

# LILANZ 利郎



## INTERIM RESULTS 2017

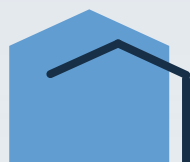
**China Lilang  
Limited\_1234 HK**

# DISCLAIMER

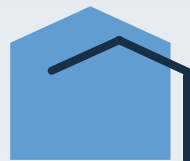
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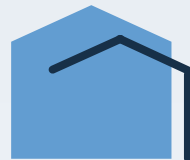
# AGENDA



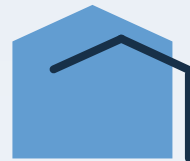
Results Highlights



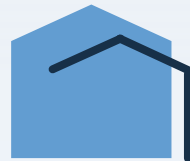
Financial Review



Business and Operational Review



Outlook and Strategy



Open Forum

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**RESULTS HIGHLIGHTS**

# STEADY PROGRESS WITH “IMPROVING PRODUCT QUALITY WITHOUT RAISING THE PRICE” STRATEGY



## LILANZ

Proportion of original design products further increased: LILANZ products fully differentiated from other brands with clearer positioning and prominent designs



(\*)

Satisfactory progress in the development of the 1<sup>st</sup> and 2<sup>nd</sup> tier markets with smart casual collection, products well received by consumers



Continued to enhance retail channel management, channel operating efficiency improved and channel in healthy state with mid-single digital same-store sales growth



Revenue was RMB1,022.3 mn, net profit was RMB270.6 mn, profit margins improved



Financially healthy and sufficient cash flows to support high dividend payout ratio – interim dividend HK13 cents per share and special interim dividend HK5 cents per share

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**FINANCIAL REVIEW**

# REVENUE ANALYSIS

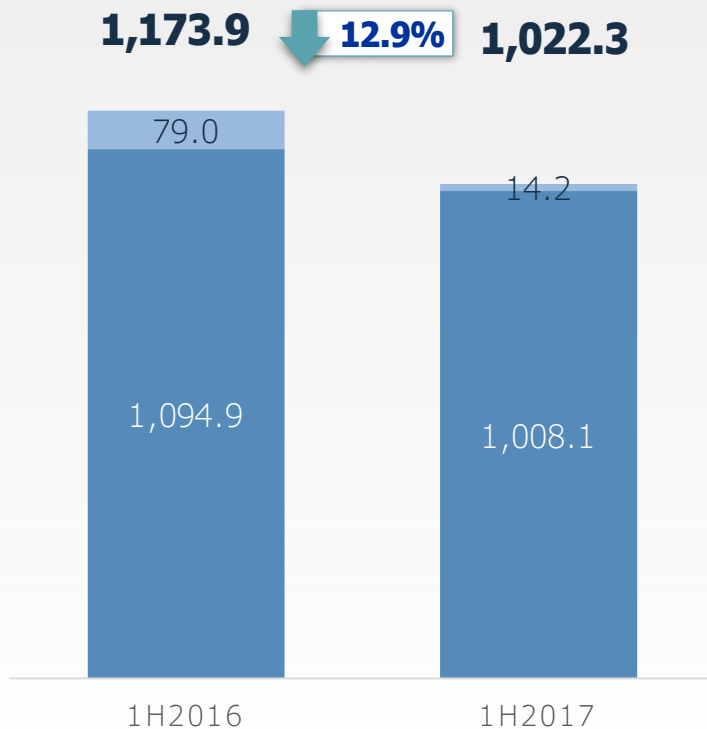
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## Total Revenue & Revenue by Brand

Unit: RMB mn

■ LILANZ ■ L2



- ▲ Revenue of **LILANZ** down by 7.9% to RMB1,008.1 mn. Sales of spring and summer collections were reduced to keep the channel inventory healthy
 

<b>LILANZ</b>	7.9%	10.1
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- ▲ **L2** will cease operation starting fall season and has started inventory clearance; sales for 1H amounted to RMB14.2 mn
 

