

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)



2011 Annual Results

March 2012

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3. Prospects and Strategies

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Results Highlights

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Turnover rose by 31.9% year-on-year to RMB2,708.0 million. Sub-brand “L2” reached RMB129.0 million in turnover, and contributed 4.8% to the Group’s total turnover

Profit attributable to equity shareholders increased by 48.8% to RMB 623.1million. Earnings per share is RMB51.90 cents, up by 48.8% year-on-year

Sub-brand “L2” recorded a profit after tax of RMB1.7 million



Net profit margin improved to 23.0%

The Board of directors declared a final dividend of HK19 cents per share and a special final dividend of HK6 cents per share

Core brand “LILANZ” had 3,032 retail stores while sub-brand “L2” had 236 retail stores as at the end of 2011

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 year ended 31 December</i>		
	2011	2010	<i>Change</i>
Turnover (RMB million)	2,708.0	2,053.0	31.9%
Gross profit (RMB million)	1,055.5	778.0	35.7%
Profit from operations (RMB million)	703.7	479.6	46.7%
Profit attributable to equity shareholders (RMB million)	623.1	418.7	48.8%
Basic EPS (RMB cents)	51.90	34.89	48.8%
Dividend per share			
Includes: Final dividend per share (HK cents)	19.0	12.0 (RMB cents)	appro. 28.3%
Special final dividend per share (HK cents)	6.0	N/A	N/A
Interim dividend per share (HK cents)	11.0	5.0 (RMB cents)	appro. 78.3%
Special interim dividend per share (HK cents)	5.0	N/A	N/A
<i>Profitability ratios</i>			
Gross margin (%)	39.0	37.9	+1.1p.p.
Operating margin (%)	26.0	23.4	+2.6p.p.
Net margin (%)	23.0	20.4	+2.6p.p.
<i>Effective tax rate (%)</i>	17.2	14.2	+3.0p.p.
<i>Advertising and promotional expenses (as percentage of turnover) (%)</i>	8.2	8.8	-0.6p.p.

