

LILANZ 利郎



China Lilang Limited
中國利郎有限公司

Stock Code: 1234

(Incorporated in the Cayman Islands with limited liability)

2012 INTERIM RESULTS

August 2012

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1. Financial Highlights

2. Business and Operational Review

3. Prospects and Strategies

4. Open Forum

Results Highlights

Turnover rose by 22.0% year-on-year to RMB1,259.3 million

Profit attributable to equity shareholders increased by 21.8% to RMB278.0 million;
Earnings per share is RMB23.2 cents, up by 22.1% year-on-year

Gross margin increased 3.3 percentage points to 39.7%

The Board of directors declared an interim dividend of HK13 cents per share and a special interim dividend of HK6 cents per share

Turnover of “LILANZ” up 18.2% to RMB1,178.3 million, contributing 93.6% of the Group’s total

Turnover of “L2” grew 127.5% to RMB81.0 million, contributing 6.4% of the Group’s total

“LILANZ” had 3,113 retail stores while “L2” had 273 retail stores as at the end of June 2012

We aim to strengthen our position as one of the leading business casual menswear enterprises in the PRC

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1. Financial Highlights



Financial Highlights

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	<i>For the six months ended 30 June</i>		<i>Change</i>
	1H2012	1H2011	
Turnover (RMB million)	1,259.3	1,032.1	22.0%
Gross profit (RMB million)	499.4	375.9	32.9%
Profit from operations (RMB million)	343.6	247.9	38.6%
Profit attributable to equity shareholders (RMB million)	278.0	228.2	21.8%
Basic EPS (RMB cents)	23.2	19.0	22.1%
<i>Dividend per share (HK cents)</i>			
<i>Interim</i>	13.0	11.0	18.2%
<i>Special interim</i>	6.0	5.0	20.0%
<i>Profitability ratios</i>			
<i>Gross margin (%)</i>	39.7	36.4	+3.3p.p.
<i>Operating margin (%)</i>	27.3	24.0	+3.3p.p.
<i>Net margin (%)</i>	22.1	22.1	+0.0p.p.
<i>Effective tax rate (%)</i>	25.6	15.0	+10.6p.p.
<i>Advertising and promotional expenses (as percentage of turnover) (%)</i>	5.9	6.4	-0.5p.p.

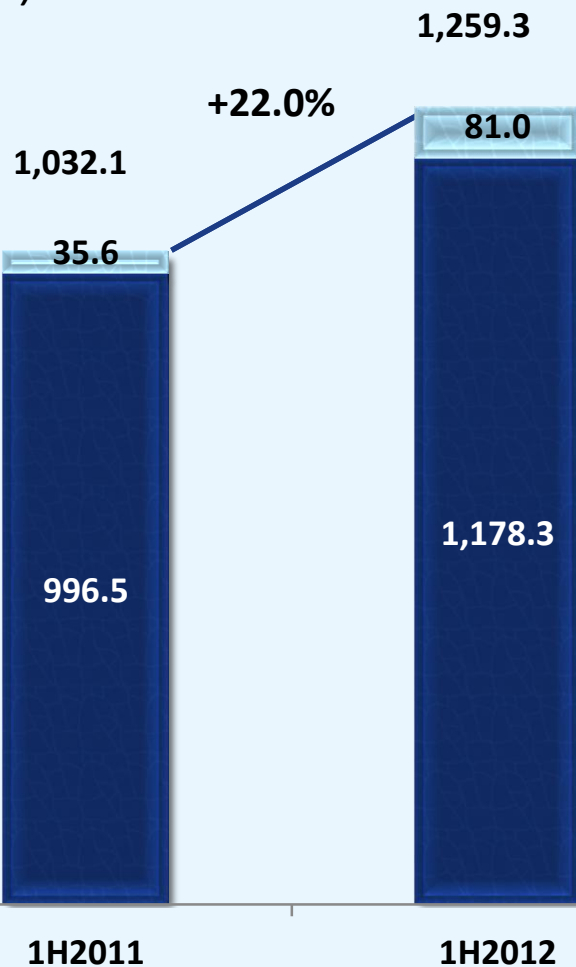
Consistent Turnover Growth

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Turnover

(RMB million)

