

ILANZ 利郎

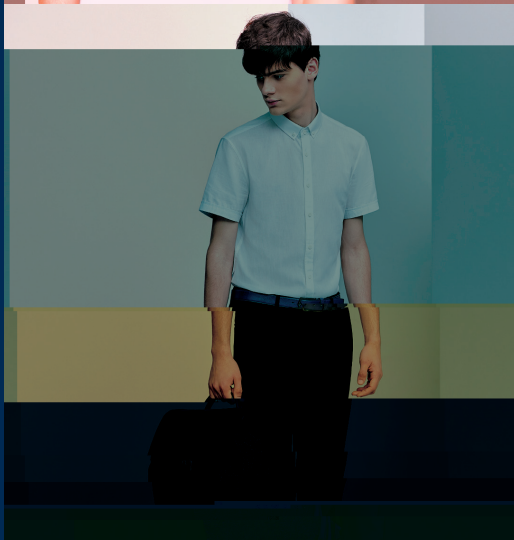
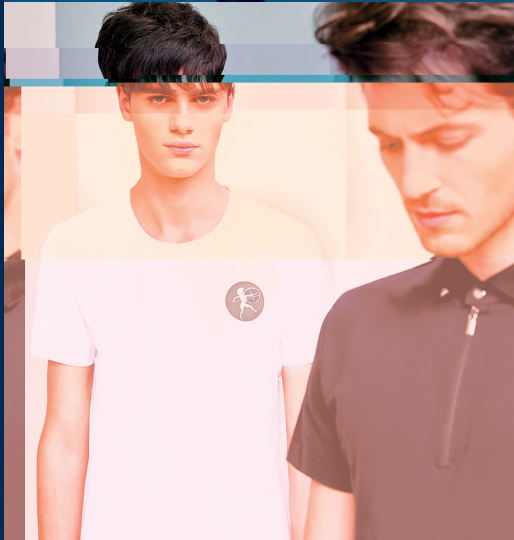
CHINA LILANG LIMIT

中國利郎有限公司

Stock Code:1234



2017 INTERIM
REPORT



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FINANCIAL HIGHLIGHT 

	Six months ended 30 June		
	2017 (RMB million)	2016 (RMB million)	Changes (%)
Revenue	1,022.3	1,173.9	-12.9
Gross profit	436.3	480.6	-9.2
Profit from operations	296.6	311.1	-4.7
Profit for the period	270.6	266.3	+1.6
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	22.4	22.0	+1.8
— Diluted	22.4	22.0	+1.8
Interim dividend per share	HK13 cents	HK13 cents	—
Special interim dividend per share	HK5 cents	HK5 cents	—
	(%)	(%)	(% points)
Gross profit margin	42.7	40.9	+1.8
Operating profit margin	29.0	26.5	+2.5
Net profit margin	26.5	22.7	+3.8
Return on average shareholders' equity ⁽¹⁾	8.9	9.1	-0.2
Effective tax rate	15.6	26.8	-11.2
Advertising and promotional expenses and renovation subsidies (as percentage of revenue)	9.7	7.8	+1.9
	As at 30 June 2017	As at 31 December 2016	As at 30 June 2016
Average inventory turnover days ⁽²⁾	80	76	57
Average trade receivables turnover days ⁽³⁾	99	92	103
Average trade payables turnover days ⁽⁴⁾	90	89	78

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 and bills receivables balance divided by revenue (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 bills payables balance divided by cost of sales and multiplied by the number of days in the relevant period.

MARKET OVERVIEW

In the first half of 2017, the manufacturing industry and trade in Europe, Japan and China appeared more active due to the improvement in global business environment and the continued recovery of the U.S. economy. The International Monetary Fund also raised its global economic growth forecast at the beginning of the second quarter, reflecting continued improvement in the overall economic environment.

China's economy maintained stable growth and that has eased pressure for Renminbi to depreciate. According to the National Bureau of Statistics of China, the domestic economy grew 6.9% for two consecutive quarters, with GDP increased by 6.9% year on year to RMB38,149.0 billion for the first half of the year. Economic expansion

continued due to increased fixed assets investment and improvement in the manufacturing industry and trade. Employment and consumer prices remained stable. Income of both urban and rural residents kept increasing at relatively rapid rates. Meanwhile, retail sales of consumer goods rose 11.0% in June, the fastest since 2016. In the first half, retail sales grew 10.4% year on year, in which retail sales of apparel products increased by 7.3%, up by 0.3 percentage point as compared with the corresponding period last year. China's menswear industry is showing signs of steady improvements and consumer confidence has improved alongside the overall economic environment.