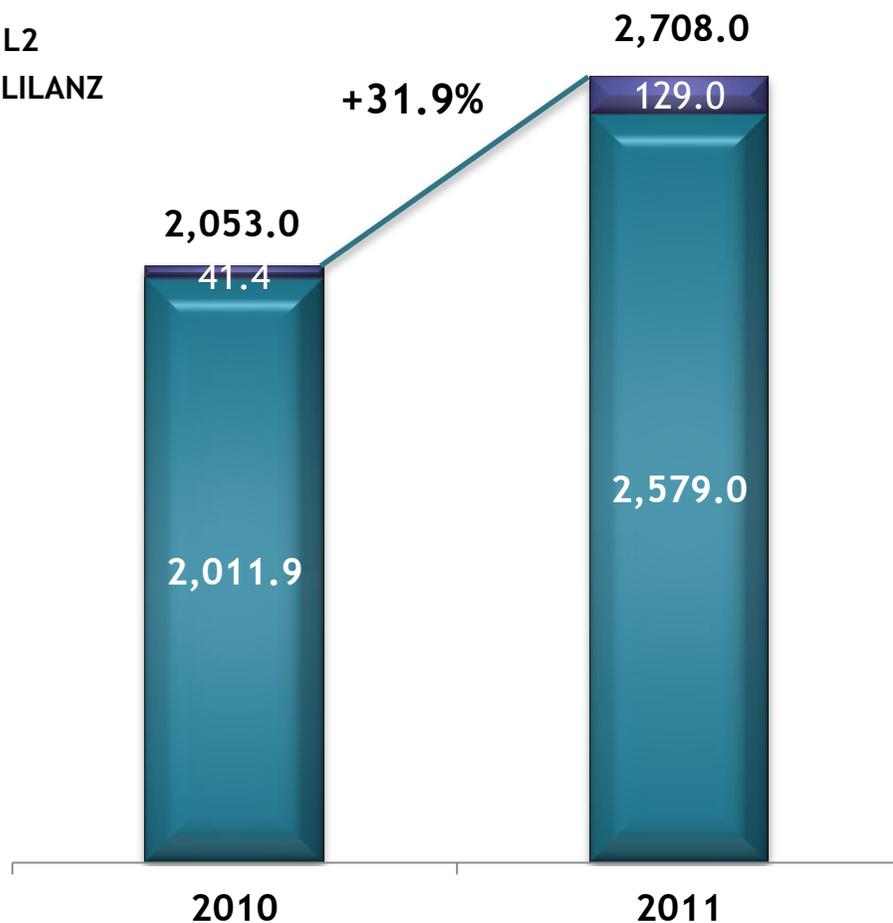
Robust Turnover Growth

Turnover

(RMB million)

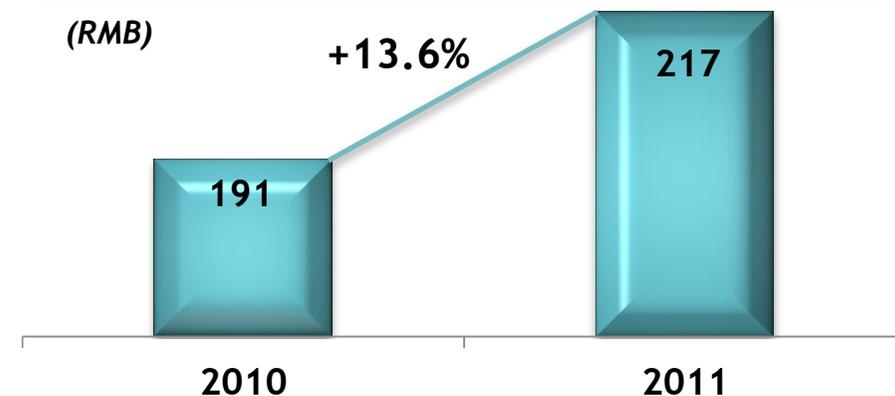
L2

LILANZ



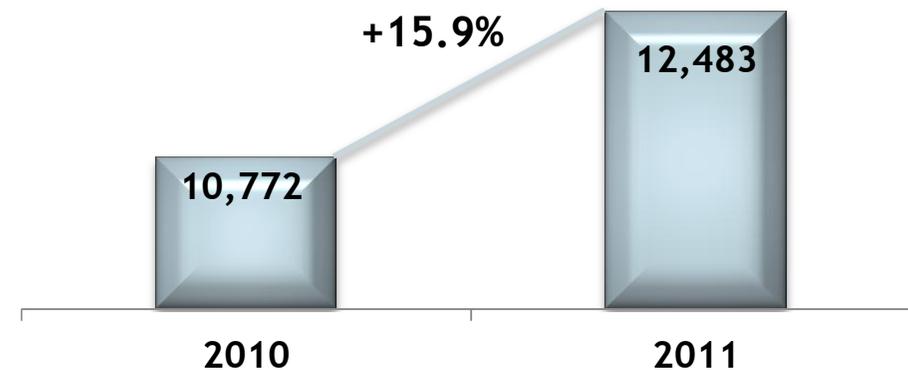
Average Selling Price

(RMB)



