

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



**Annual Results 2014**

Hong Kong, March 2015

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# Agenda

- Annual Results Highlights
- Financial Review
- Business and Operational Review
- Outlook and Strategy
- Open Forum



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**RESULTS**

# Outperformed Other Industry Players

## Menswear industry in the PRC remained weak in 2014

- Retail consumption slowed down
- Indiscriminate and extensive expansion in the past led to excess inventory and winding-up of retail stores
- Channel inventory clearance was drawing to a close, and operating environment has improved

## China Lilang's performance indicators continued to improve



- Sales proportion of original products increased
- Products are better value for money
- Product designs are more individualized to give distinctive brand image
- Completed nation-wide store network restructuring, store closing cycle ended
- Channel inventory is back to a healthy level
- Retail discounts narrowed with expanding average same-store sales growth

# 2014 Annual Results Financial Highlights

	FY2014	FY2013	Change
<b>Turnover</b>		2,298.6	+5.8%
<b>Gross profit</b>		979.8	+5.7%
		42.6	- p.p.
<b>Profit from operations</b>		582.0	+17.0%
		25.3	+2.7 p.p.
<b>Net Profit</b>		516.1	+7.5%
		22.5	+0.3 p.p.
<b>Earnings per share</b>		42.97	+7.4%
		42.88	+7.4%
<b>Final dividends per share</b>		16.0	+6.3%
		5.0	+20.0%
<b>Net cash per share (RMB)</b>		1.37	+17.5%



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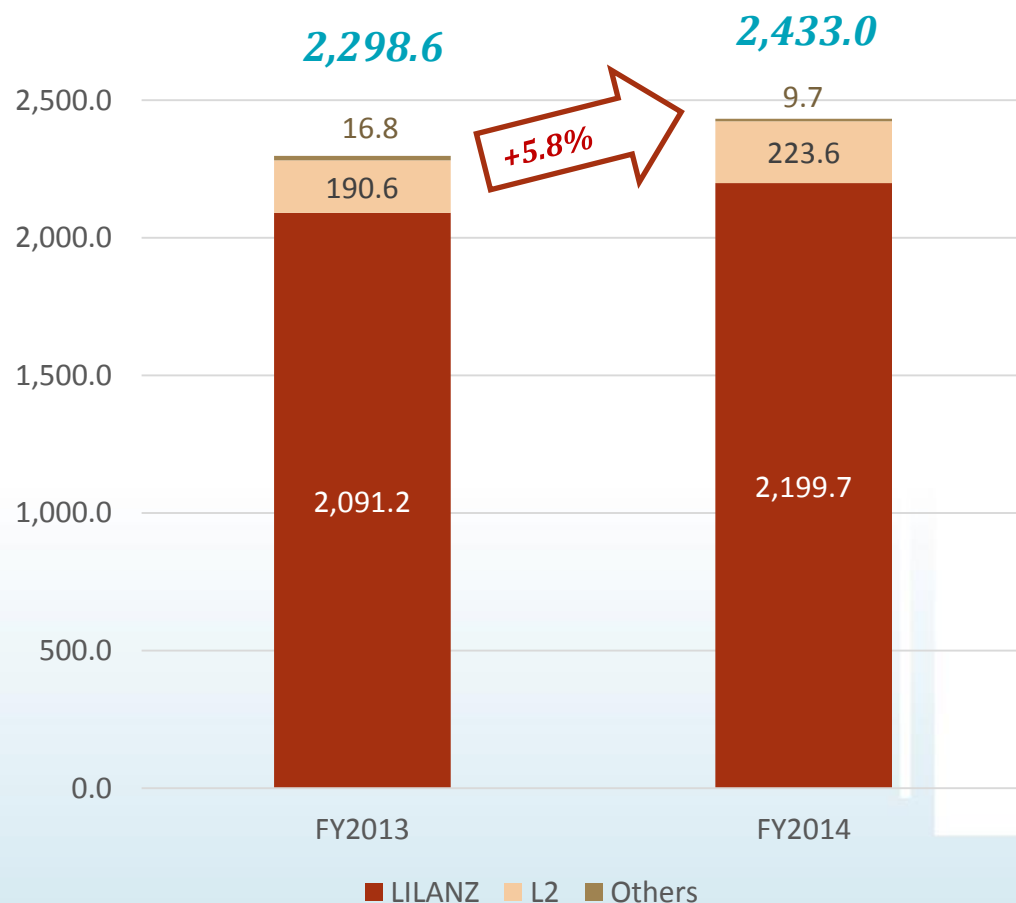


**FINANCIAL**

# Turnover Analysis

## Total Turnover & Turnover By Brand

(RMB million)