China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries known as the "Group") continued to innovate and transform its business. Adhering to

the strategy of "improving product quality without raising the price", the Group is committed to improving its competitiveness through enhancing the originality and value-for-money of its products, and has achieved satisfactory results. In the first half of 2017, the proportion of original design products further increased to over 70%. With clearer positioning and prominent designs, "LILANZ" products are fully differentiated from other brands. Meanwhile, the Group made satisfactory progress in its development of the first- and second-tier markets with its smart casual collection (hereinafter referred to as the "smart casual collection") which has been well received by consumers. In addition, the Group continued to improve its retail channel management and, as a result, channel operating efficiency has improved and a healthy development of channels is also maintained. In the first half of the



year, the Group's retail stores continued to achieve mid-single digit same-store sales growth.

For the six months ended 30 June 2017, revenue was RMB1,022.3 million and net profit was RMB270.6 million. The profit margin has improved. The Group remained financially healthy and had sufficient cash flows. The Board recommended the payment of an interim dividend of HK13 cents per share and a special interim dividend of HK5 cents per share.

FINANCIAL REVIEW

Revenue

The Group's revenue for the first half of 2017 decreased by 12.9% year on year to RMB1,022.3 million. Revenue of "LILANZ" decreased by 7.9% to RMB1,008.1 million as sales of 2017 spring and summer collections were reduced to keep the channel inventory healthy. "L2" would cease operation from fall 2017 as scheduled. It had started clearing inventories and recorded revenue of RMB14.2 million in the first half of the year.

Regional Revenue

Due to the 2016 spring and summer collections channel inventory issue, sales in all regions decreased except for the Northern China region which recorded a small growth. Sales in the North Western China region had the sharpest decline at 25.3% as both Shaanxi and Xinjiang were most affected by the channel inventory of 2016 spring and summer collections. But such impact was temporary and sales of the 2017 fall collection in the North Western China region had returned to growth. Sales in the South Western China region also recorded a double-digit drop, mainly due to the decline in sales in Chongqing. The increase in sales in the Northern China region was due to the jump in sales in

Inner Mongolia after the change of its distributor during the first half of last year, offsetting the drop in the sales in Shanxi. Sales in the North Eastern China region, Eastern China region and Central and Southern China region all had single-digit decline.

The Eastern China region and the Central and Southern China region remained the top contributors to the revenue of "LILANZ", and together accounted for 57.9% (first half of 2016: 55.7%) of the total. The retail stores in these two regions accounted for 50.5% (first half of 2016: 50.0%) of the total number of "LILANZ" stores.



Revenue by region for the period was set out below:

Region	2017		2016		Changes %
	RMB million	% of revenue	RMB million	% of revenue	
Northern China ⁽¹⁾	67.0	6.6%	66.4	6.1%	+0.9%
North Eastern China ⁽²⁾	60.0	6.0%	65.1	5.9%	-7.8%
Eastern China ⁽³⁾	313.1	31.1%	330.2	30.2%	-5.2%
Central and Southern China ⁽⁴⁾	270.6	26.8%	279.1	25.5%	-3.0%
South Western China ⁽⁵⁾	209.8	20.8%	236.9	21.6%	-11.4%
North Western China ⁽⁶⁾	87.6	8.7%	117.2	10.7%	-25.3%
Sub-total of "LILANZ"	1,008.1	100.0%	1,094.9	100.0%	-7.9%
"L2"	14.2		79.0		-82.0%
Total of the Group	1,022.3		1,173.9		-12.9%

(1) Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.

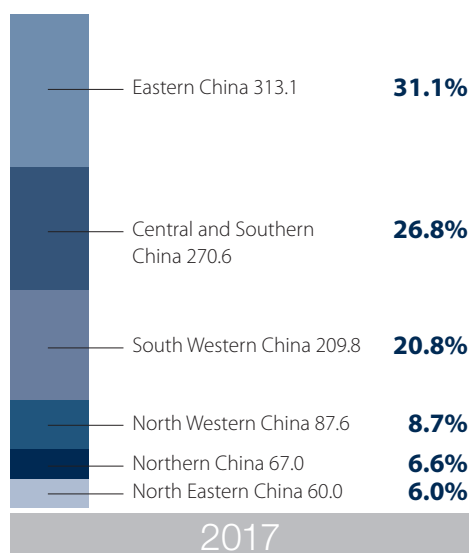
(2) North Eastern China includes Heilongjiang, Jilin and Liaoning.

(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.