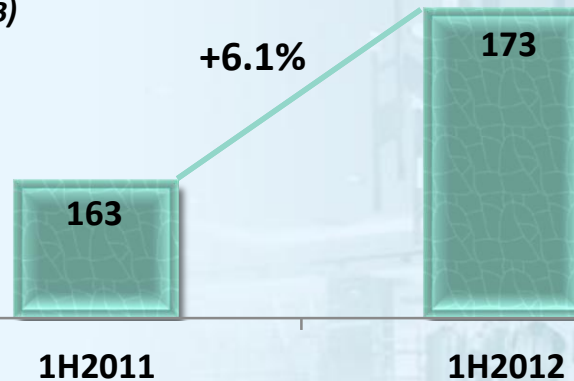


■ LILANZ

■ L2

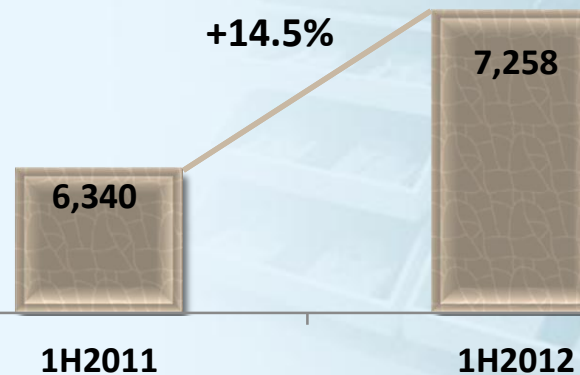
Average Selling Price

(RMB)



Total Sales Volume

(Pcs '000)



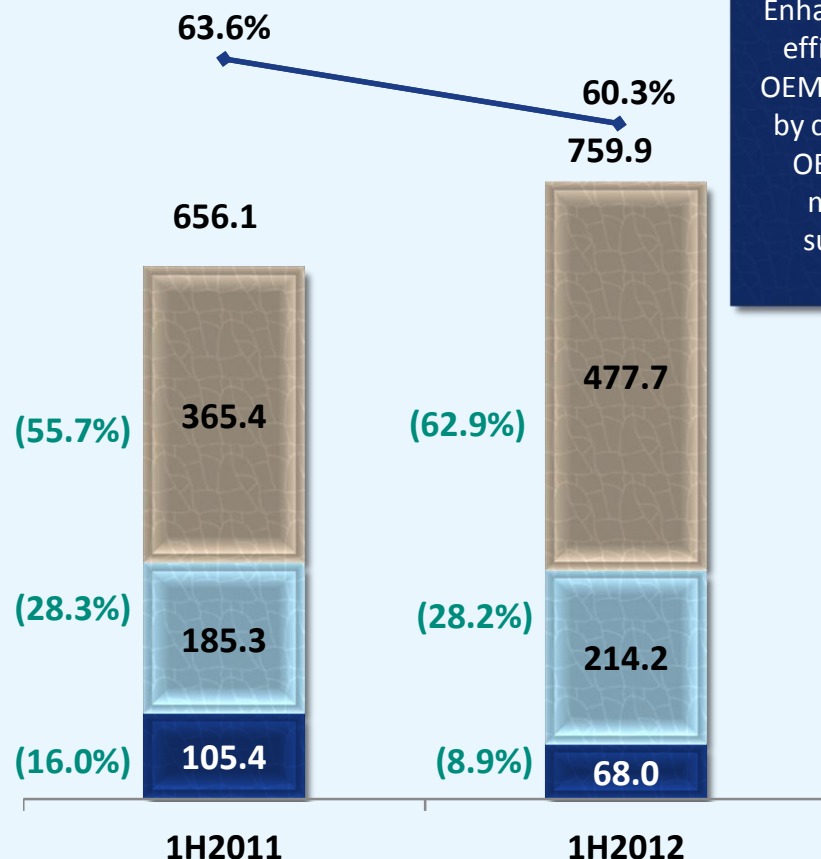
Effective control over Cost of Sales, and SD&A