<b>L2</b>	1,420
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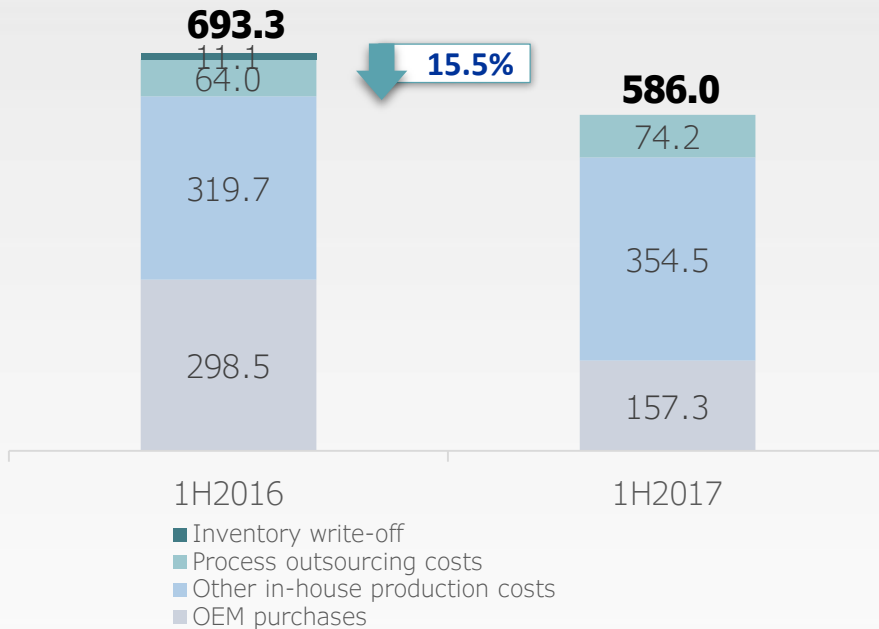


# COST OF SALES

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## Cost of Sales Breakdown

Unit: RMB mn



**73.2%**  
(+17.9 p.p.)

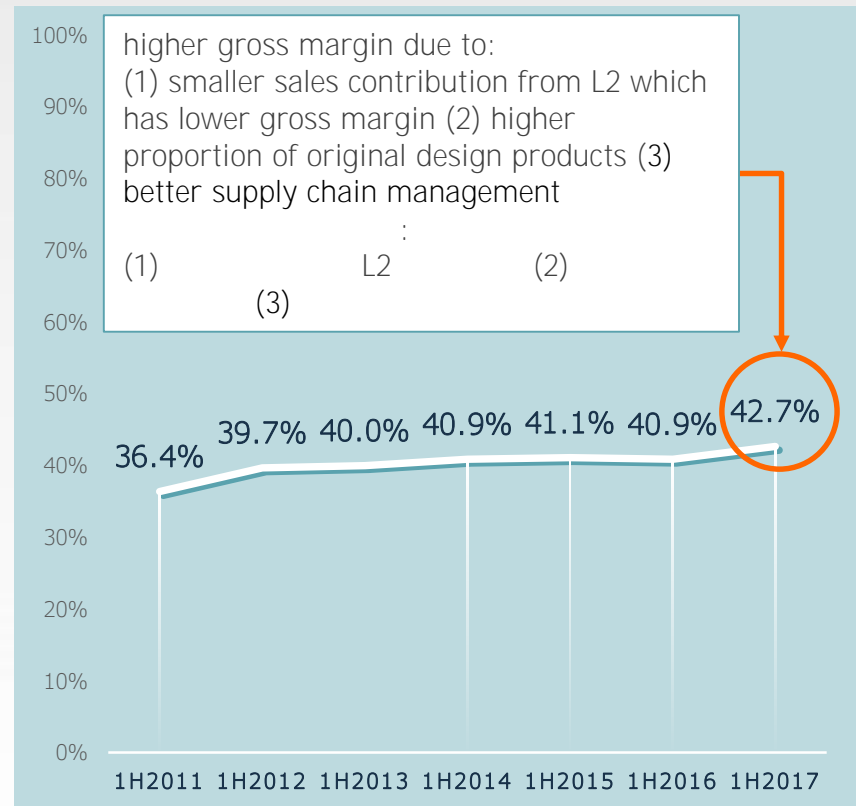
Cost of in-house production (incl. process outsourcing costs) as % of total cost of sales

