

**LILANZ 利郎**  
CHINA LILANG LIMITED  
中國利郎有限公司

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# China Lilang Limited Interim Results 2010

August 2010



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# Agenda

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**1. Financial Highlights**

**2. Business and  
Operational Review**

**3. Prospects and  
Strategies**

**4. Open Forum**

**LILANZ 利郎**



# Results Highlight

Turnover reached RMB786.8 million, up 31.1% year-on-year

Profit attributable to shareholders rose by 55.6% to RMB139.9 million; Earnings per share is RMB11.7 cents, up by 16.6% year-on-year

The number of retail outlets increased by 4.4% to 2,674

Average purchases of "LILANZ" products by each outlet increased by 24% year-on-year

Product average selling price increased by 15.2%

The first sales fair for sub-brand "L2" was held in Shanghai in mid-May, and the first "L2" store has been opened in July in Hunan

The Board of directors declared an interim dividend of RMB5 cents per ordinary share

**We aim to strengthen our position as one of the leading menswear brands in the PRC**



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# 1. Financial Highlights

## 2. Business and Operational Review

## 3. Prospects and Strategies

## 4. Open Forum

**LILANZ** 利郎

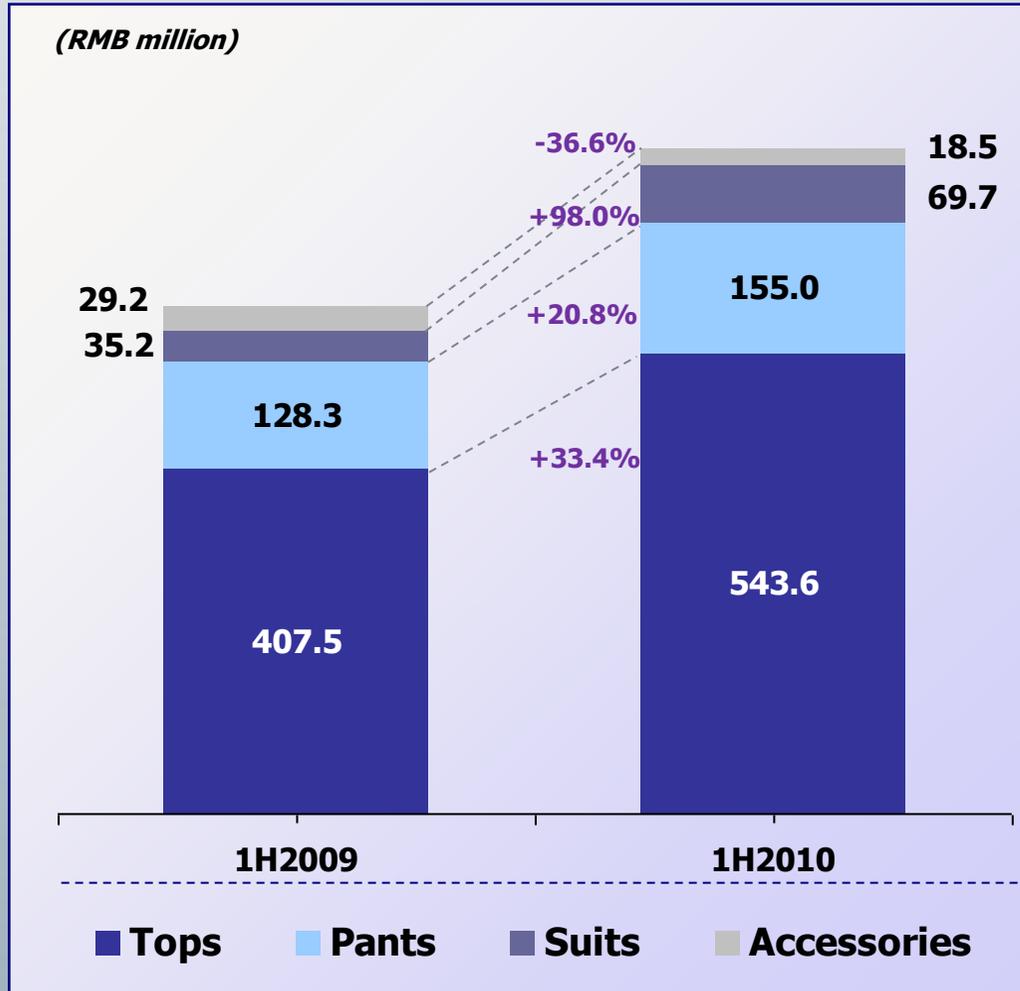


# Financial Highlights

	For the 6 months ended 30 June 2010		
<i>(RMB million)</i>	1H2010	1H2009	Change
<b>Turnover</b>	<b>786.8</b>	600.2	<b>+31.1%</b>
<b>Gross profit</b>	<b>272.9</b>	176.8	<b>+54.3%</b>
<i>Gross margin</i>	<b>34.7%</b>	29.5%	<b>+5.2 p.p.</b>
<b>Operating profit</b>	<b>159.6</b>	108.0	<b>+47.8%</b>
<i>Operating margin</i>	<b>20.3%</b>	18.0%	<b>+2.3 p.p.</b>
<b>EBITDA</b>	<b>167.1</b>	113.7	<b>+47.0%</b>
<b>Profit attributable to shareholders</b>	<b>139.9</b>	90.0	<b>+55.6%</b>
<i>Net margin</i>	<b>17.8%</b>	15.0%	<b>+2.8 p.p.</b>
<b>Basic EPS (RMB cents)</b>	<b>11.7</b>	10.00	<b>+16.6%</b>
<b>Interim dividend per share (RMB cents)</b>	<b>5</b>	N/A	<b>N/A</b>

# Robust Turnover Growth

## Turnover

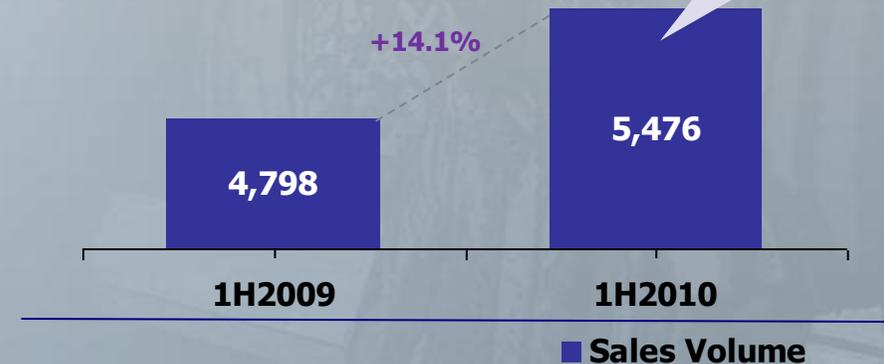


## Average Unit Selling Price

	1H2009	1H2010	Change
Tops	138	155	12.3%
Pants	92	97	5.4%
Suits	364	401	10.2%
Accessories	86	102	18.6%
<b>Overall ASP</b>	<b>125</b>	<b>144</b>	<b>15.2%</b>

## Total Sales Volume

(Volume '000)

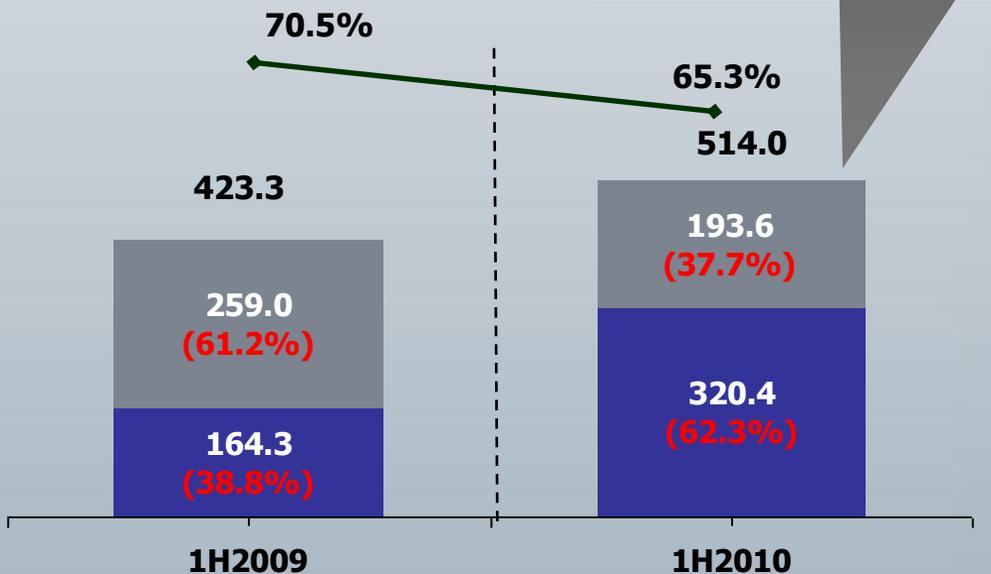


# Competitive Cost Structure

## COGS

(RMB million)