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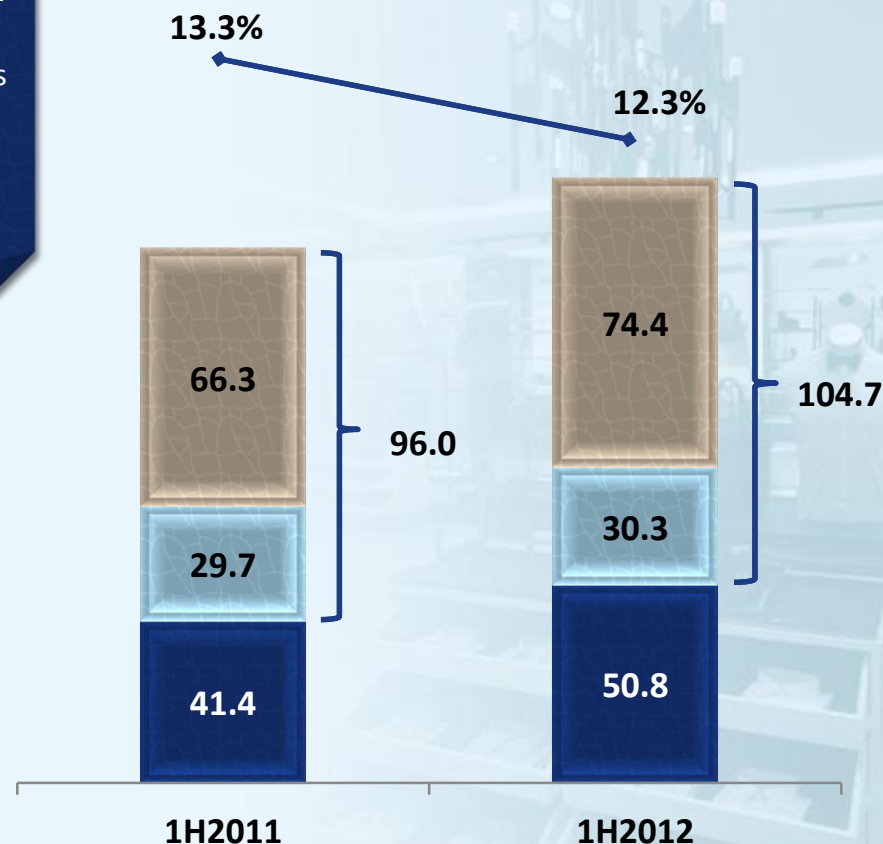
COGS

(RMB million)



SD&A

(RMB million)



OEM Purchases
 Other Self-production Costs
 Process Outsourcing Charges

As % of Turnover
 As % of COGS

As % of Turnover

Advertising and Promotional Expenses
 Other Selling and Distribution Expenses
 Administrative Expenses

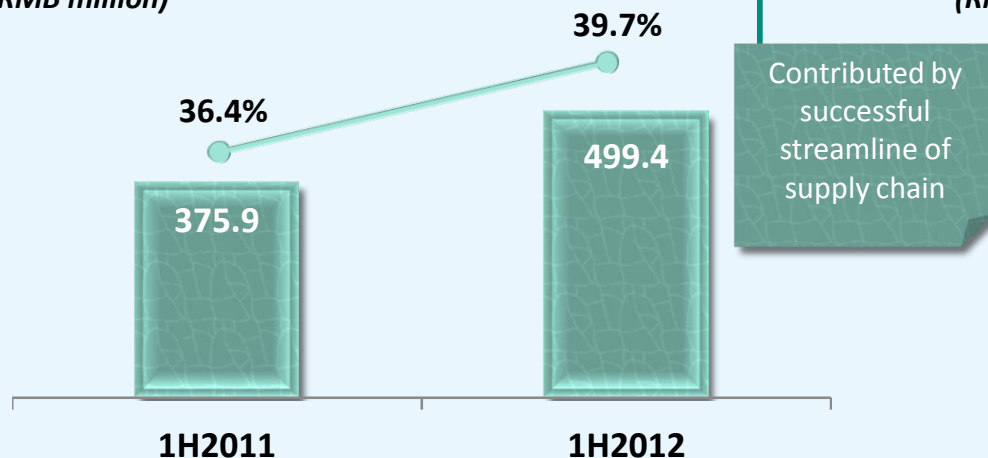
Profit and Margins

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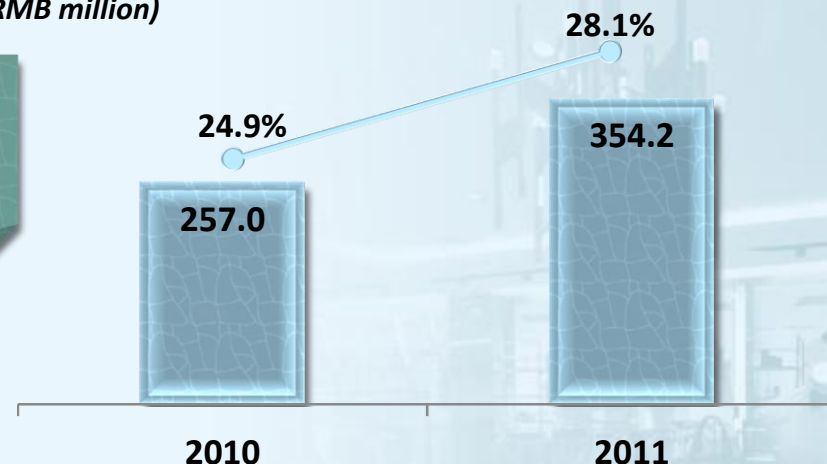
Gross Profit and Gross Margin

(RMB million)



