,280
	224,666	271,047

As at 30 June 2014, raw materials included materials totalling RMB51,097,000 (31 December 2013: RMB12,421,000) that were held by sub-contractors.

14. TRADE AND OTHER RECEIVABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade receivables	585,026	519,483
Less: Provision for doubtful debts	(10,129)	(24,638)
Trade receivables net of provision for doubtful debts	574,897	494,845
Prepayments to suppliers	53,309	42,546
Prepaid advertising expenses	4,456	5,851
VAT deductible	2,402	—
Other deposits, prepayments and receivables	47,007	49,293
	682,071	592,535

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

14. TRADE AND OTHER RECEIVABLES (continued)

Trade and other receivables net of provision for doubtful debts are expected to be recovered or recognised as expense within one year. An ageing analysis of the trade receivables based on due dates is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Current	574,897	494,845

An ageing analysis of the trade receivables, based on the invoice date and net of provision for doubtful debts, is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	360,027	353,327
3 months to 6 months	194,924	125,754
6 months to 1 year	19,946	15,764
	574,897	494,845

The Group grants a credit period of 90 to 240 days (2013: 90 to 240 days) to its trade customers.

15. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Fixed deposits with banks within three months to maturity when placed Cash at bank and in hand	75,000 1,381,249	218,532 1,217,256
Cash and cash equivalents in the consolidated balance sheet and the condensed consolidated cash flow statement	1,456,249	1,435,788
Fixed deposits with banks with more than three months to maturity when placed	170,000	160,000
	1,626,249	1,595,788

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

16. BANK LOANS

As at 30 June 2014, bank loans were fully secured by pledged bank deposits (also see note 12) and were repayable as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 1 year or on demand	778,837	418,316
After 1 year but within 2 years	—	144,652
	778,837	562,968

17. TRADE AND OTHER PAYABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade payables	191,909	184,167
Bills payable (note 12)	1,110	—
Trade and bills payables	193,019	184,167
Receipts in advance	23,626	27,693
Accrued salaries and wages	12,896	14,270
Payables for purchase of fixed assets	6,766	10,009
Retirement benefit contribution payable	25,637	25,823
VAT payables	3,502	4,051
Other payables and accruals	62,989	66,446
	328,435	332,459

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

17. TRADE AND OTHER PAYABLES (continued)

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. An ageing analysis of the Group's trade and bills payables based on the invoice date is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	160,456	125,025
3 months to 6 months	19,918	48,505
6 months to 1 year	8,174	1,631
Over 1 year	4,471	9,006
	193,019	184,167

18. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET**(a) Current tax payable in the consolidated balance sheet represents:**

	30 June 2014 RMB'000	31 December 2013 RMB'000
Provision for PRC corporate income tax for the period (note 6)	80,531	107,608
PRC corporate income tax paid for the current period	(26,092)	(87,101)
	54,439	20,507
PRC dividend withholding tax for the period (note 6)	10,723	23,559
PRC dividend withholding tax paid for the current period	(8,559)	(15,592)
	2,164	7,967
Current tax payable	56,603	28,474

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

18. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets/(liabilities) recognised:

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

	Deferred tax assets/(liabilities) arising from				Total RMB'000
	Accrued expenses and others RMB'000	Cumulative tax losses of a subsidiary RMB'000	Impairment on inventories and trade receivables RMB'000	Undistributed profits of PRC subsidiaries RMB'000	
At 1 January 2013	5,647	—	16,270	(68,696)	(46,779)
(Charged)/credited to consolidated statement of profit or loss and other comprehensive income (note 6)	(1,894)	2,343	(2,164)	(7,800)	(9,515)
Released upon distribution of Dividends (note 6)	—	—	—	15,592	15,592
At 30 June 2013	3,753	2,343	14,106	(60,904)	(40,702)
At 1 January 2014	3,809	—	15,333	(62,817)	(43,675)
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income (note 6)	970	—	(6,682)	(8,680)	(14,392)
Released upon distribution of dividends (note 6)	—	—	—	10,723	10,723
Effect of change in tax rate (note 6)	2,424	—	2,391	—	4,815
At 30 June 2014	7,203	—	11,042	(60,774)	(42,529)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

18. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets/(liabilities) recognised: (continued)

Reconciliation to the consolidated balance sheet:

	30 June 2014 RMB'000
Deferred tax assets	18,245
Deferred tax liabilities	(60,774)
	(42,529)

(c) Deferred tax liabilities not recognised

The Group is subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits generated since 1 January 2008. As at 30 June 2014, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB983,883,000 (31 December 2013: RMB886,747,000) were not recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

19. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the period:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Declared and payable after interim period:		
Interim dividend of HK12 cents per ordinary share (2013: HK12 cents per ordinary share)	115,636	112,685
Special interim dividend of HK5 cents per ordinary share (2013: HK5 cents per ordinary share)	48,182	46,952
	163,818	159,637

The interim dividend and special interim dividend have not been recognised as liabilities as at 30 June 2014.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

19. DIVIDENDS (continued)

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK16 cents per ordinary share (2013: HK19 cents per ordinary share)	154,776	180,928
Special final dividend in respect of the previous financial year, approved and paid during the period, of HK5 cents per ordinary share (2013: HK6 cents per ordinary share)	48,367	57,135
	203,143	238,063

20. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has two share option schemes, namely, the Pre-IPO Share Option Scheme and the Share Option Scheme, which were adopted on 12 September 2008 and 4 September 2009 respectively. Details of the number and weighted average exercise price of share options granted under these two share option schemes during the period are as follows:

	Pre-IPO Share Option Scheme		Share Option Scheme	
	Exercise price	No. of options	Exercise price	No. of options
Outstanding at 1 January 2013	HK\$3.12	8,054,057	HK\$6.63	1,130,000
Exercised during the period	HK\$3.12	(134,994)	—	—
Outstanding at 30 June 2013	HK\$3.12	7,919,063	HK\$6.63	1,130,000
Outstanding at 1 January 2014	HK\$3.12	7,733,479	HK\$6.63	1,130,000
Exercised during the period	HK\$3.12	(216,409)	—	—
Outstanding at 30 June 2014	HK\$3.12	7,517,070	HK\$6.63	1,130,000

The share options outstanding under the Pre-IPO Share Option Scheme at 30 June 2014 had a weighted average remaining contractual life of 1.0 year.

The share options outstanding under the Share Option Scheme at 30 June 2014 had a weighted average remaining contractual life of 4.4 years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

21. COMMITMENTS**(a) Operating leases commitments**

As at 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	1,598	1,609

(b) Capital commitments

As at 30 June 2014, capital commitments not provided for in the interim financial report are as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Contracted for	4,230	4,315
Authorised but not contracted for	241,821	243,693
	246,051	248,008

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

22. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group for the period, including amounts paid to the Directors, was as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Short-term employee benefits	3,658	3,575
Contributions to defined contribution retirement benefit scheme	69	60
Equity settled share-based payment expenses	—	161
	3,727	3,796

(b) Other related party transaction

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Recurring transaction		
Lease of land and properties from Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")	1,560	1,516

Jinlang Fujian is effectively 33.3%, 33.3% and 33.4% owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing respectively, who are Directors and Controlling Shareholders of the Group, and therefore is considered a related party of the Group.

The Directors are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 30 June 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	25.50%
Mr. Wang Liang Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	25.50%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.91%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	25.50%
Mr. Cai Rong Hua	The Company	Beneficial owner	9,010,000 shares (L)	0.75%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US\$1.00 each (L)	8.00%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.37%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US\$1.00 each (L)	5.00%
Mr. Wang Ru Ping	The Company	Beneficial owner	2,700,000 shares (L)	0.22%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3.00%
Mr. Pan Rong Bin	The Company	Beneficial owner	2,700,000 shares (L)	0.22%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3.00%

OTHER INFORMATION (CONTINUED)

Notes:

1. The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.
2. Xiao Sheng International is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.0% by Mr. Cai Rong Hua, 5.0% by Mr. Hu Cheng Chu, 3.0% by each of Mr. Wang Ru Ping and Mr. Pan Rong Bin, 2.0% by Mr. Chen Wei Jin, 1.0% by Mr. Wang Qiao Xing and 0.5% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

Save as disclosed above, as at 30 June 2014, none of the Directors and chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and short positions of substantial shareholders

As at 30 June 2014, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.06%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	72,205,000 shares (L) (Note 3)	6.01%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of our Company.
- (2) These shares were held by Xiao Sheng International. Xiao Sheng International is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.0% by Mr. Cai Rong Hua, 5.0% by Mr. Hu Cheng Chu, 3.0% by each of Mr. Wang Ru Ping and Mr. Pan Rong Bin, 2.0% by Mr. Chen Wei Jin, 1.0% by Mr. Wang Qiao Xing and 0.5% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- (3) These shares were held by Ming Lang Investments. Ming Lang Investments is owned as to 25.5% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.0% by Mr. Cai Rong Hua, 5.0% by Mr. Hu Cheng Chu, 3.0% by each of Mr. Wang Ru Ping and Mr. Pan Rong Bin, 2.0% by Mr. Chen Wei Jin, 1.0% by Mr. Wang Qiao Xing and 0.5% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

Save as disclosed above, as at 30 June 2014, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEMES

The Company adopted a pre-initial public offering share option scheme on 12 September 2008 (the "Pre-IPO Share Option Scheme") and a share option scheme on 4 September 2009 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

Details of the share option schemes are set out in the 2013 Annual Report of the Company.