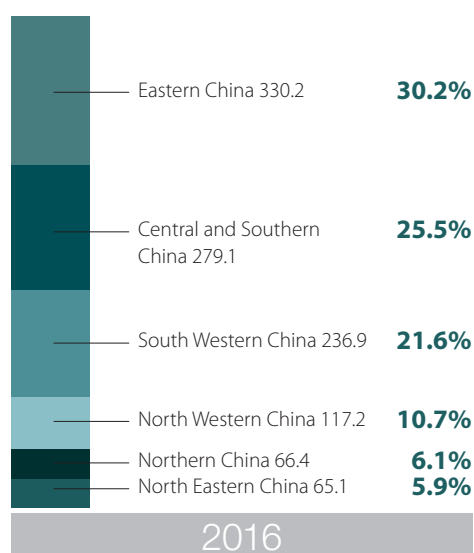
(6) North Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.



TOTAL 1,008.1

January to June 2017
"LILANZ" Revenue by Region

(Billions)



TOTAL 1,094.9

January to June 2016
"LILANZ" Revenue by Region

(Billions)

Gross Profit and Gross Profit Margin

Gross profit margin was up by 1.8 percentage points to 42.7%. The increase was mainly attributable to the smaller sales contribution from “L2” which had a lower gross profit margin. Also, while improving product quality without raising the price, the higher proportion of original design products and better supply chain management helped lower the cost of sales for “LILANZ”.

Cost of sales decreased by 15.5% to RMB586.0 million, at a faster pace than revenue. Cost of in-house production, including sub-contracting charges, accounted for 73.2% (first half of 2016: 55.3%) of the total cost of sales, up by 17.9 percentage points.

Other Net Income

Other net income increased by RMB8.3 million to RMB44.4 million for the period, which comprised mainly government grants and a write-back of RMB7.7 million in relation to the cleaning up of trade payables of “L2”. The entitlements of the government grants were unconditional and under the discretion of relevant authorities.

Selling and Distribution Expenses

Selling and distribution expenses were RMB128.6 million, and accounted for 12.6% of the total revenue. Advertising expenses and renovation subsidies increased by RMB7.8 million to RMB99.2 million for the period, and accounted for 9.7% of the total revenue, up by 1.9 percentage points. The increase in the expense ratio was mainly due to increased renovation subsidies and decreased sales in the first half of the year.

Advertising Expenses

Interim Dividend

The Board recommended the payment of an interim dividend of HK13 cents (first half of 2016: HK13 cents) per ordinary share and a special interim dividend of HK5 cents (first half of 2016: HK5 cents) per ordinary share in respect of this financial year, making it a total dividend payment of approximately HK\$217.6 million (equivalent to approximately RMB189.3 million). The interim dividend and special interim dividend will be paid in cash on or around 15 September 2017 to shareholders whose names appeared on the register of members of the Company on 1 September 2017.

BUSINESS REVIEW**Retail and Distribution Network**

The Group continued to manage the retail and distribution network effectively to enhance the Group's overall competitiveness. During the period, the Group maintained a prudent approach to new store opening and pragmatically supported its distributors in optimizing their retail store networks with a focus on improving store efficiency. Meanwhile, the Group continued to open stores in shopping malls in provincial capitals and prefecture-level cities in view of the change in consumption habit. As at the end of June 2017, the total number of such stores increased to approximately

250, and their sales performance has been in line with expectation. At the same time, the Group continued to open specialty stores for its smart casual collection in first- and second-tier markets in the first half of the year, and there were about 50 such stores by the end of June.

As at 30 June 2017, "LILANZ" had a total of 2,393 stores, representing a net decrease of 7 stores over the period, mainly due to the adjustment to the store network in response to the actual operating conditions to enhance efficiency and the decrease in the number of shop-in-shops in department stores.

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

Region	Number of stores			As at 30 June 2017
	As at 1 January 2017	Opened during the period	Closed during the period	
Northern China	238	16	17	237
North Eastern China	245	12	20	237
Eastern China	615	54	44	625
Central and Southern China	569	54	39	584
South Western China	503	21	40	484
North Western China	230	11	15	226
Total	2,400	168	175	2,393

Sales Channel Management

The Group has adopted a distribution model under which its products are sold to end consumers through retail stores operated by distributors and their sub-distributors. Therefore, effective

sales channel management would enable the Group to establish its brand presence and improve service quality so as to boost its sales and minimize its exposure to the risk of channel inventory.

The Group has established a stable relationship with its distributors, and all distributors of "LILANZ" have maintained business relationships with the Group for over a decade.