Total Sales Volume

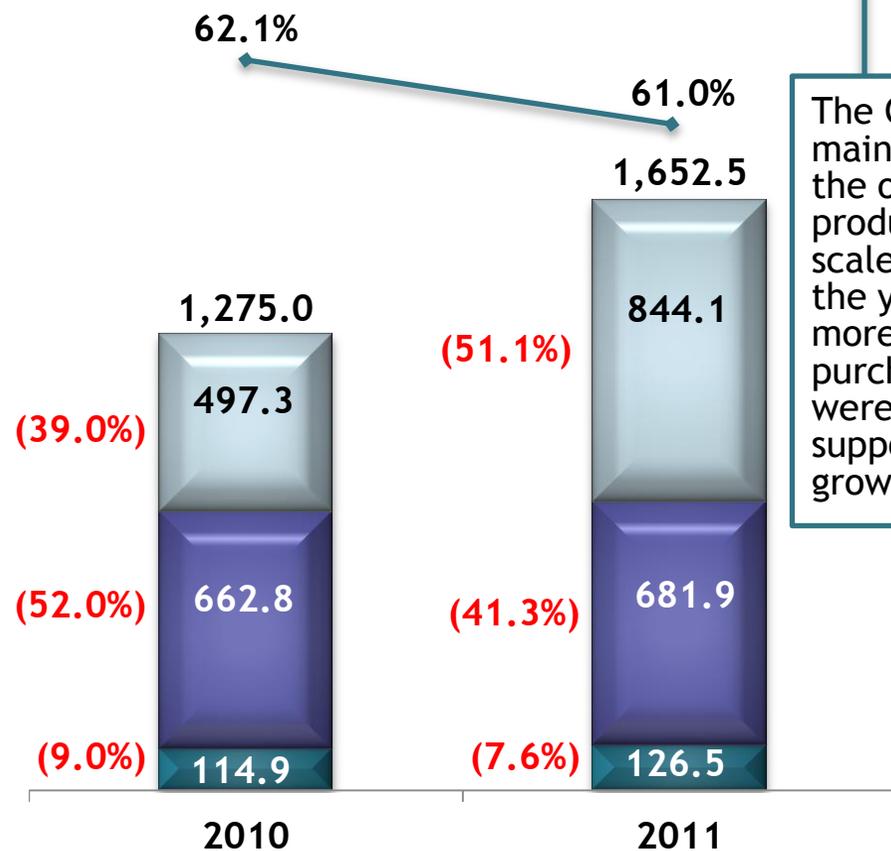
(Volume '000)



Effective control over Cost of Sales, and SD&A

COGS

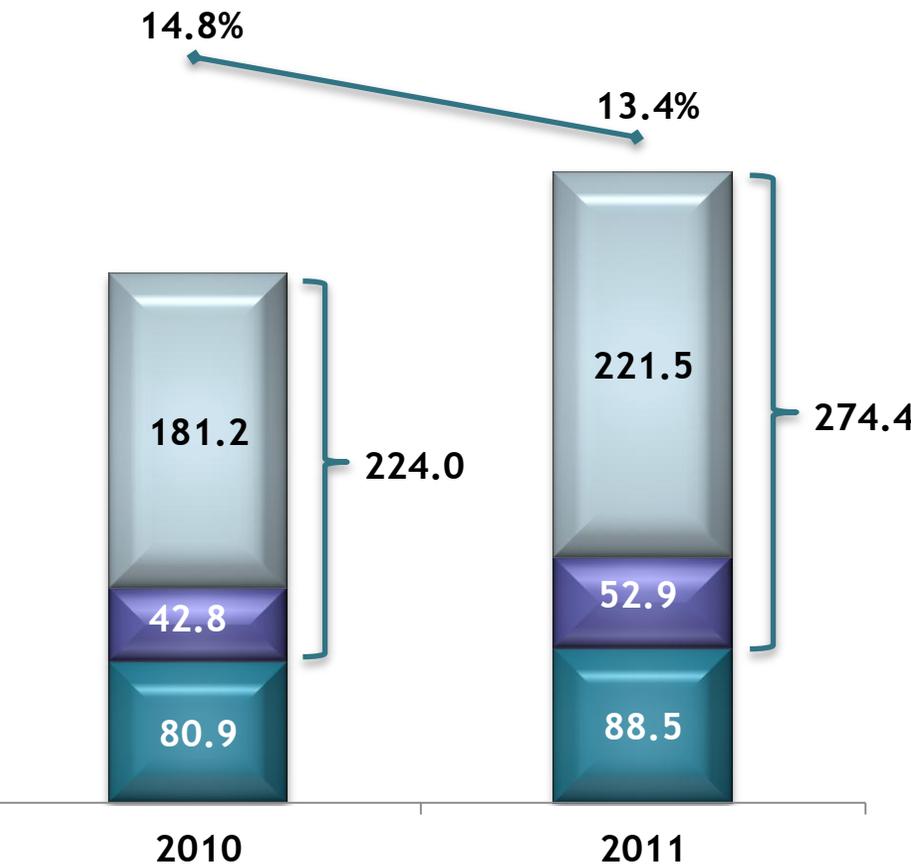
(RMB million)