Total R&D costs

RMB36.5 mn

## Gross margin

Unit: RMB mn

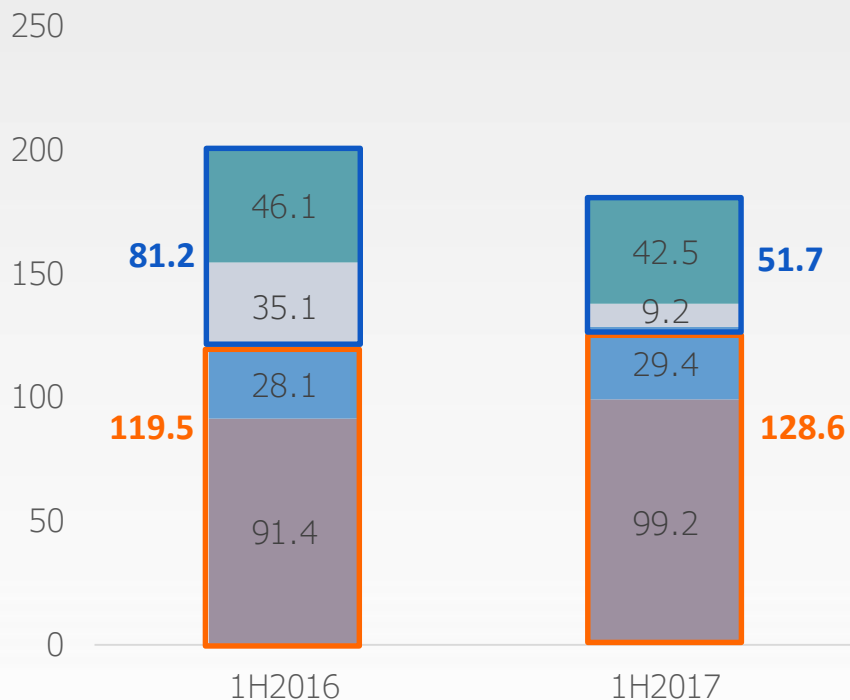




# SD&A EXPENSES

## Total SD&A Expenses

Unit: RMB mn



- Administrative expenses
- AR provision
- Other selling and distribution expenses
- Advertising and promotional expenses

- Total selling and distribution expenses
- Total administrative expenses

## SD&A as % of Revenue

%

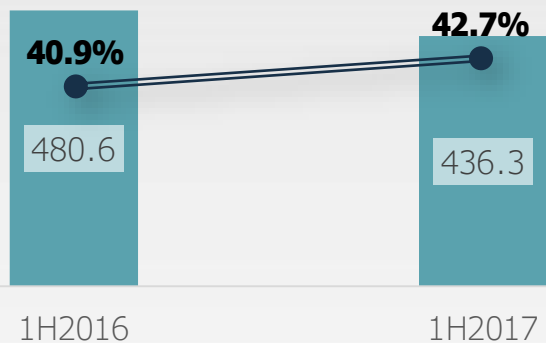
- Administrative expenses (excludes AR provision)
- Other selling and distribution expenses
- Advertising and promotional expenses