Proportion of self-production to total cost of sales increased, mainly due to more sub-contracting services used during the period under review



■ Self-production

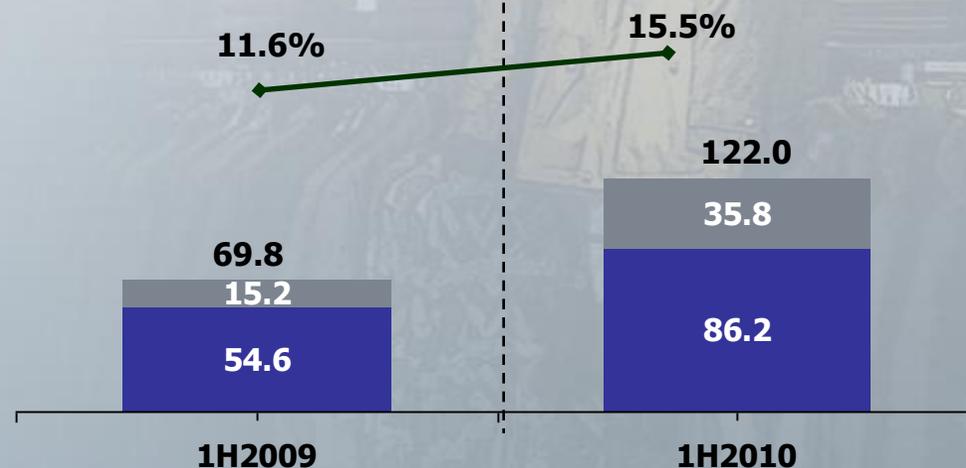
■ OEM Purchases

— As % of Turnover

( ) as % of COGS

## SG&A

(RMB million)



■ Selling & Distribution Expenses

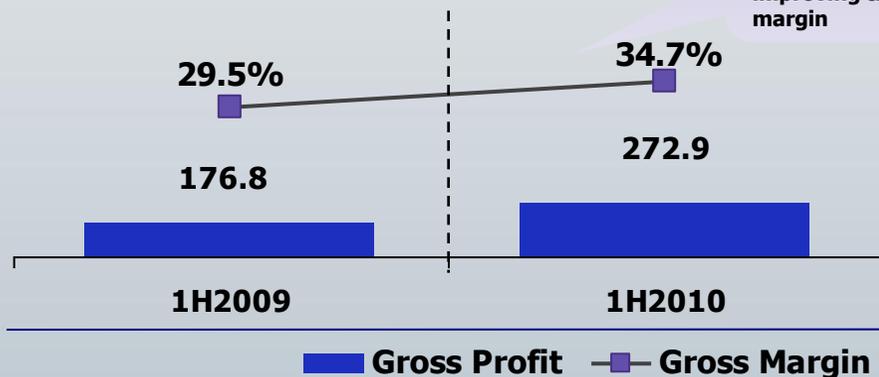
■ Administrative Expenses

— As % of Turnover

# Solid Margin Expansion and Superior Profitability Growth

## Gross Profit and Gross Margin

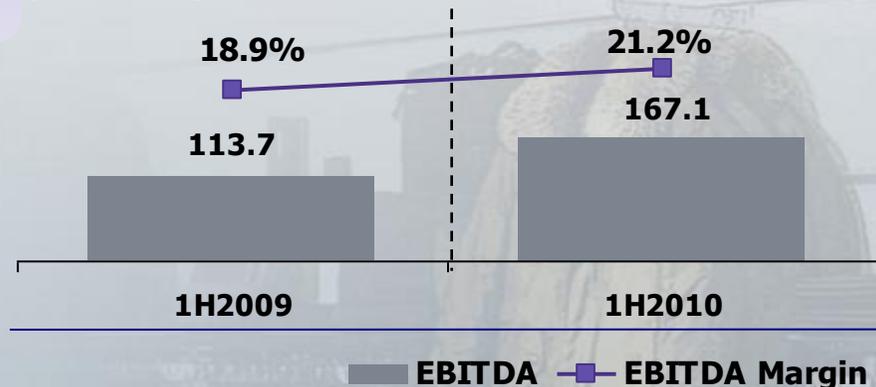
(RMB million)



Extent of increase in COGS is lower than increase of ASP, thus improving the gross margin