The Group maintained the original production scale during the year, and more OEM purchases were used to support sales growth

SD&A

(RMB million)



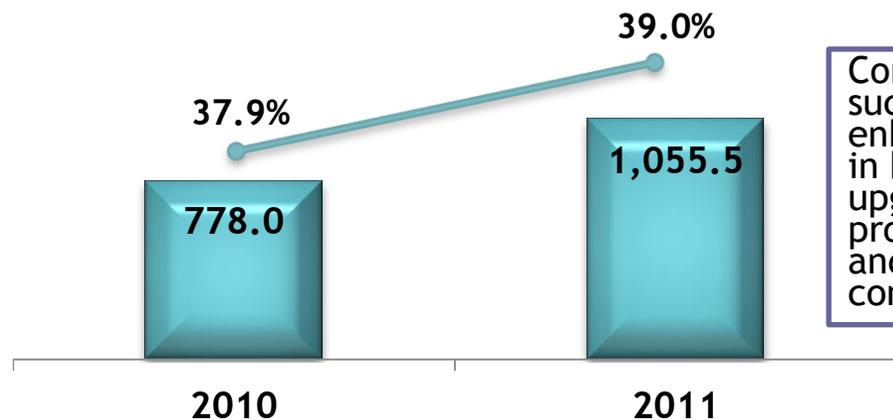
OEM Purchases
 Other Self-production Costs
 Process Outsourcing Charges
 As % of Turnover
() As % of COGS

Advertising and Promotional Expenses
 Other Selling and Distribution Expenses
 Administrative Expenses
 As % of Turnover

Profit and Margins

Gross Profit and Gross Margin

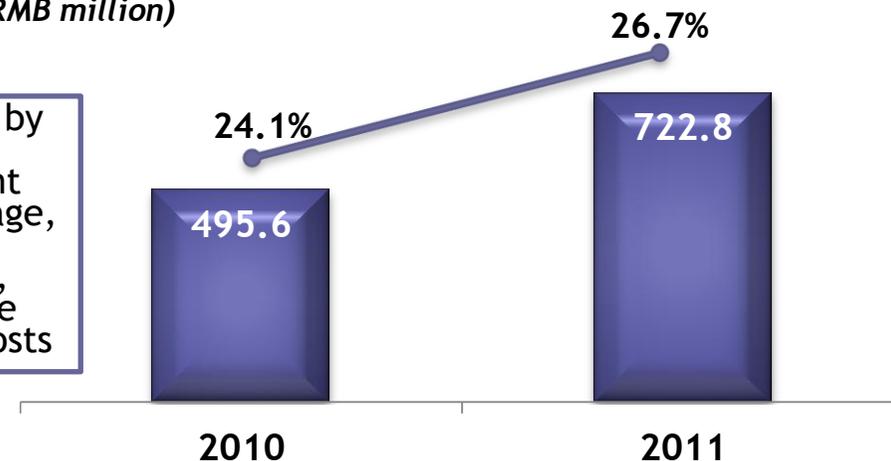
(RMB million)



Contributed by successful enhancement in brand image, upgrade in product mix, and effective control of costs

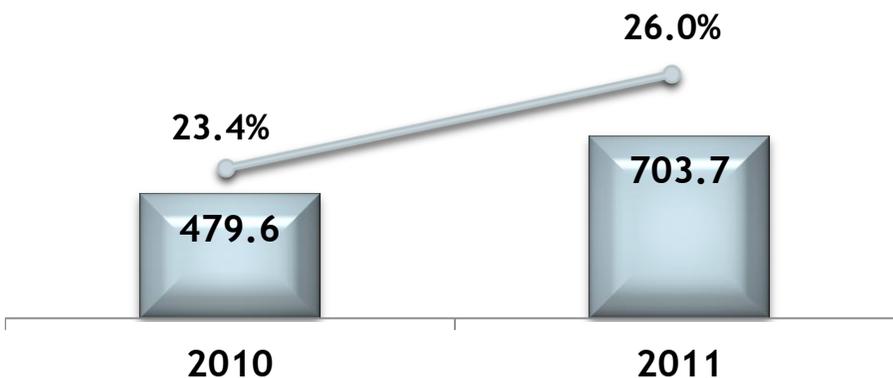
EBITDA and EBITDA Margin

(RMB million)