# PROFIT & MARGIN 利郎

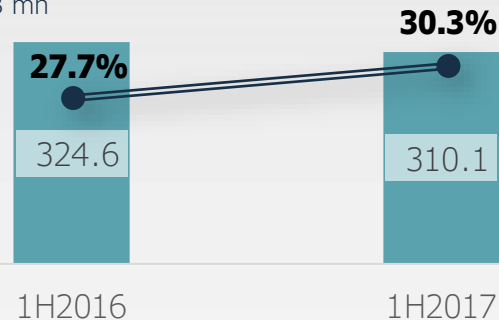
## Gross profit and margin

Unit: RMB mn



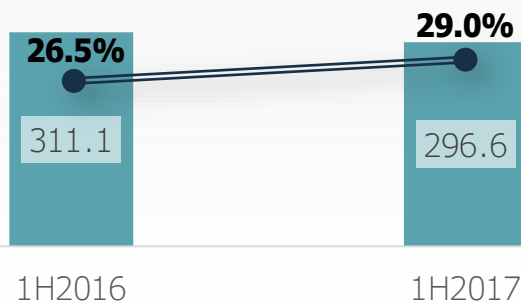
## EBITDA and margin

Unit: RMB mn



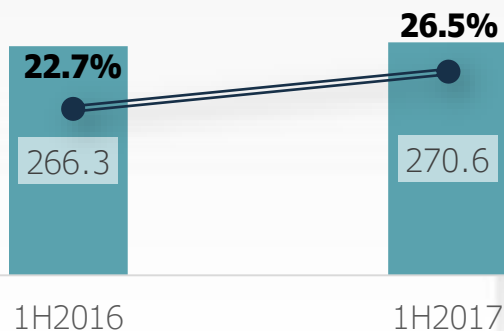
## Operating profit and margin

Unit: RMB mn



## Net profit and margin

Unit: RMB mn



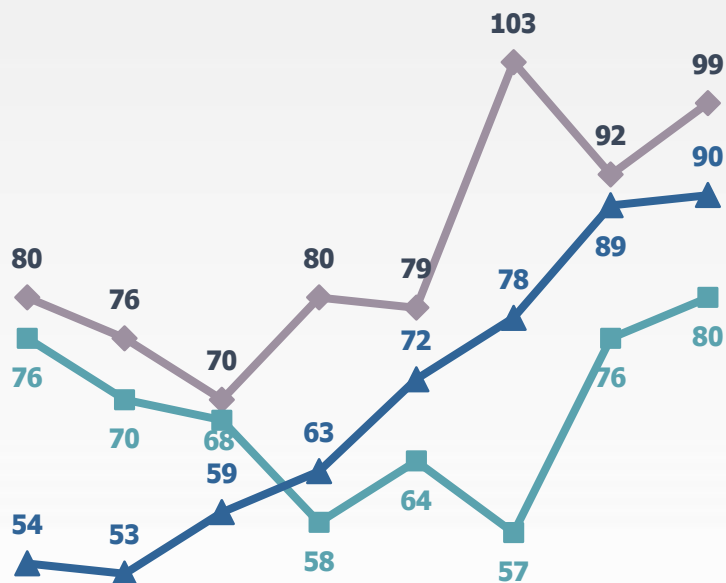
# WORKING CAPITAL CYCLE

## Turnover days

◆ Average trade receivables turnover days

■ Average inventory turnover days

▲ Average trade payables turnover days



FY2013 1H2014 FY2014 1H2015 FY2015 1H2016 FY2016 1H2017

## TRADE RECEIVABLES

- **LILANZ** AR balance decreased by RMB105 mn, 14%, to RMB621 mn VS 1H 2016, reflecting drop in sales and improved channel inventory
- Additional credits during peak delivery period from June to September every year
- Additional credits to some distributors as incentive for opening large stores in shopping malls
- Full provision made for **LILANZ** overdue AR balances totaling RMB18.4 mn
- **L2** AR balance of RMB19.2 mn net of provision

▪ <b>LILANZ</b>		<b>105</b>	<b>(14%)</b>
▪ <b>621</b>			
▪ <b>6-9</b>			
▪ <b>LILANZ</b>	<b>18.4</b>		
▪ <b>L2</b>	<b>19.2</b>		

## INVENTORY

- **LILANZ** inventory balance increased by 45% to RMB190.1 mn VS 1H 2016, reflecting
  - Increases in 2017 fall and winter trade fair orders
  - More raw materials held by sub-contractors as proportion of original design products increases
- **L2** inventory was RMB33.6 mn net of provision