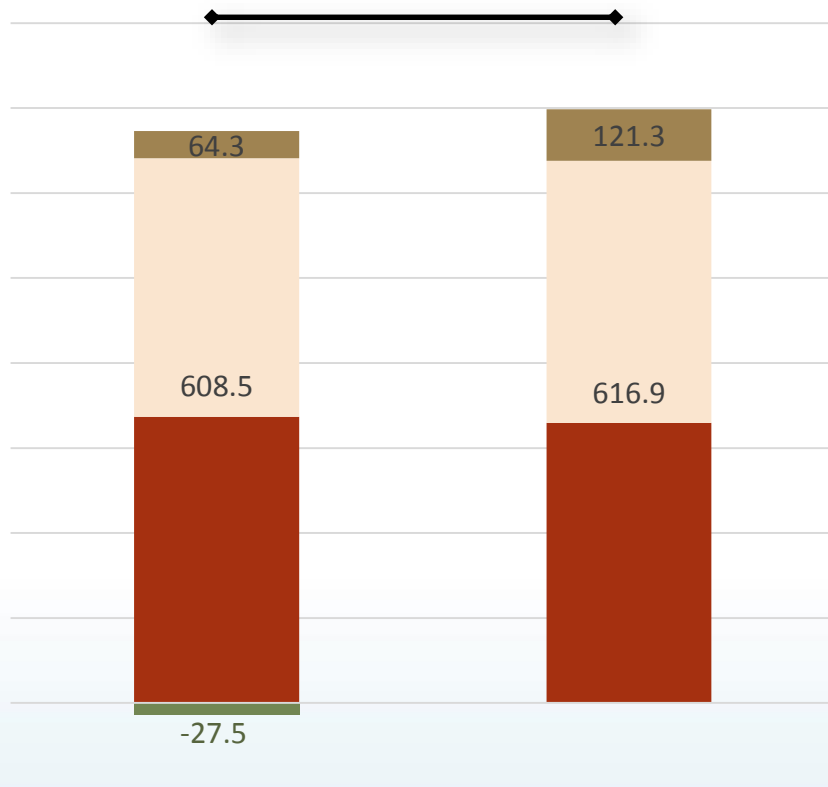


### Turnover change due to:

- Measures to boost brand image and product designs drove stable volume growth with more competitive products
- ASP fell slightly under the strategy of “improving product quality without raising the price”
- Trade fair results on an uptrend during 2014, and delivery on schedule
- Sales of LILANZ and L2 accounted for 90.4% and 9.2% respectively of turnover

# Cost of Goods Sold

(RMB million)



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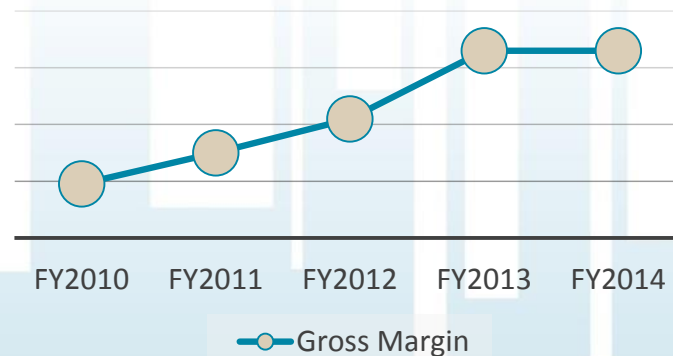
- OEM purchases
- Other self-production costs
- Process outsourcing costs
- Inventory write-off

↔ As % of turnover

( ) As % of COGS

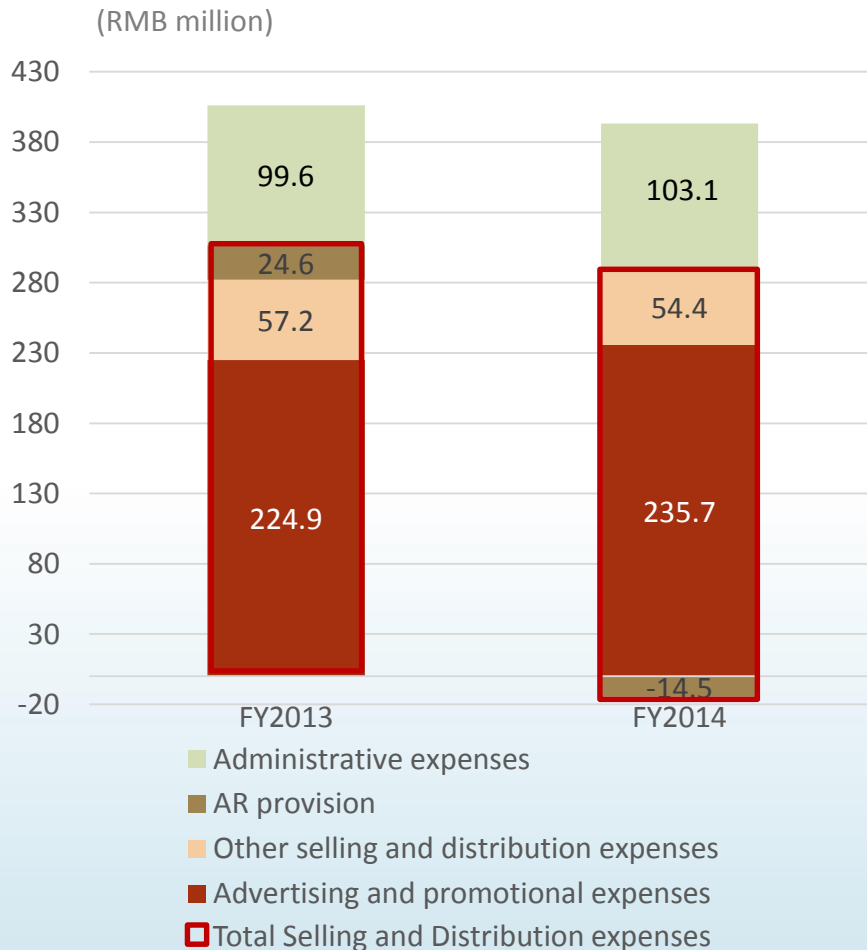
## Gross profit margin stable at 42.6%

- Slight pressure on GP margin under “improving product quality without raising price” strategy
- Production cost savings from:
  - Slightly lower raw materials prices
  - Increased proportion of original products
- Self production cost (including process outsourcing) ratio up by 1.8 p.p. to 52.8%
- R&D cost increased by 20.3% to RMB81.1 million