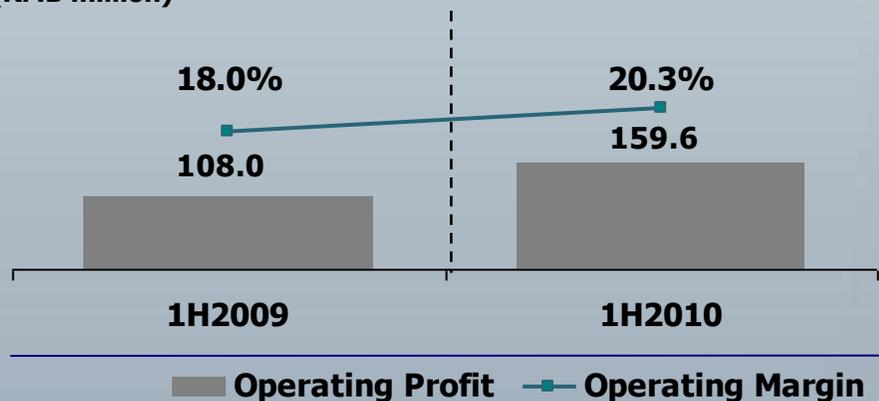
## EBITDA and EBITDA Margin

(RMB million)



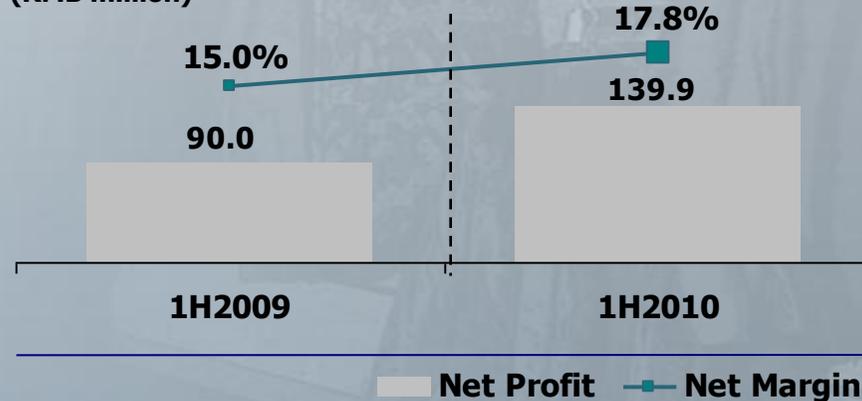
## Operating Profit and Operating Margin

(RMB million)



## Net Profit and Net Margin

(RMB million)



# Well Managed Working Capital Cycle

	<b>FY2009</b>	<b>1H2010</b>
<b>Average Inventory Turnover Days<sup>(1)</sup></b>	58	53
<b>Average Trade and Bills Receivables Turnover Days<sup>(2)</sup></b>	66	71
<b>Average Trade and Bills Payables Turnover Days<sup>(3)</sup></b>	72	81

(1) Calculated as average of beginning and ending inventory balance divided by cost of sales and multiplied by 181 days

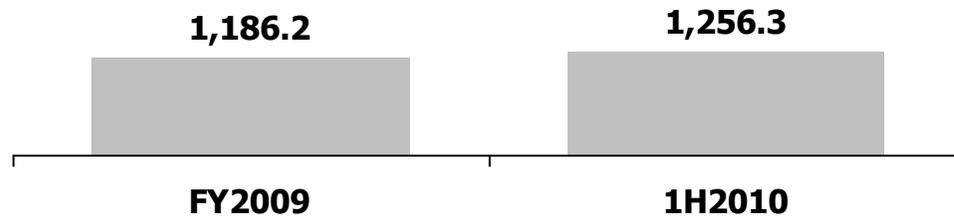
(2) Calculated as average of beginning and ending trade and bills receivables balance divided by revenue (included value-added tax) and multiplied by 181 days

(3) Calculated as average of beginning and ending trade and bills payables balance divided by cost of sales and multiplied by 181 days

# Strong Cash Position

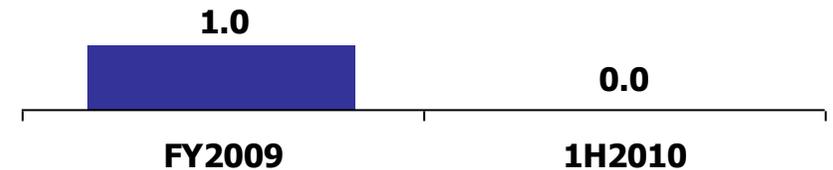
## Bank and Cash Balance

(RMB million)