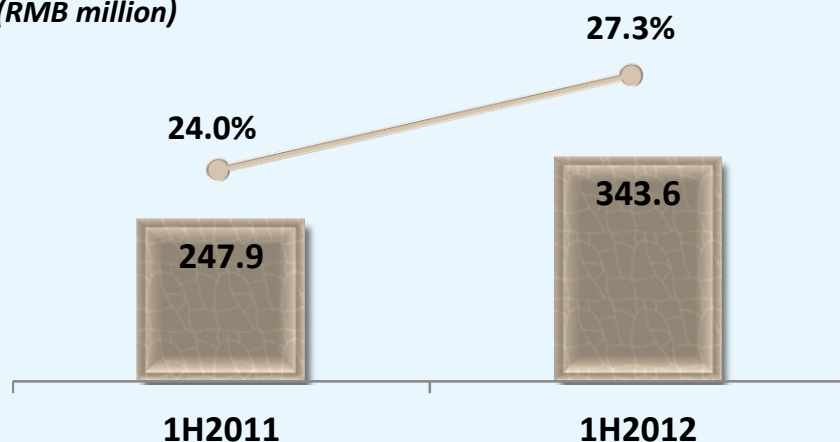
EBITDA and EBITDA Margin

(RMB million)



Operating Profit and Operating Margin

(RMB million)



Net Profit and Net Margin

(RMB million)



Well Managed Working Capital Cycle

	As at		
	30 June 2012	31 Dec 2011	30 June 2011
Average Inventory Turnover Days⁽¹⁾	59	45	49
Average Trade and Bills Receivables Turnover Days⁽²⁾	76	63	70
Average Trade and Bills Payables Turnover Days⁽³⁾	58	65	96

(1) Calculated as average of beginning and ending inventory balance divided by cost of sales and multiplied by 182 days

(2) Calculated as average of beginning and ending trade and bills receivables balance divided by revenue (including value-added tax) and multiplied by 182 days

(3) Calculated as average of beginning and ending trade and bills payables balance divided by cost of sales and multiplied by 182 days

Average Inventory Turnover

- Affected by seasonality, as autumn and winter collections account for about 70% of total annual sales
- More inventories of finished products for autumn orders and more raw materials for winter orders were prepared since trade fairs were held earlier this year

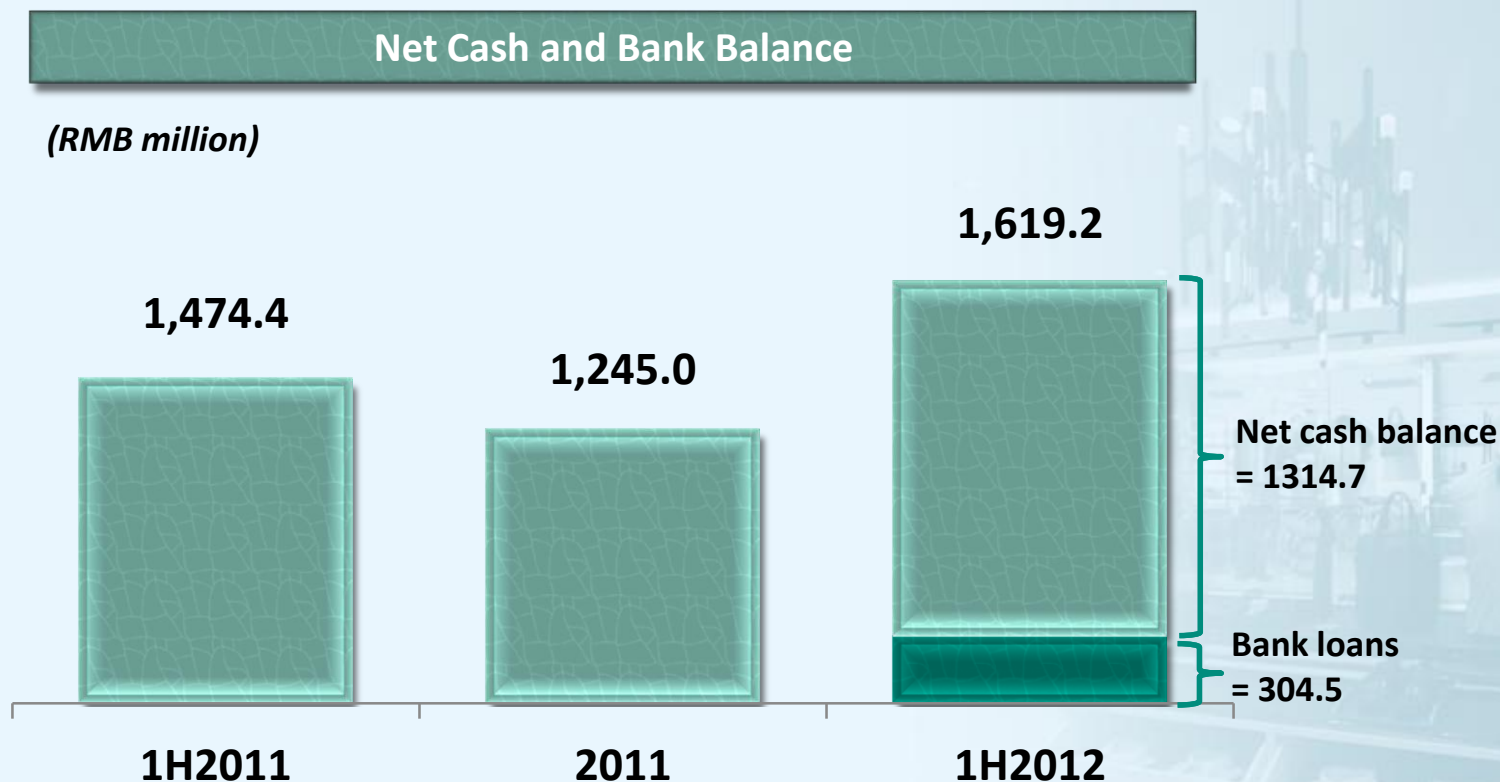
Average Trade and Bills Receivables Turnover