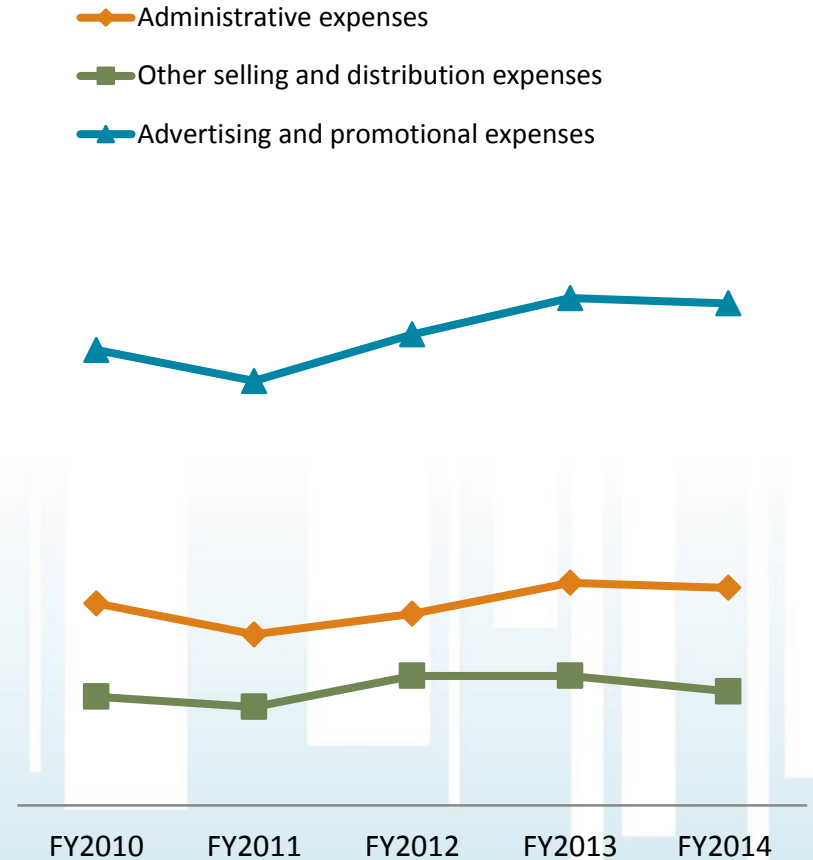


# SD&A Expenses

## SD&A Expenses



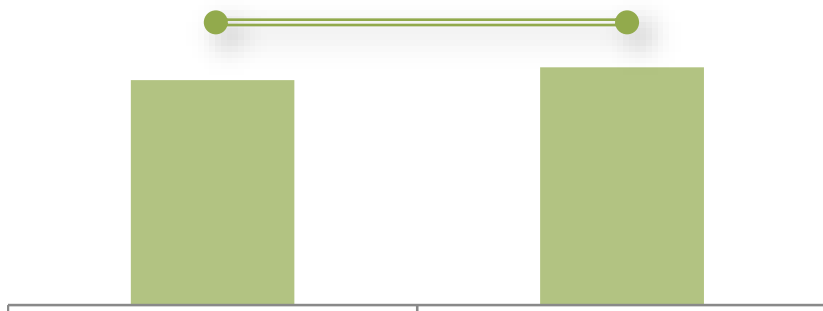
## SD&A Expenses



# Increased Profit and Margins

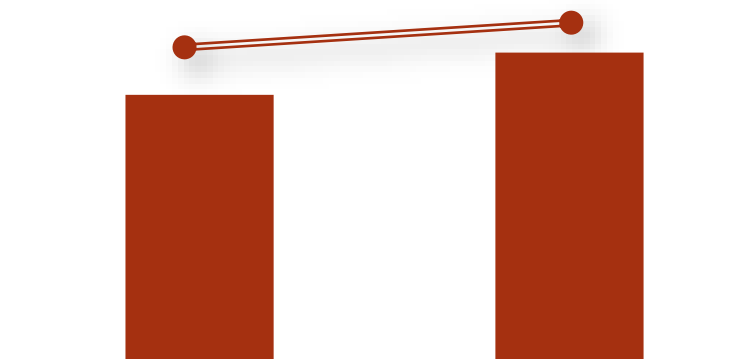
## Gross Profit & Margin

(Unit: RMB million)



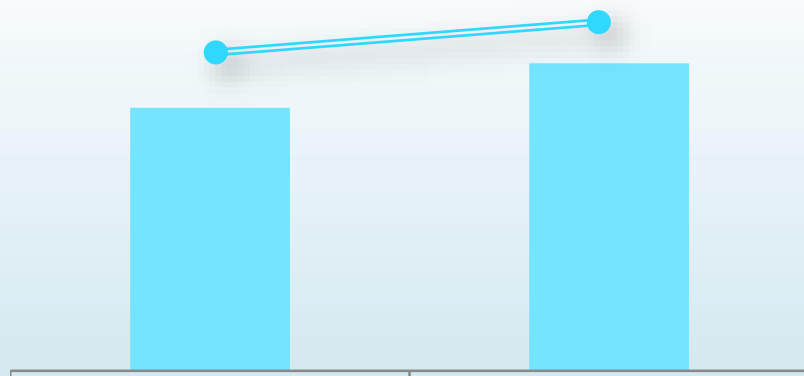
## EBITDA & Margin

(Unit: RMB million)

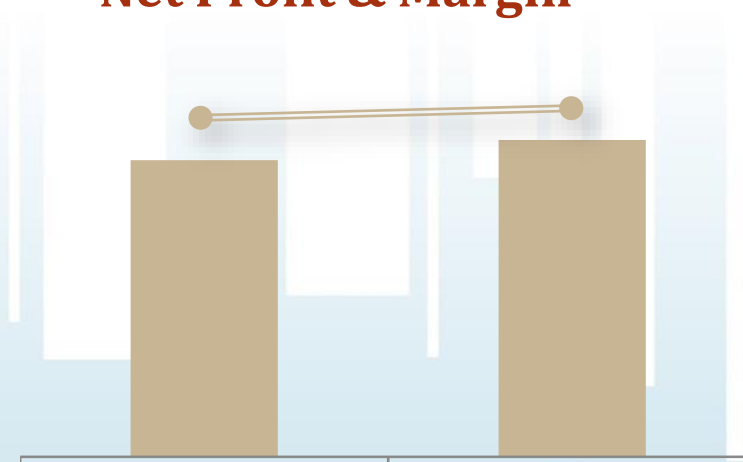


## Operating Profit & Margin

(Unit: RMB million)