▪ <b>LILANZ</b>	<b>45%</b>	<b>190.1</b>
▪ <b>2017</b>		
▪ <b>L2</b>	<b>33.6</b>	

## TRADE PAYABLES

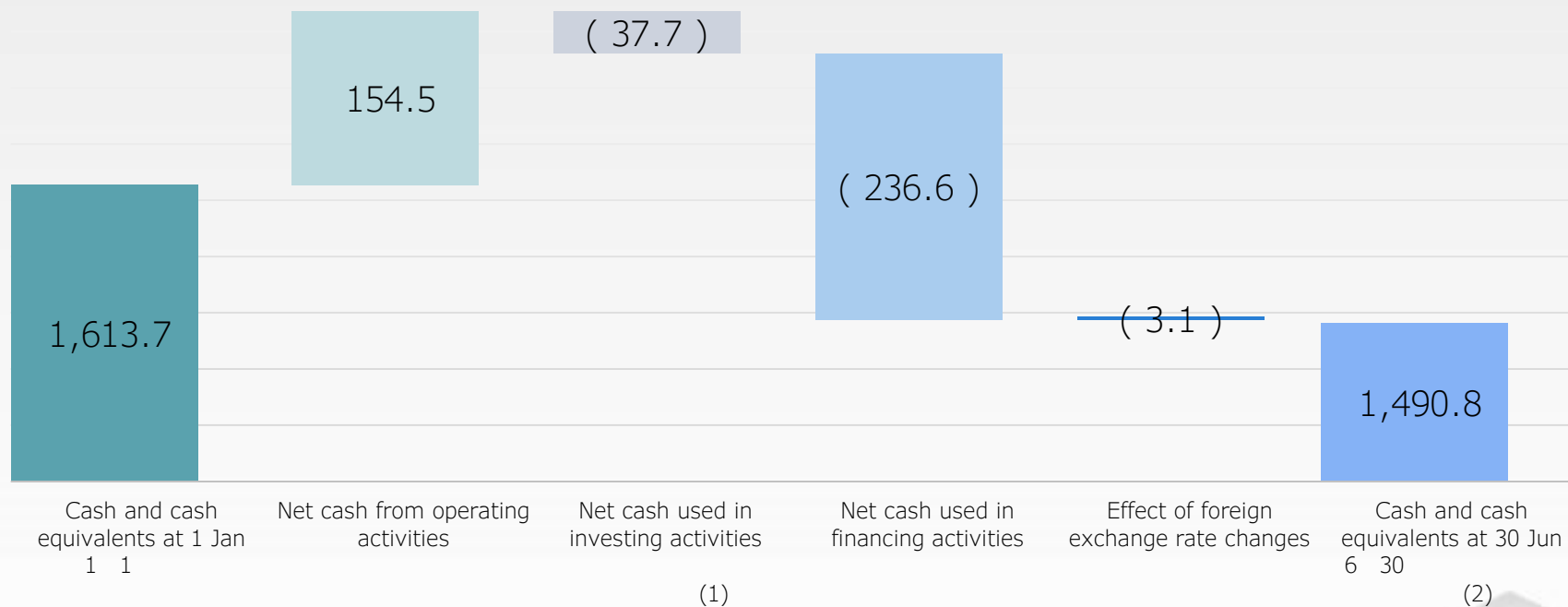
- Turnover days similar to last year

# CASH FLOW



## Cash and cash equivalents

Unit: RMB mn



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

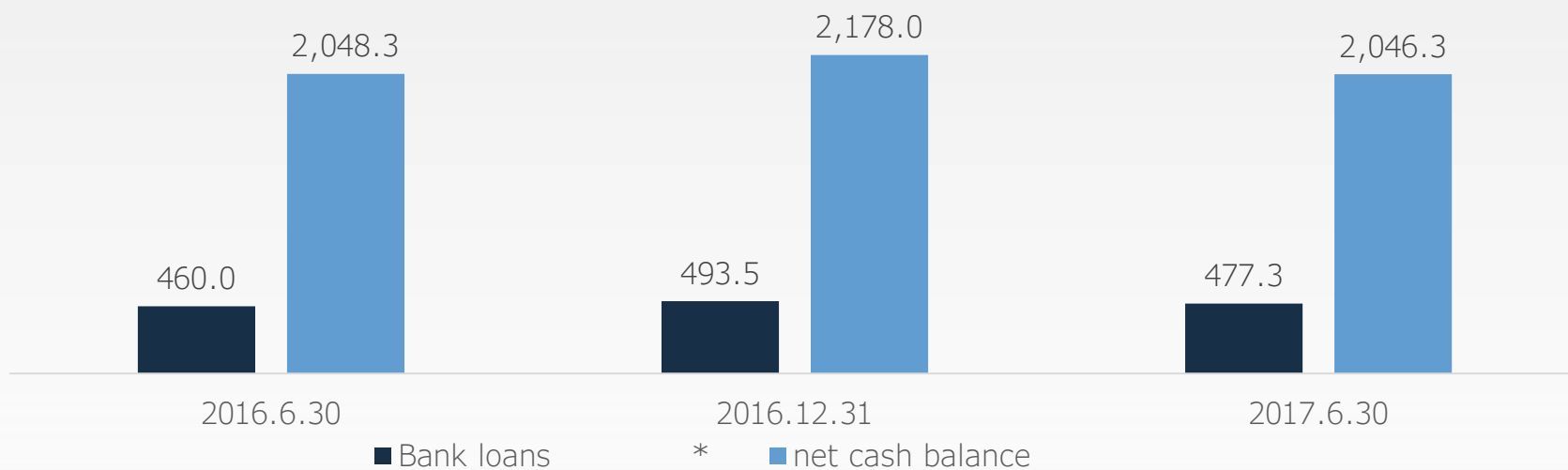
(2) Exclude fixed deposits held at banks with maturity over 3 months and bank deposits pledged as security for bank loans and bills payables