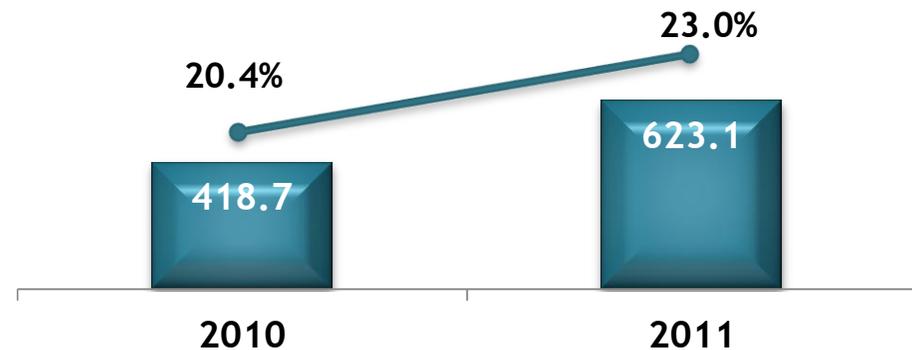
Operating Profit and Operating Margin

(RMB million)



Net Profit and Net Margin

(RMB million)



Well Managed Working Capital Cycle

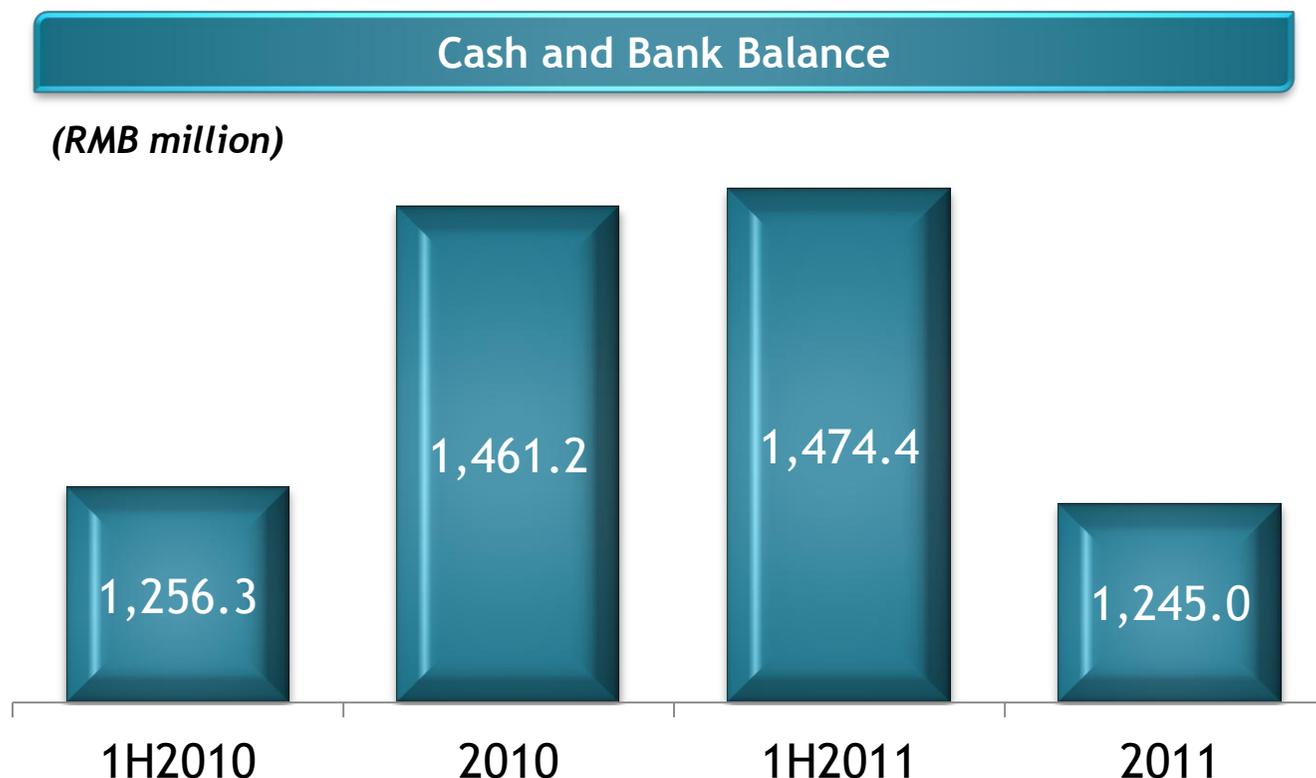
	As at		
	31 Dec 2011	31 Dec 2010	30 June 2011
Average Inventory Turnover Days ⁽¹⁾	45	47	49
Average Trade and Bills Receivables Turnover Days ⁽²⁾	63	65	70
Average Trade and Bills Payables Turnover Days ⁽³⁾	65	86	96
Average Net Trade Working Capital Turnover Days	43	26	23