## Interest-bearing Debt

(RMB million)



- Bank and cash balance of the Group reached RMB1,256.3 million
- The Group utilized part of the IPO proceeds to repay all bank loans and maintained net cash position

# Use of Proceeds

<i>(HK\$ million)</i>	As at 30 June 2010			
	Planned %	Amount of net proceeds	Already utilised amount	Remaining amount
Expansion of product development studio in Shanghai and development of facilities in Xiamen	15%	<b>162.2</b>	12.3	149.9
The development of sub-brand (L2)	15%	<b>162.2</b>	16.6	145.6
Lease and refurbishment of the flagship store for operation by distributors	15%	<b>162.2</b>	-	162.2
Promotional and brand building activities	20%	<b>216.3</b>	60.2	156.1
Expansion of the production plant in Jinjiang City Technology and Industrial Park	5%	<b>54.1</b>	7.0	47.1
The establishment of ERP system, development of information technology network and obtainment of necessary advisory services and system software	10%	<b>108.1</b>	10.1	98.0
Repayment of bank loans	10%	<b>108.1</b>	108.1	-
Working capital and other general corporate purposes	10%	<b>108.1</b>	108.1	-
<b>Total:</b>	<b>100%</b>	<b>1,081.3</b>	<b>322.4</b>	<b>758.9</b>

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# Unique Marketing and Promotional Strategies

## Enhance Brand Image

- Consider the store image and design as an important tool to enhance brand image of "LILANZ" and subsidized the renovation of the outlets to unify and promote store image
- Invested moderately in advertising and promotion



## Spokesperson Strategy

- Mr. Chen Dao Ming (陳道明) is the spokesperson for "LILANZ" brand
- Mr. Daniel Wu (吳彥祖) is the spokesperson for the Group's new "L2" brand
- The two spokespersons possess distinguished characteristics and represent the respective philosophy of the two brands, accentuating the brand image