# HEALTHY AND STRONG CASH POSITION

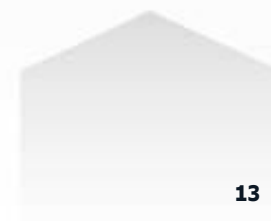


## Total cash and bank balance

Unit: RMB mn



\* Secured by pledged bank deposits

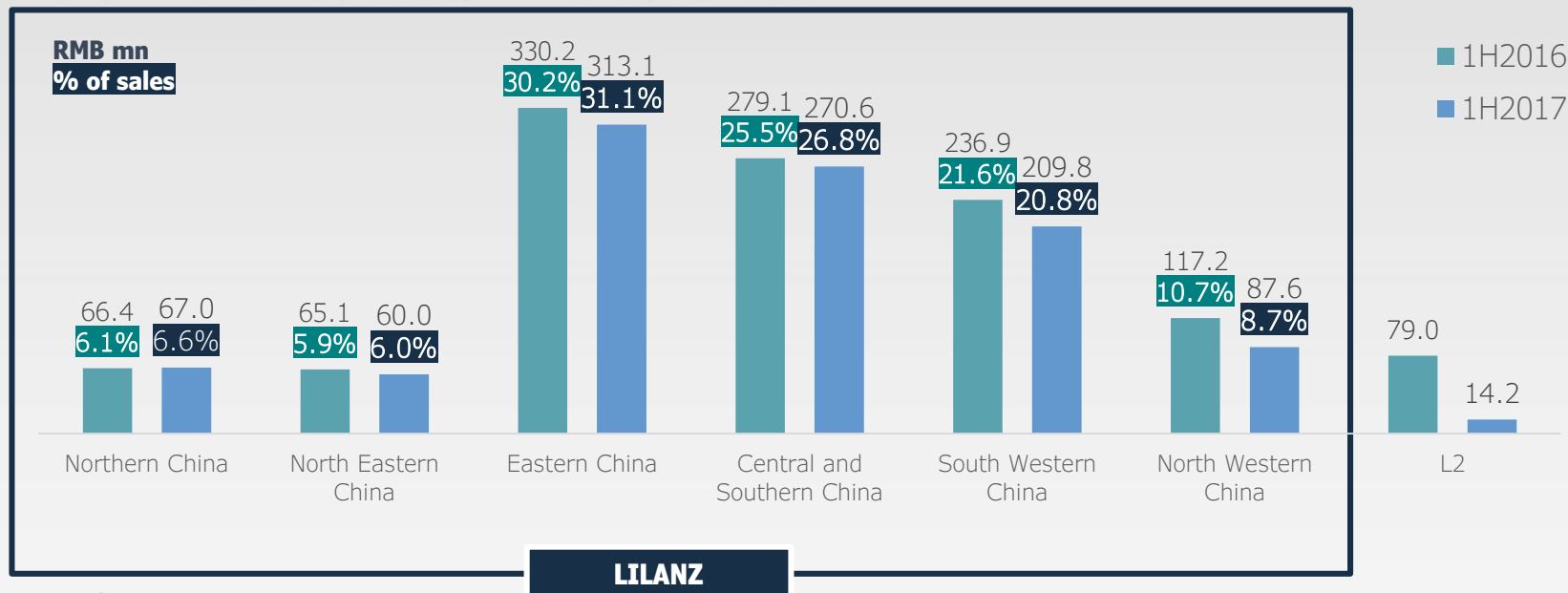


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# **BUSINESS & OPERATIONAL REVIEW**

# PRUDENT STORE OPENING PLAN



LILANZ



## Store number

	2017.1.1	2017.6.30	Net Change
Northern China	238	<b>237</b>	-1
North Eastern China	245	<b>237</b>	-8
Eastern China	615	<b>625</b>	+10
Central and Southern China	569	<b>584</b>	+15
South Western China	503	<b>484</b>	-19
North Western China	<u>230</u>	<u><b>226</b></u>	<u>-4</u>
Total LILANZ store	<u>2,400</u>	<u><b>2,393</b></u>	<u>-7</u>

# ENHANCED CHANNEL MANAGEMENT

- Continued to open stores in shopping malls - # of stores increased to about 250 stores, sales performance in line with expectation
- # of specialty stores of LILANZ smart casual collection increased to about 50 stores
- Continued to monitor all stand-alone stores with ERP systems
- Continued to provide training to distributors