- Affected by seasonality, peak delivery seasons started in June
- Additional trade credits have been extended to certain distributors as incentive for opening larger stores

Average Trade and Bills Payables Turnover

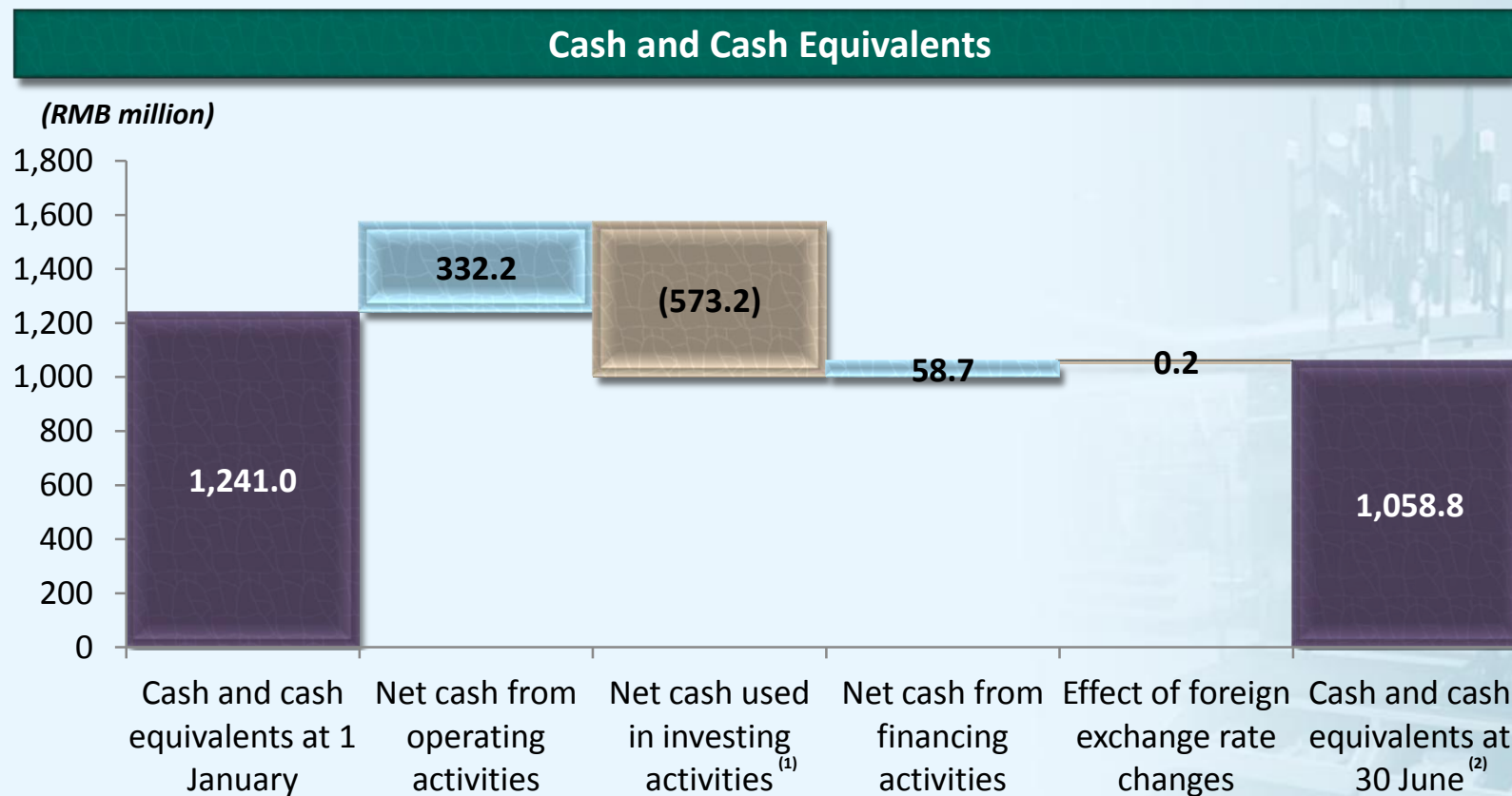
- Reduced the use of bills which have longer repayment terms to obtain more favorable prices from suppliers since late 2011