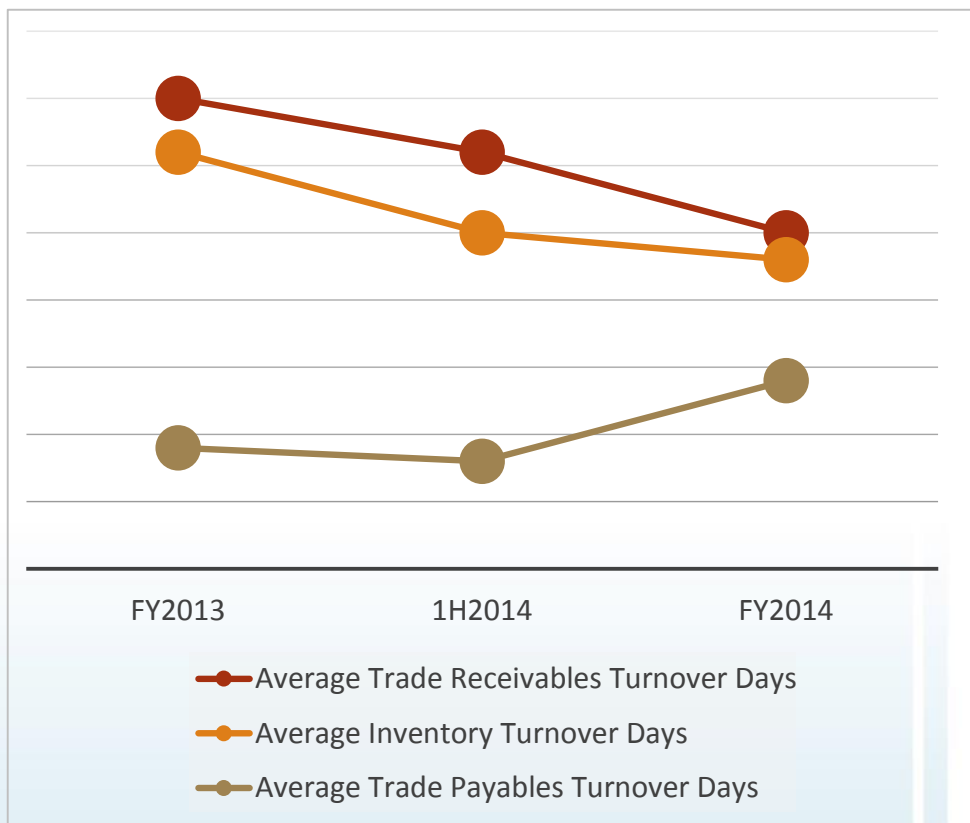
## Net Profit & Margin



# Working Capital Cycle

## Turnover Days

(Unit: Days)

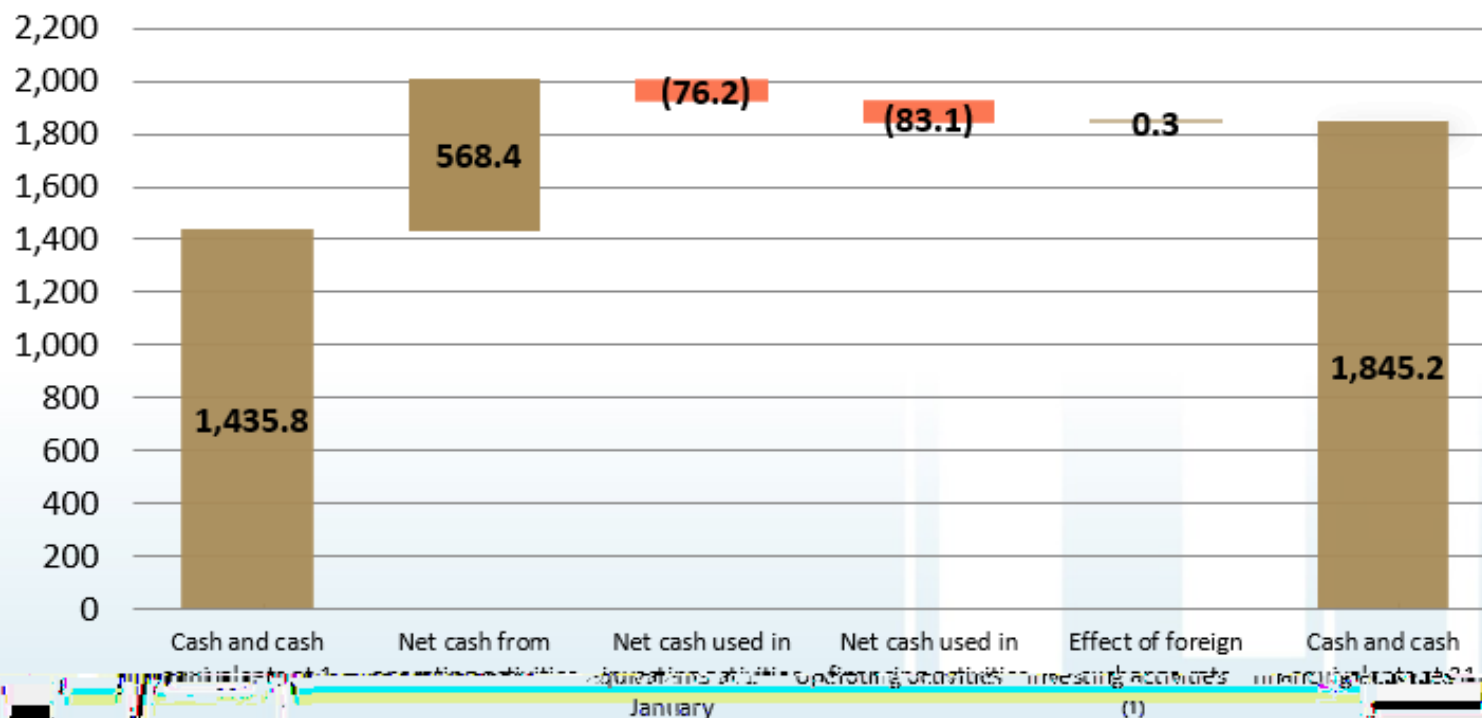


- Average turnover days decreased by 10 days to 70 days
- 
- Year-end balance increased by