The number of "LILANZ" stores by operator and by channel was as follows:

	As at 1 January 2017	As at 30 June 2017
By operator:		
Self-operated stores	2	1
Stores operated by distributors	916	965
Stores operated by sub-distributors	1,482	1,427
	2,400	2,393
By channel:		
Street stores and stores in shopping malls	2,029	2,044
Shop-in-shops in department stores	371	349
	2,400	2,393

As at 30 June 2017, "LILANZ" had 67 distributors and 967 sub-distributors.

There were a total of 2,393 "LILANZ" retail stores with an aggregate retail area of approximately 291,280 square meters (31 December 2016: 289,800 square meters), representing a slight increase of 0.5%. The Group continued to provide training to the management teams of its distributors, including training on business-oriented store operating costs management provided to the distributors in Henan in July 2017. The Group also continued to monitor channel sales and inventory through the ERP system, which connects to all stand-alone stores.

E-channel Development

The Group believes that e-channel is an important business development platform in addition to the traditional sales channels. During the first half of 2017, the Group continued to use "T-MALL" as a major online sales channel and to provide home delivery services to VIP customers who can now purchase products from local stores through a customer relationship management system on the WeChat platform. Except for off-season products, the products and prices offered online were the same as those in the bricks-and-mortar stores.

Product Design and Development

The Group believes that product design and development is the key to success in China's menswear industry. As such, the Group continued to strengthen its design team and enhance product originality while improving the individuality of its products in order to differentiate itself from its peers. When adhering to the strategy of "improving product quality without raising the price", the Group has also been committed to cost control and the enhancement of its products' value-for-money so as to drive its product sales and maintain a stable gross profit

margin. Original design products are expected to account for about 68% of the sales in 2017, of which about 36% adopting the proprietary fabrics developed by the Group. In the medium-to long-run, the proportion of original design products will be maintained at about 70%, of which 50% will adopt the proprietary fabrics developed by the Group.

As for product design, the international and domestic research and development teams of "LILANZ" worked with each other closely and smoothly, which has added an international flavor to the brand, differentiated its products from those of its peers to a larger extent and enriched its accessory product range.

Marketing and Promotion

To raise the effectiveness of its brand promotion campaigns, the Group continued to take different opportunities in advertising, including placing advertisements through advertising signs in Electric Multiple Unit (EMU) and EMU stations, airports and roadside billboards as well as soft-sell advertising in magazines and newspapers. During the period, the Group made better use of the online social media. In addition to regularly sending out fashion tips to the fans through the public WeChat account of LILANZ Menswear, in summer, the Group launched a nationwide promotion campaign - "Stylish Man (我是型男)" contest for online voting by WeChat users. With almost 8,000 people joining the contest and more than 5.0 million voters, together with online advertising video, the promotional effect was phenomenal.

In addition, the Group continued to make good use of the store image as a tool for brand promotion, and continued to upgrade the image of large-scale stores. Stores newly opened in first- and second-tier cities have adopted the latest sixth-generation store image which uses better quality decoration materials and the design is more elegant and stylish with a better use of retail space. In the first half of 2017, the Group completed the renovation or partially upgrade of about 180 stores with the sixth-generation store image.

Trade Fairs

The 2017 fall and winter trade fairs of "LILANZ" were held in the first half of 2017. Thanks to the overseeing of the fall and winter orders in 2016, while the retail sales of "LILANZ" continued to outperform other industry peers, the channel inventory has returned to a healthy level. The distributors have high confidence in the Group's products, which improved the trade fair orders of the 2017 fall and winter collections. The fall trade fair recorded a high single-digit growth in order value, putting an end to the decline over the past four seasons. The winter trade fair further improved to a low double-digit growth in total order value year on year. The average selling price by category of the fall and winter products remained largely stable.

Headquarters, Production and Supply Chain

The Group's new headquarters currently under construction in Jinjiang, Fujian is expected to be completed in 2018. The Group also plans to purchase a property in Shanghai as a design and operation centre for the smart casual collection. As at 30 June 2017, the estimated capital commitments for the construction of the new headquarters and the purchase of operation centre in Shanghai totaling RMB372.5 million will be financed by internal resources of the Group.

The Group maintains good business relationship with its suppliers, which benefits its supply chain management, and enables it to control costs without sacrificing quality by engaging the suitable fabric suppliers and processing plants. While reducing the proportion of OEM purchases and increasing the proportion of original design products, the Group adheres to the strategy of "improving product quality without raising the price" and shares the benefits from its improved supply chain management with consumers by offering them products of higher value-for-money.

A a d.