Strong Cash Position



- Cash and bank balance includes time deposits with maturity over 3 months and pledged bank deposits
- At 30 June 2012, the Group had bank loans totalling RMB304.5 million (31 December 2011: RMB nil) which were fully secured by pledged bank deposits.

Cash Flow Statement



(1) Included placements of time deposits and pledged bank deposits with maturity over 3 months

(2) Excluded fixed deposits held at banks with maturity over 3 months and bank deposits pledged as security for bank loans.

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2.Business and Operational Review





Focus on store image as core element of brand image enhancement

- Launched new third-generation design for its retail outlets to further upgrade brand image in July
- Simple, elegant but fashionable new store design is based on “bamboo” concept and employs high-end metallic materials and bright lighting effect
- Aim to improve sales efficiency by using more island cabinet
- Plan to renovate 300 to 350 retail outlets in the second half of 2012
- Plan to complete renovation of all retail outlets by 2015

Adopt effective and targeted marketing strategies

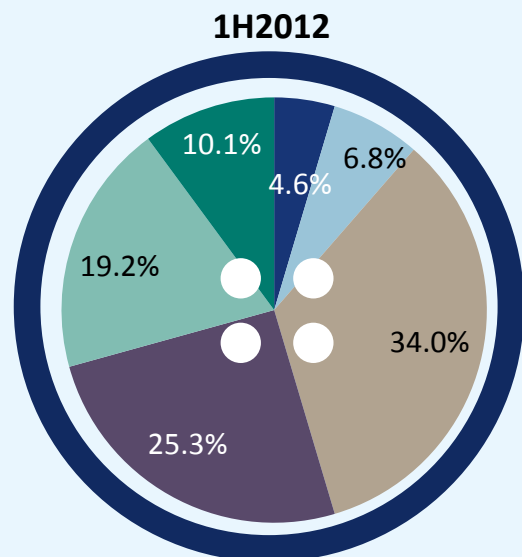
- Targeted promotional activities including new shop opening events, as well as advertising on TV, magazines, online, and large outdoor billboards
- Promoting the brand via large billboard advertising displays in Bangkok airport and Ginza, a prime shopping district of Tokyo, Japan targeting outbound-travelling consumers with high spending power
- Increased advertising spending on CCTV during UEFA Eurocup in June
- Produced new television commercial featuring Chen Dao Ming for “LILANZ” in New York to first broadcast during the Olympic Games period

Nationwide Distribution Network

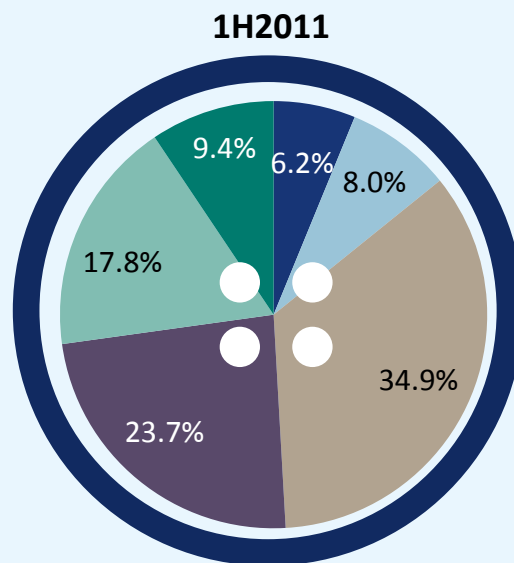
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Turnover by Region