# Cash Flow

## Cash and cash equivalents

(RMB million)



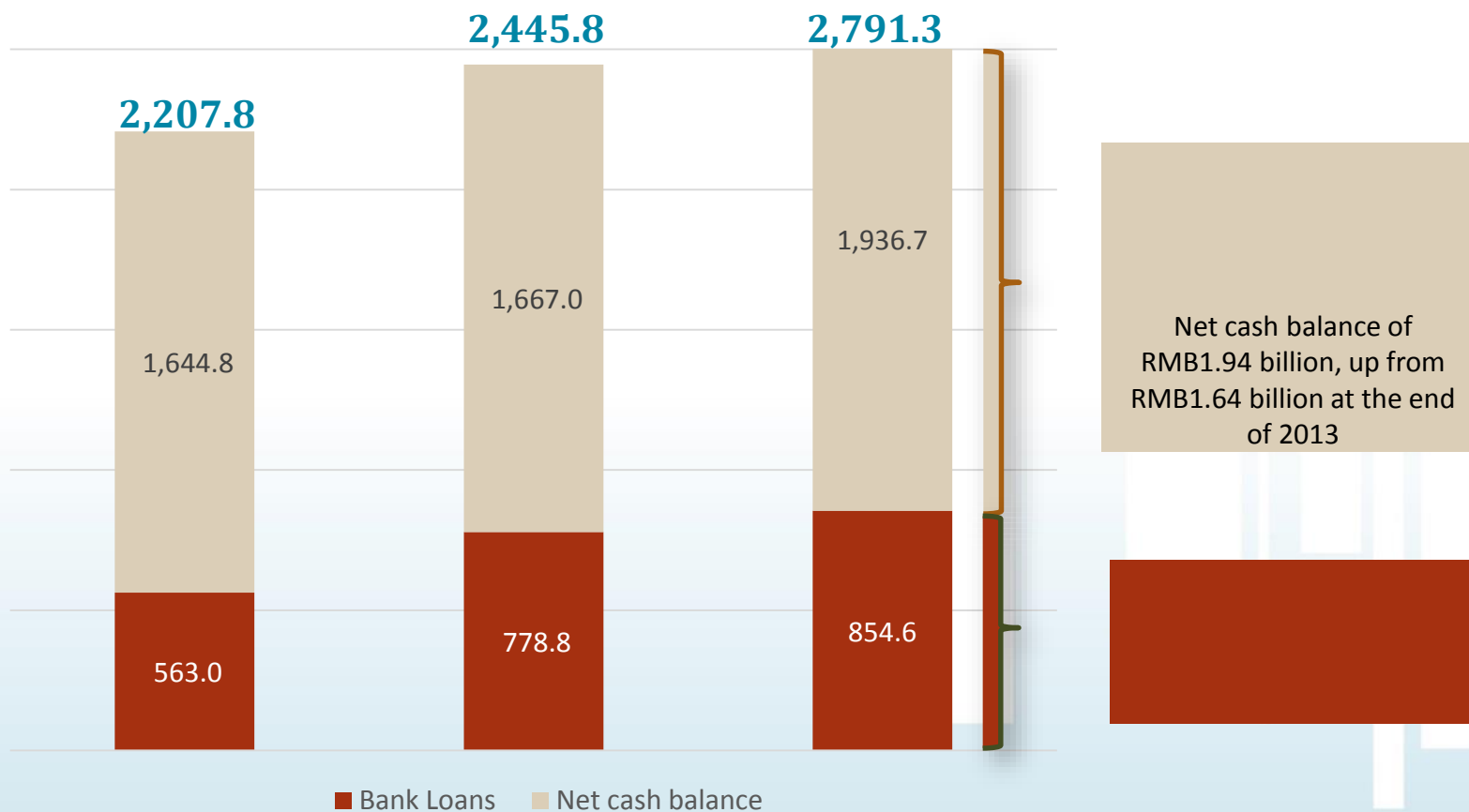
(1) Included placements of time deposits and pledged bank deposits with maturity over 3 months

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

# Healthy and Strong Cash Position

## Total Cash and Bank Balance

(Unit: RMB million)



31 December  
2013

30 June  
2014

31 December  
2014

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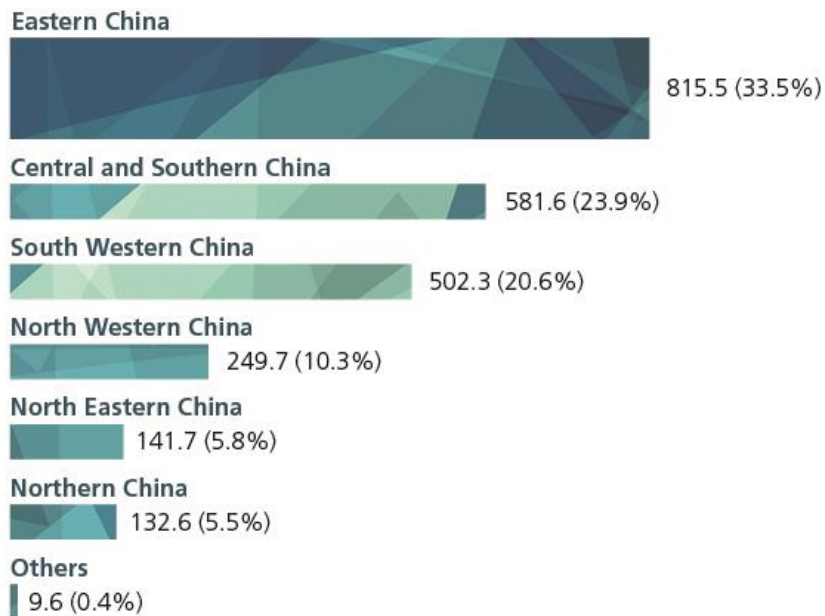