In January 2017, "LILANZ" was named "Top 100 Most Valuable Brands of Listed Companies in China" (中國上市公司最具價值品牌100強) and the "Most Internationally-Competitive National Brand in PRC Menswear Industry" (中國男裝行業最具國際競爭力民族品牌)

at the second "Innovation and Development for New Model of the Chinese Economy Summit" (中國經濟新模式創新與發展峰會) cum 2016 "Chinese Industry Leading Brands" (中國行業領先品牌) TV Festival, which is an event co-hosted by various organizations, including The Enterprise Observer (企業觀察報社), Network Operators Branch of China Association of Small and Medium Enterprises (中國中小企協會網商分會), "Leaders", a program aired on CCTV's securities information channel, of Central Studio of News Reels Production of China Central Television (中央電視台所屬中央新聞紀錄電影製片廠《領導者說》欄目) and China Academy of Management Development Science (中國管理科學研究院行業發展研究所).

PROSPECTS

In the second half of 2017, the uncertainty associated with Brexit and possibly slower-than-expected economic growth in the U.S. will affect the global economic outlook to a certain extent. However, the steady performance of the economy in the PRC and more active global trade will lay a solid foundation for economic development.

As consumer confidence in the PRC is improving, the prospects of the menswear industry improve steadily alongside the overall economy. While industry consolidation is expected to continue, the operating environment has returned to be more rational. The management believes that the Group's effort to innovate and transform its business during the past few years under the strategy of "improving product quality without raising the price" has been a success. The original designs and value-for-money of the Group's products are more competitive, paving a solid foundation for further expansion of its business.

In the second half of the year, China Lilang will continue with the strategy of "improving product quality without raising the price", and continue to spare no effort in improving product design, craftsmanship and materials. The Group will maintain a prudent approach to store opening and target to achieve sales growth of the retail stores through optimizing store network. While the total number of "LILANZ" stores is expected to remain at the current level, the Group will continue to open new stores in suitable locations through first-tier distributors. In particular, more stores will be added to shopping malls in provincial capitals and prefecture-level cities. The business momentum of the smart casual collection has been encouraging. This facilitates the expansion of "LILANZ" into first- and second-tier cities and boosts the

confidence of the Group to expand. In the second half of the year, the Group will continue to expand the specialty store network for the smart casual collection, and plan to increase the number of those stores to about 100 by the end of the year. The Group is confident that its retail stores will continue to achieve mid-single digit same-store sales growth in the second half of the year.

Regarding the plan to establish a separate design and operation center for the smart casual collection in Shanghai in the second half of 2017, it will be postponed to 2018 due to the delay in the completion of the purchase of the office property.

The Group's 2018 spring and summer trade fair has commenced on 12 August, and the management expects that the total order value will increase by low double-digit.

In the long run, China Lilang will adhere to its multi-brand strategy and also continue to proactively enhance the competitiveness and value-for-money of its products to further consolidate its leading position in the menswear industry, so as to sustain a long-term growth and reward its shareholders, employees and customers for their support.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Balance and Cash Flow

	As at 30 June 2017	As at 31 December 2016
	RMB million	RMB million
Total cash and bank balance	2,523.6	2,671.5
Less: Amounts regarded as operating/investing activities in condensed consolidated statement of cash flows:		
— Pledged bank deposits	(480.6)	(488.9)
— Fixed deposits held at banks with maturity over three months	(552.2)	(568.9)
Cash and cash equivalents	1,490.8	1,613.7

As at 30 June 2017, the Group's total cash and bank balance was mainly denominated in Renminbi (74.4%) and Hong Kong Dollars (23.4%).

The decrease in cash and cash equivalents balance by RMB122.9 million during the period was mainly attributable to:

- Net cash inflows from operating activities amounting to RMB154.5 million. This compared to net profit of RMB270.6 million for the period. As the trade fair orders for 2017 fall and winter collections improved year-on-year, prepayments to suppliers increased by RMB 55.0 million over the period. In addition, the actual payment of income tax exceeded the tax charge by RMB53.4 million for the first half of the year.

- Net cash outflows from investing activities amounting to RMB37.7 million, comprising mainly capital expenditure totalling RMB60.6 million, net of interest income of RMB22.5 million. During the period, RMB42.2 million was paid for the construction of the new headquarters in Jinjiang and RMB10.0 million was paid as deposit for the purchase of the operation centre for the smart casual collection in Shanghai.

- Net cash outflows from financing activities amounting to RMB236.6 million, mainly attributable to the payments of the final dividend and special final dividend totalling RMB233.0 million in respect of the year ended 31 December 2016.

For “L2”, as at 30 June 2017, the net balance of trade receivables after provision was RMB19.2 million, down by RMB10.5 million over the period.

Trade Payables Turnover Days

The Group’s average trade payables turnover days was 90 days, similar to the level as in 2016.