■ Northern China
■ Eastern China
■ South Western China



■ North Eastern China
■ Central and Southern China
■ North Western China

Region	Number of Stores	
	1H2012	FY2011
Northern	311	306
North Eastern	418	419
Eastern	1,028	990
Central and Southern	774	736
South Western	607	577
North Western	248	240
Total	3,386	3,268

LILANZ

- 3,113 stores as of 30 June 2012
- In view of China's economic slowdown, the Group revised its target numbers of net openings for the year to 200 to 250
- Added 81 new stores, total retail area amounted to 337,000m², up 3.4% since year end of 2011

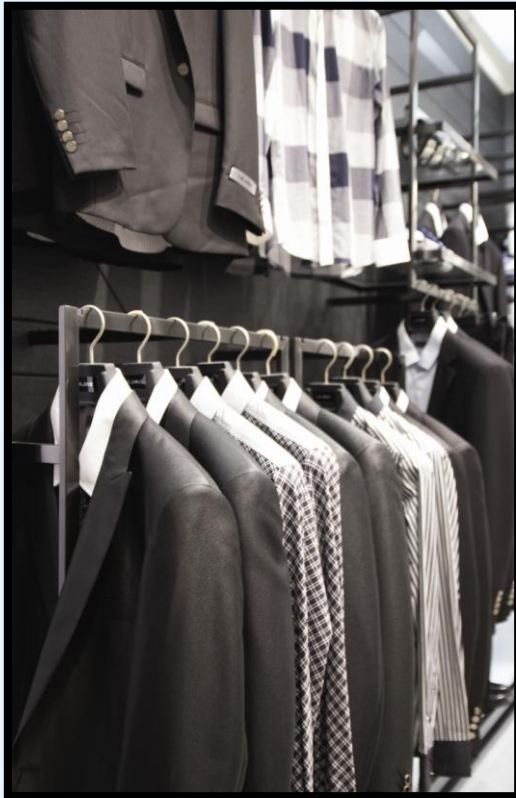
L2

- 273 stores as of 30 June 2012
- The Group revised its target numbers of net openings for the year to 80
- Added 37 new stores, total retail area amounted to 29,600m², up 17.0% since the end of 2011



Improve channel control and retail management

- Improve channel control by connecting sales and inventory records of retail outlets through ERP system
- Target to connect all stand-alone stores by the end of 2012
- As at end of June 2012, about 1,550 “LILANZ” stores have been connected and all “L2” stores are connected online
- Provide training to frontline staff of distributors to enhance quality of service and store management



Enhance channel inventory management

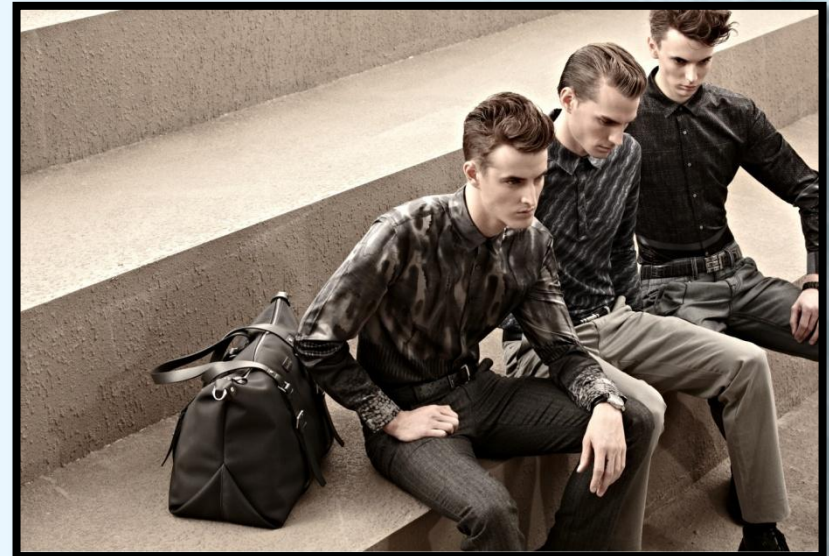
- Implemented a new ordering policy since 2012 fall trade fair to lower the ordering rate of distributors in the trade fair from 85%-90% to 80%
- New policy offered greater flexibility for distributors to help control level of inventory and improve risk management

Strategically reorganized and expanded store network

- Tactically selected prime locations to optimize store network
- During the period, 4 mega stores between 300m² to 500m² were opened, 2 in provincial capital cities Shanghai and Kunming and 2 in county level cities in Zhejiang and Yunnan
- Consolidated store network and closed some underperforming stores in Northern China and North Eastern China regions