BUSINESS &  
OPERATIONAL

# Nationwide Distribution Network

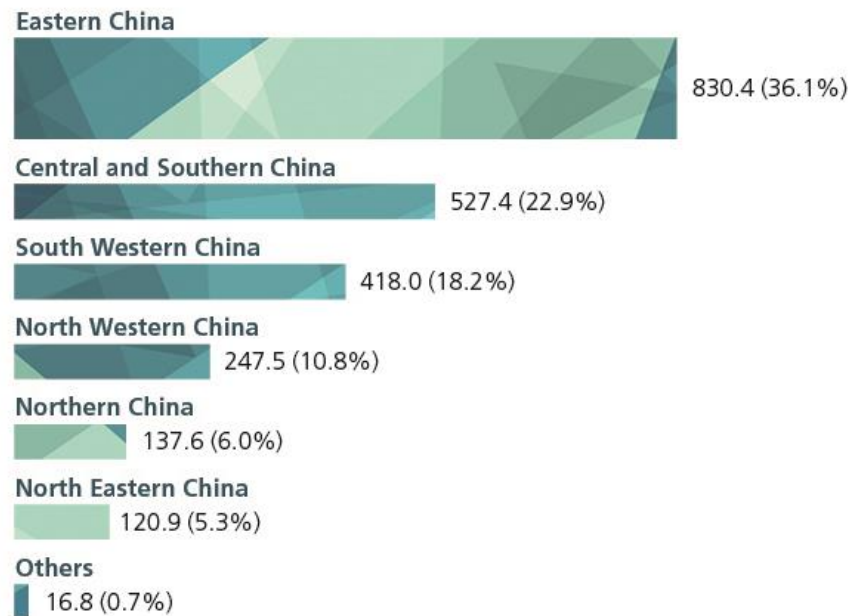
## 2014

Turnover by Region  
RMB million (% of turnover)



## 2013

Turnover by Region  
RMB million (% of turnover)



N			
Eastern China	850	1,011	-161
Central and southern China	740	806	-66
South Western China	615	656	-41
North Eastern China	305	367	-62
Northern China	295	330	-35
North Western China	274	285	-11
Total store count	3,079	3,455	-376

2012	280
2013	750
2014	680
2015	250 - 300 (Expected)

# Sales Channel Management

- Operate online flagship stores for LILANZ and L2
- L2 also uses various online shopping platforms for inventory clearance
- Products are at the same price on online sales platforms and brick-and-mortar stores except for out-of-the-season inventories



- Monitor sales and channel inventories through ERP system
- Operate discount stores prior to store renovation and temporary promotion counters in department stores to clear out-of-the-season inventories



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- Training programs provided for the distributors:
    - (1) upgrade and planning of distribution channels;
    - (2) transformation from 'brand wholesaling' to 'brand retailing'

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Total no. of retail stores	2,783	296	3,079
Total area of retail stores (sq.m.)	301,400	32,600	334,000

# Product Design and Development

- Promote individuation in its product designs and further differentiate its products from market peers
- 2014 products of LILANZ incorporating new design concepts from the international R&D team were well received by the market
- Increased proportion of original products
- A new accessory designer joined the international design team in early 2014 with an aim to increase sales and profitability of accessory
- L2 focuses on trendy casual wear which better suits the needs of target customers