PLEDGE OF ASSETS

As at 30 June 2017, deposits with banks totalling RMB480.6 million (31 December 2016: RMB488.9 million) were pledged as securities for bank loans and bills payables. The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payables.

REVIEW REPORT OF THE BOARD OF DIRECTORS



REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA LILANG LIMITED

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INTRODUCTION

We have reviewed the interim financial report set out on pages 15 to 31 which comprises the consolidated statement of financial position of China Lilang Limited (the "Company") as of 30 June 2017 and the related consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows 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, 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, 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 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, issued by the International Accounting Standards Board.

KPMG

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

15 August 2017

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

CHINA LILANG LIMITED
INTERIM REPORT 2017

For the six months ended 30 June 2017 — unaudited
(Expressed in Renminbi)

	Notes	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Revenue	3	1,022,335	1,173,861
Cost of sales		(586,015)	(693,266)
Gross profit		436,320	480,595
Other net income		44,352	36,062
Selling and distribution expenses		(128,629)	(119,450)
Administrative expenses		(51,693)	(81,201)
Other operating expenses		(3,737)	(4,909)
Profit from operations		296,613	311,097
Net finance income	4	23,884	52,937
Profit before taxation	5	320,497	364,034
Income tax	6	(49,886)	(97,741)
Profit for the period		270,611	266,293
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company and subsidiaries outside the mainland of the People's Republic of China (the "PRC")		(918)	(4,170)
Total comprehensive income for the period		269,693	262,123

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONDENSED)

CHINA LILANG LIMITED
INTERIM REPORT 2017

At 30 June 2017 — unaudited
(Expressed in Renminbi)

	Notes	30 June 2017 RMB'000	31 December 2016 RMB'000
Capital and reserves			
Share capital			

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 30 June 2017 — unaudited
(Expressed in Renminbi)

	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 2016	106,458	26,711	207,817	23,775	(32,839)	2,579,276	2,911,198
Changes in equity for the six months ended 30 June 2016:							
Profit for the period	—	—	—	—	—	266,293	266,293
Other comprehensive income for the period	—	—	—	—	(4,170)	—	(4,170)
Total comprehensive income for the period	—	—	—	—	(4,170)	266,293	262,123
Dividends approved in respect of the previous year	—	—	—	—	—	(243,683)	(243,683)
As at 30 June 2016	106,458	26,711	207,817	23,775	(37,009)	2,601,886	2,929,638
As at 1 January 2017	106,467	27,096	220,171	23,455	(41,324)	2,675,697	3,011,562
Changes in equity for the six months ended 30 June 2017:							
Profit for the period	—	—	—	—	—	270,611	270,611
Other comprehensive income for the period	—	—	—	—	(918)	—	(918)
Total comprehensive income for the period	—	—	—	—	(918)	270,611	269,693
Dividends approved in respect of the previous year	—	—	—	—	—	(232,974)	(232,974)
As at 30 June 2017	106,467	27,096	220,171	23,455	(42,242)	2,713,334	3,048,281

The notes on pages 20 to 31 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

CHINA LILANG LIMITED
INTERIM REPORT 2017

For the six months ended 30 June 2017 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	257,793	283,152
Tax paid	(103,311)	(178,335)
Net cash generated from operating activities	154,482	104,817
Investing activities		
Payments for the purchases of property, plant and equipment, and intangible assets	(60,642)	(86,720)
Interest income received	22,470	45,055
Decrease in fixed deposits held at banks with maturity over three months	—	30,000
Decrease in pledged bank deposits	—	567,104
Other cash inflows arising from investing activities	459	182
Net cash (used in)/generated from investing activities	(37,713)	555,621
Financing activities		
Proceeds from bank loans	87,010	—
Repayment of bank loans	(87,010)	(544,018)
Dividends paid	(232,974)	(243,683)
Interest expense paid	(3,646)	(15,655)
Other cash inflows arising from financing activities	—	2,252
Net cash used in financing activities	(236,620)	(801,104)
Net decrease in cash and cash equivalents	(119,851)	(140,666)
Cash and cash equivalents at 1 January (note 14)	1,613,658	2,161,712
Effect of foreign exchange rate changes	(3,050)	459
Cash and cash equivalents at 30 June (note 14)	1,490,757	2,021,505

The notes on pages 20 to 31 form part of this interim financial report.

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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 15 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 (“IFRSs”). 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 2016 annual financial statements.

The interim financial report is unaudited, but has been reviewed by the Company’s auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Interim Financial Reporting*, 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 2016 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 2016 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 13 March 2017.

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2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs 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 IASB has issued a number of amendments and new standards which are not yet effective for the year ending 31 December 2017. These include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results and financial position.