Pre-IPO Share Option Scheme

Details of movements of the options during the period are set out below:

Name or category of participant	As at 1 January 2014	Options granted by the Company Number of underlying shares			As at 30 June 2014	Exercise price per share	Date of grant	Exercise period
		Exercised	Cancelled	Lapsed				
Employees	4,980,645	(216,409)	—	—	4,764,236	HK\$3.12	4 September 2009	Note 1
Employees	105,878	—	—	—	105,878	HK\$3.12	4 September 2009	Note 2
Employees	2,646,956	—	—	—	2,646,956	HK\$3.12	4 September 2009	Note 3
	7,733,479	(216,409)	—	—	7,517,070			

As at 30 June 2014, the number of shares to be issued upon the exercise of the outstanding options under the Pre-IPO Share Option Scheme was 7,517,070, representing 0.63% of the issued share capital of the Company as at that date.

Notes:

- The outstanding options at 30 June 2014 are exercisable by the grantees prior to the expiry of the exercise period on the day falling six years after 25 September 2009 (the "Listing Date"), failing which the options will lapse and no longer be exercisable.
- The outstanding options at 30 June 2014 are exercisable by the grantees prior to the expiry of the exercise period on the day falling seven years after the Listing Date, failing which the options will lapse and no longer be exercisable.
- These options are exercisable by the grantee during the period commencing from the day immediately following the expiry of three year period after the Listing Date, and ending on 31 December 2014, during which, (a) up to 794,086 options granted may be exercised on or prior to the end of the fourth year after the Listing Date; (b) subject to (a), up to 1,588,172 options granted may be exercised on or prior to the end of the fifth year after the Listing Date; and (c) subject to (a) and (b), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

OTHER INFORMATION (CONTINUED)

Share Option Scheme

Details of movements of the options during the period are set out below:

Name or category of participant	As at 1 January 2014	Options granted by the Company Number of underlying shares			As at 30 June 2014	Exercise price per share	Date of grant	Exercise period
		Exercised	Cancelled	Lapsed				
Employees	1,130,000	—	—	—	1,130,000	HK\$6.63	29 November 2011	Note 1

As at 30 June 2014, the number of shares to be issued upon the exercise of the outstanding options under the Share Option Scheme was 1,130,000, representing 0.09% of the issued share capital of the Company as at that date.

Note:

- The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of one year period after 29 November 2011 (the "Date of Offer") and ending on the day falling seven years after the Date of Offer, during which, (a) up to 265,000 options granted may be exercised on or prior to the end of the second year after the Date of Offer; (b) subject to (a), up to 530,000 options granted may be exercised on or prior to the end of the third year after the Date of Offer; (c) subject to (a) and (b), up to 710,000 options granted may be exercised on or prior to the end of the fourth year after the Date of Offer; (d) subject to (a), (b) and (c), up to 890,000 options granted may be exercised on or prior to the end of the fifth year after the Date of Offer; and (e) subject to (a), (b), (c) and (d), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

CORPORATE GOVERNANCE

The Company had complied with all code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2014.

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, who confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2014.

REVIEW OF INTERIM RESULTS

The Audit Committee comprises three independent non-executive Directors. The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The interim results of the Group for the six months ended 30 June 2014 have not been audited but they have been reviewed by KPMG, the auditor of the Company, and the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements to the proposed interim dividend and special interim dividend, the register of members will be closed from Tuesday, 26 August 2014 to Wednesday, 27 August 2014 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend and special interim dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 25 August 2014 for registration.

APPRECIATION

I would like to thank our fellow Directors for their contribution and support throughout the period, and our management and staff for their dedication and hard work.

I would like to express our sincere appreciation to our shareholders, customers and suppliers as well as our business associates for their continuing support.

By Order of the Board
WANG DONG XING
Chairman

Hong Kong, 11 August 2014

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2014 Interim Report of the Company will be dispatched to shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.lilanz.com in due course. This announcement can also be accessed on the above websites.

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. Wang Dong Xing (*Chairman*)
Mr. Wang Liang Xing (*Chief Executive Officer*)
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Wang Ru Ping
Mr. Pan Rong Bin

Independent Non-executive Directors:

Dr. Lu Hong Te
Mr. Chen Tien Tui
Mr. Nie Xing
Mr. Lai Shixian

By order of the Board
China Lilang Limited
Ko Yuk Lan
Company Secretary

Hong Kong, 11 August 2014