LILA



— 250

LILANZ 50

ERP

▪

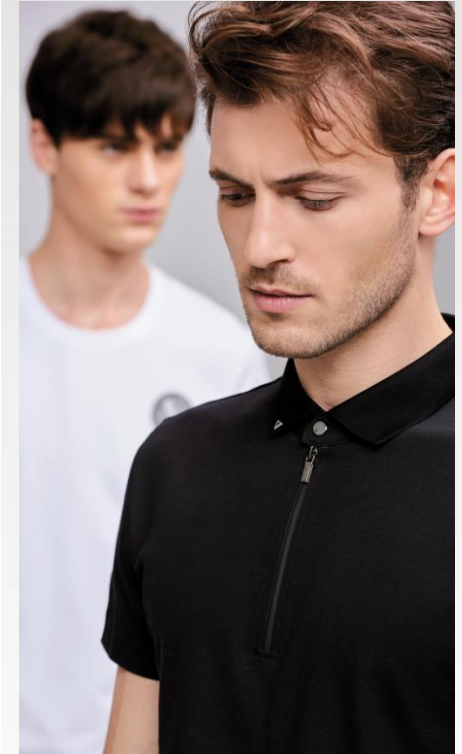




# PRODUCT DESIGN & DEVELOPMENT



- In 2017, original design products about 68%, and medium to long term target remains at 70%
  - About 36% of original design products adopted the Group's proprietary fabrics, and target set at 50%
  - Expanded and enriched LILANZ smart casual collection with encouraging market response
- |          |     |     |
|----------|-----|-----|
| ▪ 2017   | 70% | 68% |
| ▪ 36%    | 50% |     |
| ▪ LILANZ |     |     |