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

3. REVENUE

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

4. NET FINANCE INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest income	33,570	40,031
Interest on bank borrowings	(3,614)	(15,617)
Change in fair value of forward foreign exchange contracts	—	26,480
Net foreign exchange (loss)/gain	(6,072)	2,043
	23,884	52,937

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5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Amortisation of lease prepayments	1,192	1,152
Amortisation of intangible assets	1,298	1,020
Depreciation	10,998	11,307
Research and development costs	36,544	43,511
Subcontracting charges (note (i))	74,200	64,032
Provision for doubtful debts	9,239	35,071
Inventory write-down (note 11)	—	11,076

Note (i): Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

6. INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax - PRC Corporate Income Tax	50,163	111,180
Deferred tax	(277)	(13,439)
	49,886	97,741

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6. INCOME TAX (CONTINUED)

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 2017 and 2016.
- (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 has been granted Advanced and New Technology Enterprise status which entitles the subsidiary to a reduced income tax rate at 15% for 2017. In addition, two of the Group's subsidiaries incorporated in the Tibet Autonomous Region of the PRC are entitled to preferential income tax rate of 9% in 2017.
- (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. 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.

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 RMB270,611,000 (2016: RMB266,293,000) and the weighted average number of ordinary shares in issue of 1,208,874,000 (2016: 1,208,768,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period of RMB270,611,000 (2016: RMB266,293,000) 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.

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7. EARNINGS PER SHARE (CONTINUED)

(b) D u ed ea e a e (c. u ed)

Weighted average number of ordinary shares (diluted):

	Six months ended 30 June	
	2017 '000	2016 '000
Weighted average number of ordinary shares	1,208,874	1,208,768
Effect of deemed issue of shares under the Company's		

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10. LEASE PREPAYMENTS

	2017 RMB'000
Net book value, as at 1 January	107,533
Amortisation for the period	(1,192)
Net book value, as at 30 June	106,341

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.

11. INVENTORIES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Raw materials	104,912	73,755
Work in progress	34,513	36,227
Finished goods	84,264	184,403
	223,689	294,385

As at 30 June 2017, raw materials included materials totalling RMB81,356,000 (31 December 2016: RMB63,027,000) that were held by sub-contractors.

For the six months ended 30 June 2017, no inventories (2016: RMB11,076,000) were written-down to estimated net realisable value and included in the amount of inventories recognised as an expense in profit or loss.

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12. TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables	725,481	745,864
Less: Provision for doubtful debts	(85,143)	(80,700)
	640,338	665,164
Bills receivables	—	2,500
Trade and bills receivables net of provision for doubtful debts	640,338	667,664
Prepayments to suppliers	65,547	10,549
Prepaid advertising expenses	2,975	4,701
VAT deductible	5,483	12,247
Other deposits, prepayments and receivables	27,694	19,268
	742,037	714,429

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 and bills receivables, based on the invoice date and net of provision for doubtful debts, is as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 3 months	413,947	532,211
Over 3 months but within 6 months	141,853	111,995
Over 6 months but within 1 year	84,538	23,458
	640,338	667,664

The Group grants a credit period of 90 to 240 days to its customers.

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13. PLEDGED BANK DEPOSITS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Amounts pledged as security for bank loans (note 15)	480,000	480,000
Amounts pledged as security for bills payable (note 16)	624	8,907
	480,624	488,907

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

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Fixed deposits with banks within three months to maturity when placed	163,245	—
Cash at bank and in hand	1,327,512	1,613,658
Cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated statement of cash flows	1,490,757	1,613,658
Fixed deposits with banks with more than three months to maturity when placed	552,205	568,943
	2,042,962	2,182,601

15. BANK LOANS

As at 30 June 2017 and 31 December 2016, bank loans were secured by pledged bank deposits (also see note 13) and were repayable within one year or on demand.

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16. TRADE AND OTHER PAYABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade payables	236,041	314,022
Bills payable	2,080	29,690
	238,121	343,712
Receipts in advance	19,318	22,087
Accrued salaries and wages	13,173	29,864
Payables for purchase of property, plant and equipment	46,962	39,502
Retirement benefit contribution payable	25,524	25,629
VAT payables	14,236	8,318
Other payables and accruals	52,284	44,945
	409,618	514,057

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. Bills payable were secured by pledged bank deposits (see note 13).