Average trade and bills payables turnover days reduced by 21 days to obtain more favourable prices from suppliers for the 2012 spring/summer collections.

(1) Calculated as average of beginning and ending inventory balance divided by cost of sales and multiplied by 365 days

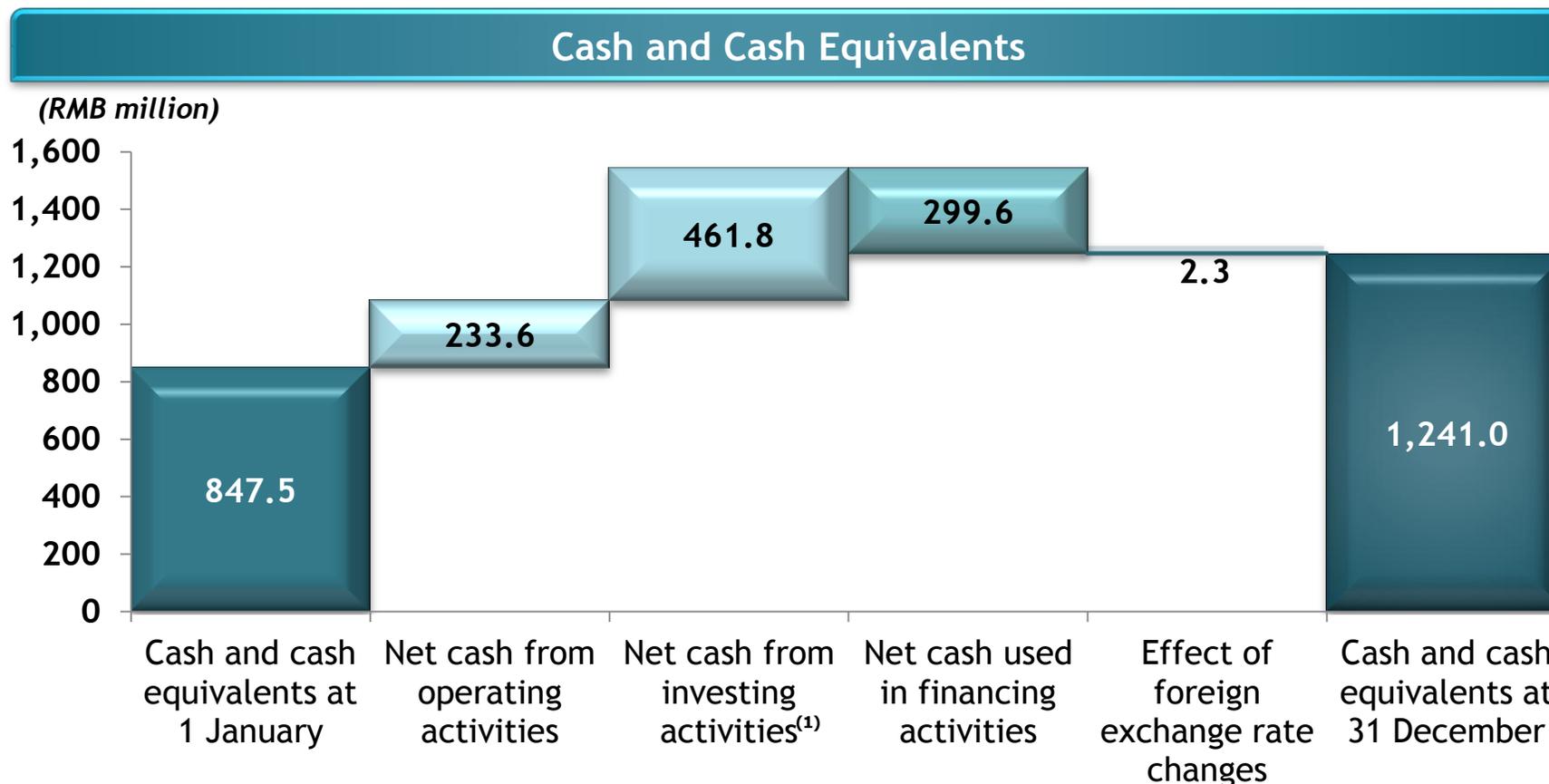
(2) Calculated as average of beginning and ending trade and bills receivables balance divided by revenue (include value-added tax) and multiplied by 365 days