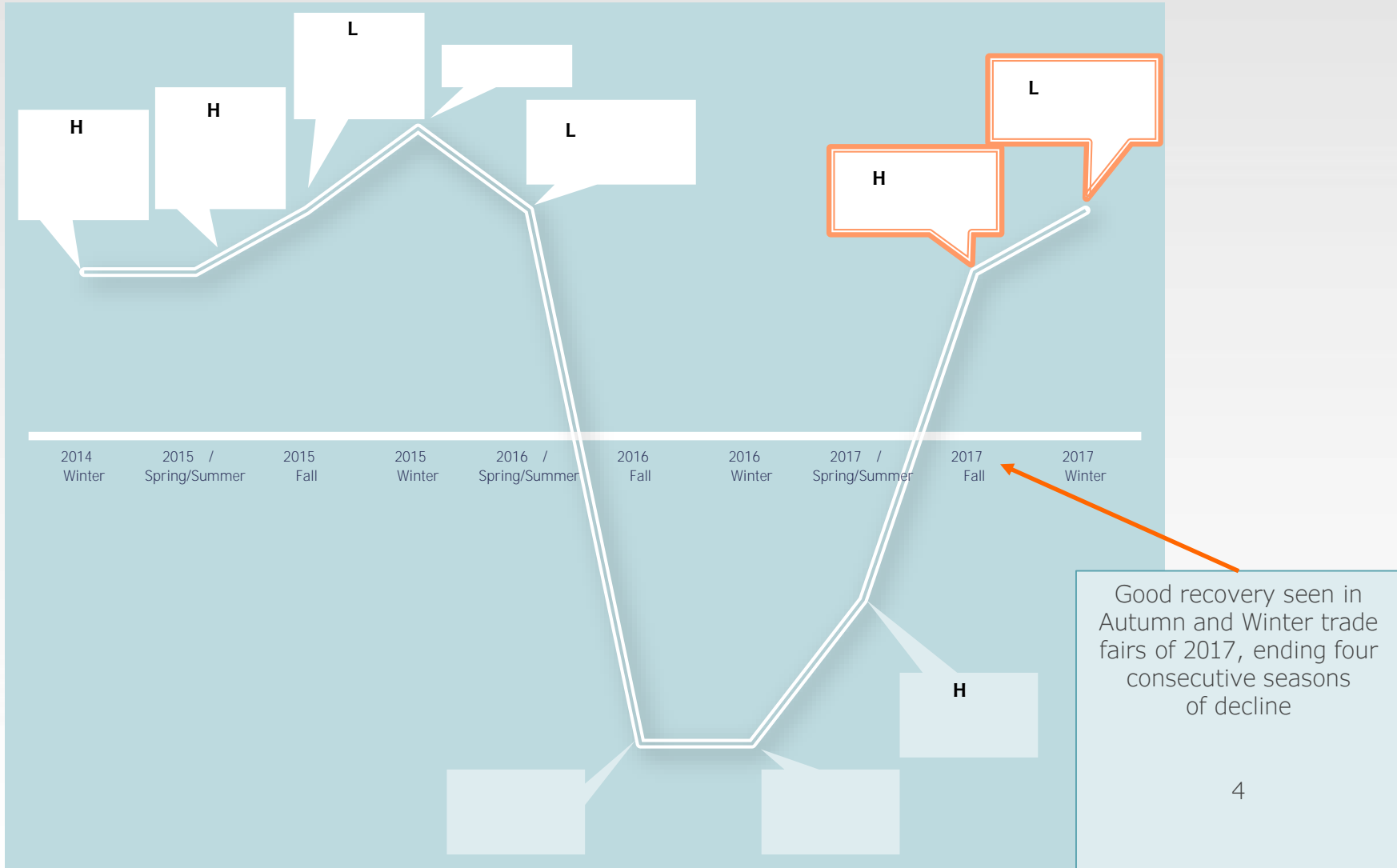
# MARKETING & PROMOTION

- Advertising and promotion through advertising signs in EMU and EMU stations, airports and magazines
- Better use of online social media: in addition to sending out fashion tips through “LILANZ Menswear” public WeChat account, launched a nationwide promotion campaign - “Stylish Man” contest for online voting by WeChat users
- Renovated or partially upgraded another 180 stores with sixth-generation store image

180



# TRENDS OF LILANZ TRADE FAIR RESULTS

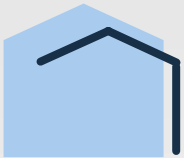


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**OUTLOOK & STRATEGY**

# INDUSTRY PROSPECTS STEADILY IMPROVE



## In 2H 2017: LAYING SOLID FOUNDATIONS FOR LONG TERM GROWTH 2017

- To continue with “improving product quality without raising the price” strategy
- Prudent store opening plan and store network enhancement:
  - Expect store number largely unchanged
  - Open more stores in shopping malls in 1<sup>st</sup> and 2<sup>nd</sup> tier markets
  - Open more specialty stores of the smart casual collection, with year end target set at about 100 stores
- Confident that the retail stores will achieve mid single-digit same-store sales growth
- Expect 2018 SS trade fair orders (commenced on 12 August) to have low double-digit growth

▪			
▪			
▪	LILANZ		
▪			
▪			100
▪			
▪	2018	8	12



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**OPEN FORUM**

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

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	1H2017 RMB'000	1H2016 RMB'000
Revenue	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	23,884	52,937
Profit before taxation	320,497	364,034
Income tax	(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		

**CONSOLIDATED BALANCE SHEET**

Unit: RMB'000

30.06.2017

31.12.2016

30.06.2016

Non-current assets			
Property, plant and equipment	357,996	394,415	323,045
Investment property	102,919	25,145	25,505
Lease prepayments	106,341	107,533	101,436
Intangible assets	5,738	5,345	5,454
Deposits for purchases of fixed assets	13,609	485	4,764
Deferred tax assets	12,010	20,423	34,604
	<u>598,613</u>	<u>553,346</u>	<u>494,808</u>
Current assets			
Inventories	223,689	294,385	142,866
Trade and other receivables	742,037	714,429	859,493
Pledged bank deposits	480,624	488,907	486,748
Fixed deposits held at banks with maturity over three months	552,205	568,943	-
Cash and cash equivalents	<u>1,490,757</u>	<u>1,613,658</u>	<u>2,021,505</u>
	<u>3,489,312</u>	<u>3,680,322</u>	<u>3,510,612</u>
Current liabilities			
Bank loans	477,344	493,528	459,999
Trade and other payables	409,618	514,057	449,430
Current tax payable	<u>112,104</u>	<u>165,253</u>	<u>131,483</u>
	<u>999,066</u>	<u>1,172,838</u>	<u>1,040,912</u>
Net current assets	2,490,246	2,507,484	2,469,700
Total assets less current liabilities	3,088,859	3,060,830	2,964,508
Non-current liabilities			
Deferred tax liabilities	38,178	46,868	34,870
Retention payables	<u>2,400</u>	<u>2,400</u>	-
	<u>40,578</u>	<u>49,268</u>	<u>34,870</u>
Net assets	3,048,281	3,011,562	2,929,638