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**L2**

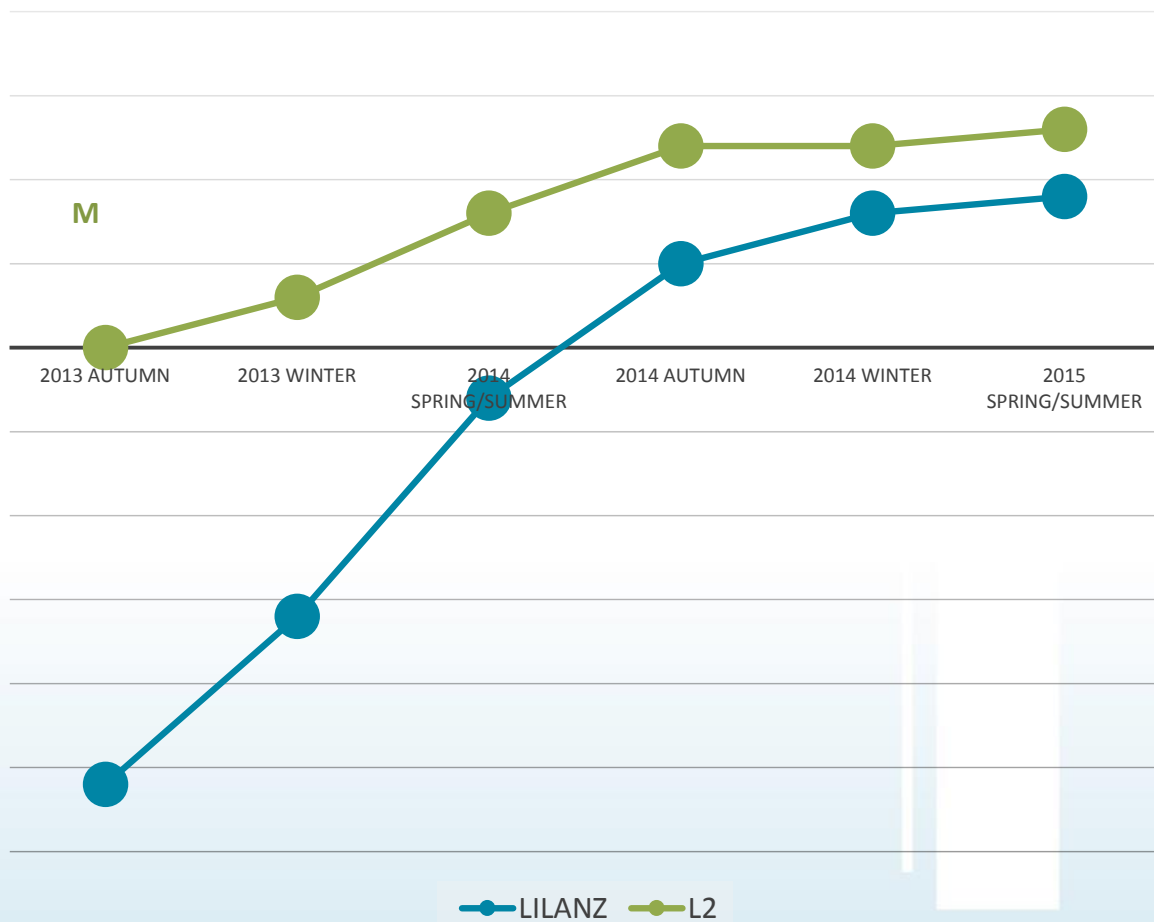
# Marketing and Promotion



- Continue to engage Mr. Chen Dao Ming (陳道明), as the spokesperson for “LILANZ”. A micro film was made during the year and available for viewing on the internet since December
- Putting soft-sell advertisements in magazines and newspapers
- Placing pre-movie advertisements in cinemas
- Setting up billboards in a dozen of airports in China and the airport in Bangkok, Thailand

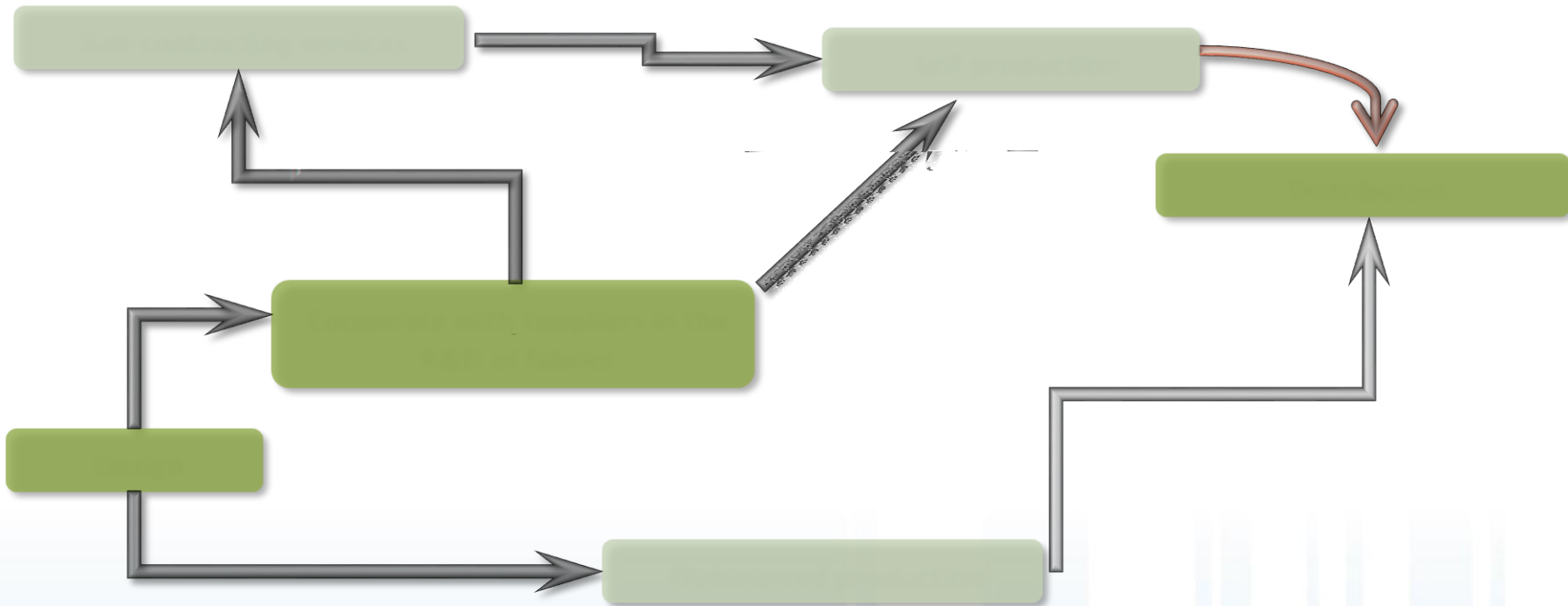


# Trade Fair Results



- Sequential improvement of trade fair results
- 2015 Spring/Summer products shipment commenced in January 2015

# Production and Supply Chain



- Continue to improve its supply chain management and control costs by identifying more cost-efficient fabric suppliers and processing plants
- Enhance the fabric texture and workmanship skills to make the products more comfortable
- Share the benefits of its improved supply chain management with the consumers by offering them products of better value for money

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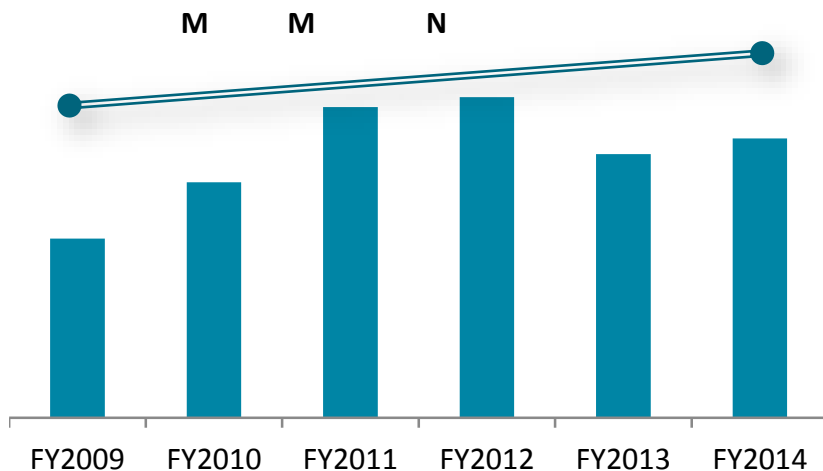