(3) Calculated as average of beginning and ending trade and bills payables balance divided by costs of sales and multiplied by 365 days



- Cash and bank balance includes time deposits with maturity over 3 months and pledged bank deposits
- The Group does not have any interesting-bearing debt

Cash Flow Statement



(1) Included net withdrawal of time deposits with maturity over 3 months

Trade and bills payables balance decreased by RMB154.2 million as the Group reduced the use of bills, which have longer repayment terms, to pay suppliers for the 2012 spring/summer collection, in order to obtain more favourable prices from suppliers.

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2. Business and Operational Review



Emphasis on retail stores as the core avenue for enhancing brand image

- Continued to offer renovation subsidies to newly opened stores
- Further upgrade to the first batch of renovated stores in 2011 to improve the display spacing



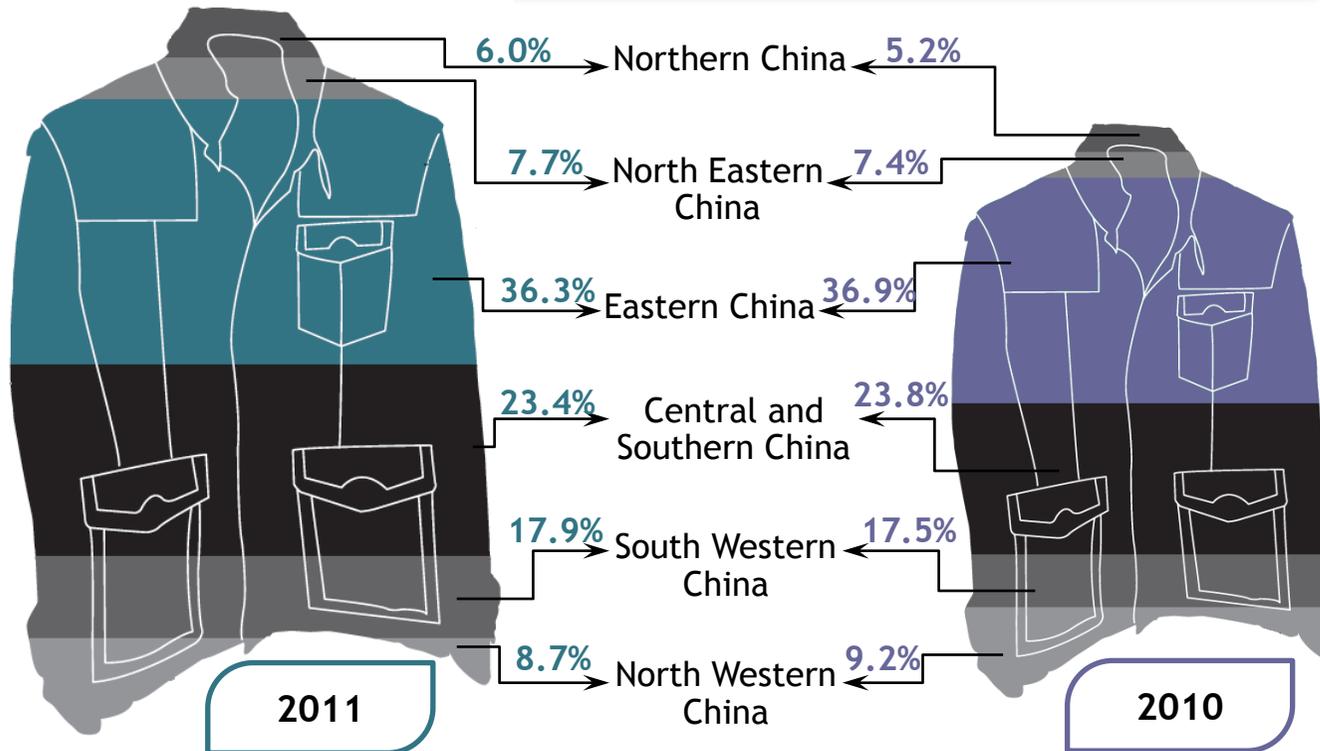
Targeted Promotional Activities

- In March 2011, “LILANZ” and “L2” participated in the China Fashion Week in Beijing together for the first time ever, where the Group officially introduced “L2” as a sub-brand under China Lilang
- In November 2011, “LILANZ” participated in the Beijing Fashion Week, and held its product release fashion show at “Qi Jiu Guan” of D-PARK Beijing Club
- Advertised on CCTV, magazines, online, and large billboard advertising display at the Shanghai Hongqiao airport
- Promoted the brand via large billboard advertising displays at the Bangkok airport in Thailand and in Ginza, the shopping district of Tokyo, Japan targeting outbound-travelling consumers with high spending power
- Regional promotion programs including new shop opening events, advertisements on roadside billboard and regional TV channel