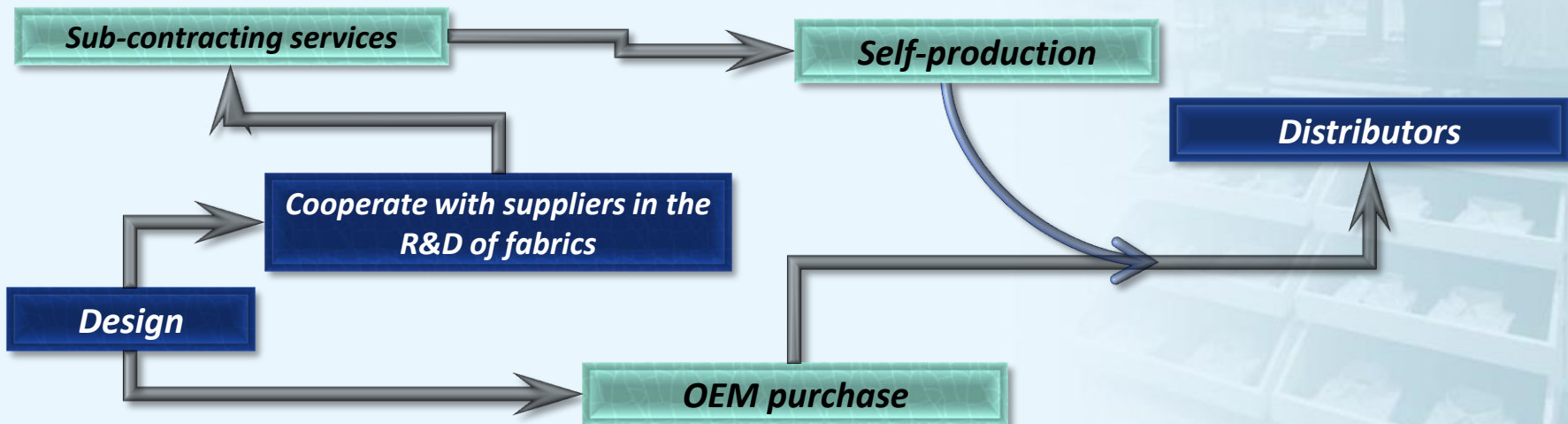
Emphasize on product style and quality to become the trend-setter

- Established a product planning department to support product design planning with market research and create products more closely in line with market demand
- Benefits of product planning department are expected to transpire in 2013 spring and summer collections
- Continued to excel in creating fashionable and simplistic designs by utilizing unique fabrics and innovative product designs
- “LILANZ” was honoured with “Jack-The 8th China National Garment Association Award - Public Award” presented by the renowned China National Garment Association
- The product design and development team for “LILANZ” is located in Jinjiang with 100 people
- The product design and development team for “L2” is located in Shanghai with 35 members



Cost and Quality Control

- Continued to engage in a combination of self-production, process outsourcing and OEM purchases to achieve optimal quality, cost efficiency and flexibility in manufacturing arrangements
- Further control raw material costs of OEM purchases by requiring more OEM suppliers to purchase from designated raw material suppliers
- Control cost by selecting more cost-efficient OEM suppliers and revising suppliers' payment terms



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3.Prospect and Strategies



Brand Management

- Upgrade store image to third-generation design for 300 to 350 retail stores by the end of 2012 and for all stand-alone stores by 2015

Products

- Leverage newly established product planning department to conduct market research to design products more closely aligned to consumer demands
- Continue setting trends with fashionable, simplistic and innovative designs using unique fabrics

New Headquarters

- Planning for the new headquarters comprised of a new design and product development studio, training center, sales center and new corporate headquarters building etc.
- Expected to commence construction in the first half of 2013 and to be completed by 2015

Production and Supply Chain

- Optimize production quality, cost-efficiency and flexibility by using a combination of self-production, process outsourcing and OEM purchases
- Continue to streamline the supply chain with cost-efficient OEM suppliers
- Extend the use of designated raw material suppliers to more OEM suppliers to control costs

Distribution and Sales Network

- Target to open a net number of 200 to 250 “LILANZ” stores and about 80 “L2” stores in 2012
- Arrange the 300 to 350 retail outlets identified for store image upgrade in 2H2012 to undertake clearance sales before renovation work to reduce channel inventory
- Open two self-operated flagship stores in Chengzhou and Xian by the end of 2012
- Open 10 mega stores per year in major cities
- Target to connect all retail outlets by ERP system by the end of 2012

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4.Open Forum



Appendix – Sales Fairs

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2012 Fall	+16%	June 2012
2012 Winter	+11.5%	August 2012

L2	Order value	Delivery of order to start in
2012 Fall	+61%	June 2012
2012 Winter	+40.5%	August 2012