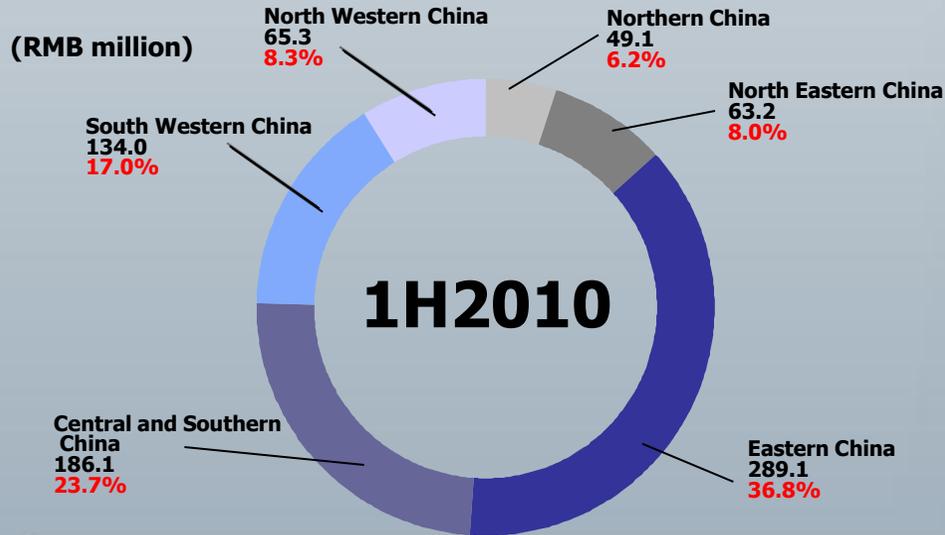


# Extensive and Well-managed Nationwide Distribution Network

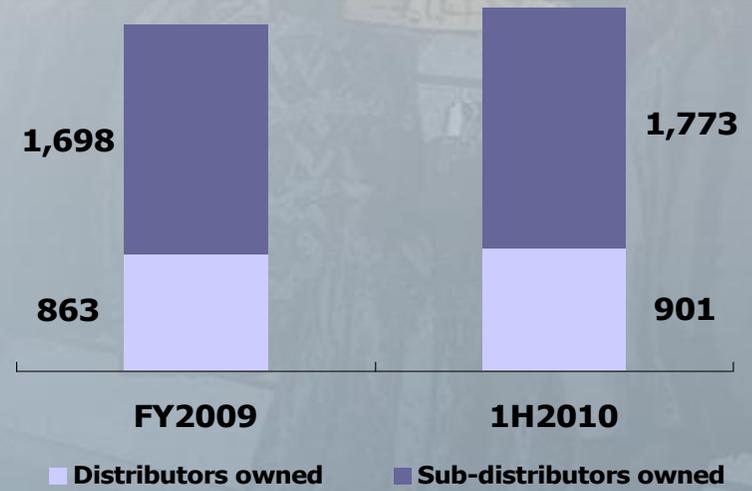


Region	No. of Stores
Eastern	856
Central and Southern	567
North-Western	203
South-Western	475
Northern	226
North-Eastern	347
<b>Total</b>	<b>2,674</b>

## Turnover by Region



## Stores breakdown by ownership



# Sales Channel Management

## Improve the retail software system

- Embark on developing software systems since late last year with plans to connect the sales and inventory situation of each distributor and sub-distributor on-line

By the end of 2010

- Connect the inventory systems of all distributors

After 3 years

- Cover all distribution outlets

## Improve sales efficiency of individual outlet

- Assisting distributors in designing and launching a sales incentive commission plan
- Speeding up the process of shipment and slotting of products to improve the sales of various product lines
- The average purchases of "LILANZ" products per store was RMB301,000, representing an increase of 24% as compared to the corresponding period last year



# Continue to Enhance Product Design and Development Capabilities

## Product Design and Quality

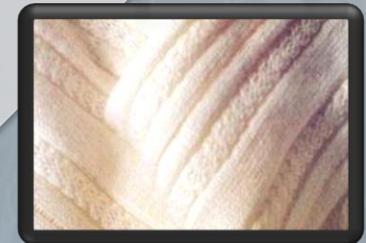
- Develop unique fabrics jointly with suppliers of raw materials to produce menswear of exquisite simplicity with high quality tailoring techniques
- The design and product development team for "LILANZ", the Group's main brand, comprises over 100 people, headed by Mr. Ji Wen Bo, a famous designer in China
- The product design and development department for the sub-brand "L2" is located at the new product development centre in Shanghai, and its design team comprises approximately 30 members, headed by Mr. Wang Yutao, the winner of "Best Menswear Designer in China" of China Fashion Grand Awards



# Production and Supply Chain Enhancement

## Production and Supply Chain

- In addition to outsourcing production ("OEM purchase"), the Group also increased the proportion of sub-contracting services. It is advantageous to the Group as it allows better control on the major fabrics used and enhances the flexibility to arrange complicated processes for self production. It would effectively intensify the control of product quality
- Continue to strengthen the control over the raw material supply chain actively and purchase raw material of fabrics directly from producers
- Reduce the cost of fabrics, effectively alleviating the impact of soaring prices of raw materials such as cotton, that may have on costs
- Cooperate directly with suppliers in the R&D of unique quality fabrics to enhance the Group's products innovation, and to enlarge product differentiation



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# Prospects and Strategy

## Products

- Continue to optimize product design and innovation
- Continue to strengthen the cooperation with fabric producers to jointly develop more fashionable and premium quality fabrics
- Provide products of higher quality-price ratio

## Sales Network

- Continue to optimize the sales network
- Enhance the sales efficiency of individual outlet
- Aim to open 300 "LILANZ" outlets and 100 "L2" stores by the year end

## Capacity Expansion

- To add a new production line to the plant at Wu Li for producing men's suits of smaller production quantity, but higher degree of complexity and innovation
- Expected to commence production in the 4th quarter
- Daily production capacity of 300 suits per day upon completion

## Brand Management

- Focus on the enhancement of brand image by promoting the core philosophy and value of "LILANZ" brand
- Invest moderately in advertising and promotion, as well as to unify and enhance "LILANZ" store image

# New Brand – L2

- The first sales fair for sub-brand “L2” was held in Shanghai in mid-May, featured a complete product series including “L2” fall and winter collections, footwear and accessories
- First “L2” store has been opened in July in Hunan
- Target to open 100 “L2” stores nationwide by the end of 2010



# Sales Fairs



Fall  
order  
amount  
increased  
**25%**

Winter  
order  
amount  
increased  
**33%**

- The sales fairs for 2010 fall and winter collections of "LILANZ" were held in April and June
- Delivery of the orders for the fall collection started in June, and delivery of orders for winter collection will start in August 2010

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