**OUTLOOK**

# Growth in five years since listed

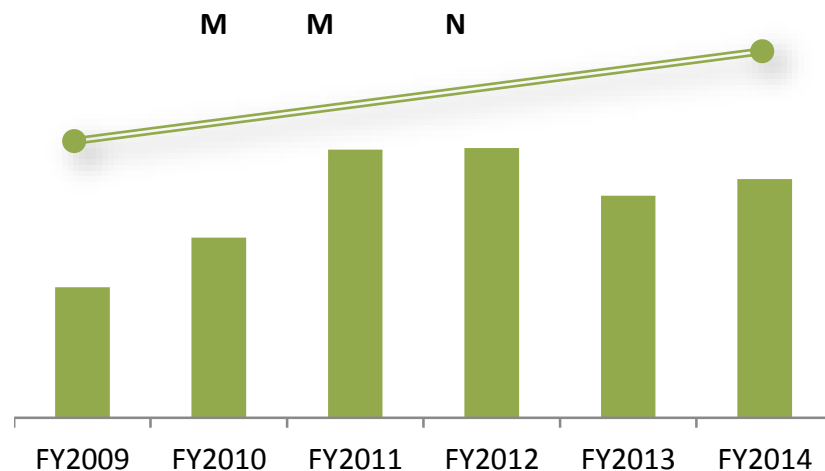
## Turnover

(Unit: RMB million)



## Net Profit

(Unit: RMB million)



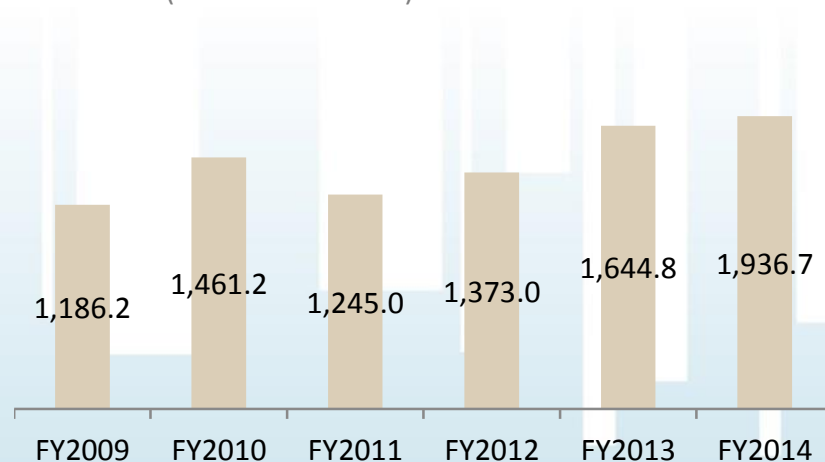
## Net Margin

(Unit: RMB million)



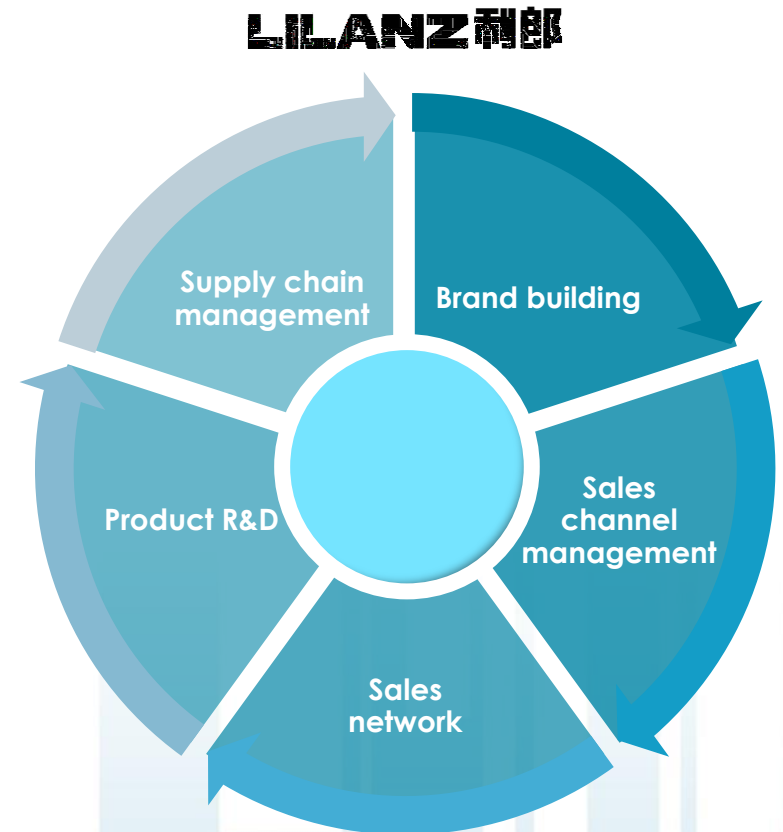
## Net Cash balance

(Unit: RMB million)



# Prudent and Flexible Operation Strategy

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- Continue to implement the strategy of
  - Raise the proportion of original products in sales
  - Further enhance value for money of its products by improving product design, workmanship and materials
  - Focus on improving store efficiency to capture the opportunities arising from the industry consolidation
  - Maintain a prudent approach to store opening in 2015
    - “LILANZ”: keep the existing number of store count
    - “L2”: 20-30 net increase
  - Open large-scale stores in shopping malls in provincial capitals and prefecture-level cities
  - Continue the renovation program of “LILANZ” stores with the remaining 250 to 300 stores scheduled to be completed in 2015



**We are cautiously optimistic about the prospects for 2015, expecting satisfactory growth at 2015 Autumn Trade Fair, and target to achieve mid-to-high-single digit SSS growth**

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**OPEN**