An ageing analysis of the Group's trade and bills payables based on the invoice date is as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 3 months	201,943	296,914
Over 3 months but within 6 months	8,918	26,201
Over 6 months but within 1 year	7,436	1,750
Over 1 year	19,824	18,847

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17. DIVIDENDS

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Declared and payable after interim period:		
Interim dividend of HK13 cents per ordinary share (2016: HK13 cents per ordinary share)	136,739	135,349
Special interim dividend of HK5 cents per ordinary share (2016: HK5 cents per ordinary share)	52,592	52,057
	189,331	187,406

The interim dividend and special interim dividend have not been recognised as liabilities as at 30 June 2017.

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year of HK16 cents per ordinary share (2016: HK17 cents per ordinary share)	169,436	172,609
Special final dividend in respect of the previous financial year of HK6 cents per ordinary share (2016: HK7 cents per ordinary share)	63,538	71,074
	232,974	243,683

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18. 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 2016 and 30 June 2016	HK\$3.12	105,878	HK\$6.63	630,000
Outstanding at 1 January 2017 and 30 June 2017	—	—	HK\$6.63	530,000

The share options outstanding under the Share Option Scheme at 30 June 2017 had a weighted average remaining contractual life of 1.4 years.

19. CAPITAL COMMITMENTS

As at 30 June 2017, capital commitments not provided for in the interim financial report are as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Contracted for	145,285	107,436
Authorised but not contracted for	267,352	364,937
	412,637	472,373

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20. 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	
	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	3,599	3,581
Contributions to defined contribution retirement benefit scheme	54	52
	3,653	3,633

(b) One related party transaction

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Recurring transaction		
Lease of land and properties from Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")	1,620	1,560

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.

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DISCLOSURE OF INTERESTS

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

As at 30 June 2017, 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)	1.898%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	26.289%
Mr. Wang Liang Xing	The Company	Beneficial owner	26,031,000 shares (L)	2.153%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	26.289%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.898%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US\$1.00 each (L)	26.289%
Mr. Cai Rong Hua	The Company	Beneficial owner	9,010,000 shares (L)	0.745%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US\$1.00 each (L)	8.247%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.372%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US\$1.00 each (L)	5.155%
Mr. Pan Rong Bin	The Company	Beneficial owner	3,051,000 shares (L)	0.252%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US\$1.00 each (L)	3.093%

Notes:

- The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.
- Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Mr. Cai Rong Hua, 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

Save as disclosed above, as at 30 June 2017, 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.

Interested parties in the shares and underlying shares of the Company

As at 30 June 2017, 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)	54.72%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	74,905,000 shares (L) (Note 3)	6.19%
Value Partners Group Limited	Interest in controlled corporation	72,402,000 shares (L)	5.98%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) These shares were held by Xiao Sheng International. Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Mr. Cai Rong Hua, 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% 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 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Mr. Cai Rong Hua, 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

Save as disclosed above, as at 30 June 2017, the Directors were 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 SCHEME

The Company adopted 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 Scheme are set out in the 2016 Annual Report of the Company.

OTHER INFORMATION (CONTINUED)

Details of movements of the options under the Share Option Scheme during the period are set out below:

Name or category of participant	Options granted by the Company Number of underlying shares				As at 30 June 2017	Exercise price per share	Date of grant	Exercise period
	As at 1 January 2017	Exercised	Lapsed					
Employee	530,000	—	—	530,000	HK\$6.63	29 November 2011	Note 1	

As at 30 June 2017, the number of shares to be issued upon the exercise of the outstanding options under the Share Option Scheme was 530,000, representing 0.04% of the issued share capital of the Company as at that date.

Note:

- The outstanding options at 30 June 2017 are exercisable by the grantee prior to the expiry of the exercise period on 29 November 2018, being the day falling seven years after the date of grant, 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 2017.

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 2017.

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 2017 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 2017.

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 Thursday, 31 August 2017 to Friday, 1 September 2017 (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 Wednesday, 30 August 2017 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

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Hong Kong, 15 August 2017

BOARD

Executive Directors

Mr. Wang Dong Xing (王董兴)
Mr. Wang Liang Xing (王亮兴)
Mr. Wang Cong Xing (王丛兴)
Mr. Cai Rong Hua (蔡荣华)
Mr. Hu Cheng Chu (胡成楚)
Mr. Pan Rong Bin (潘荣斌)

Independent Non-Executive Directors

Dr. Lu Hong Te (卢洪泰)
Mr. Nie Xing (聂兴)
Mr. Lai Shixian (赖世先)

SHARE INFORMATION

Listing date: 25 September 2009
Board lot size: 1,000 shares
Number of shares in issue: 1,208,873,919 shares (As at 30 June 2017)

STOCK CODES:

Hong Kong Stock Exchange	1234
Reuters	1234.HK
Bloomberg	1234 HK

IR CONTACT

if you have any inquiries, please contact:

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