- For the sub-brand “L2”, promotional strategies focused on advertising in magazines and on the internet to reach its target market of young consumers

Nationwide Distribution Network

- There were 3,032 “LILANZ” stores and 236 “L2” stores as of 31 December 2011
- “LILANZ” added 227 new stores, total retail area amounted to 326,000m², an increase of 9% since year end of 2010
- “L2” added 156 new stores, total retail area amounted to 25,300m²

Turnover by Region



Region	Number of Stores	
	2011	2010
Northern	306	266
North Eastern	419	376
Eastern	990	859
Central and Southern	736	626
South Western	577	532
North Western	240	226
Total	3,268	2,885

Improved retail management

- Since late 2009, the Group has embarked on developing software systems with a plan to connect the sales and inventory records of all retail outlets on-line by the end of 2012
- As at the end of 2011, about 1,000 “LILANZ” stores has been connected online
- All “L2” stores are connected online
- Assisted distributors to revise and adopt a horizontal management structure and to strengthen management of sub-distributors
- Provided training to distributors to improve retail data analysis



Expanded store network to strategic locations

- Opened 21 mega stores with areas between 300m² to 500m² during 2011
- 6 mega stores were located in provincial capitals including Shanghai, Kunming, Wuhan and Zhengzhou and 6 were located in prefecture-level cities in Hebei, Hubei and Hunan
- Online sales platform for the “LILANZ” brand was launched during the year

Strong product design and development capability

- Continued to design fashionable, individualised and creative styles which attract consumers and add value to the products
- Expert teams to collaborate with suppliers on fabric and product development
- The design and product 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
- Both teams are headed by “Golden Award-China’s Most Honorable Designer” winners

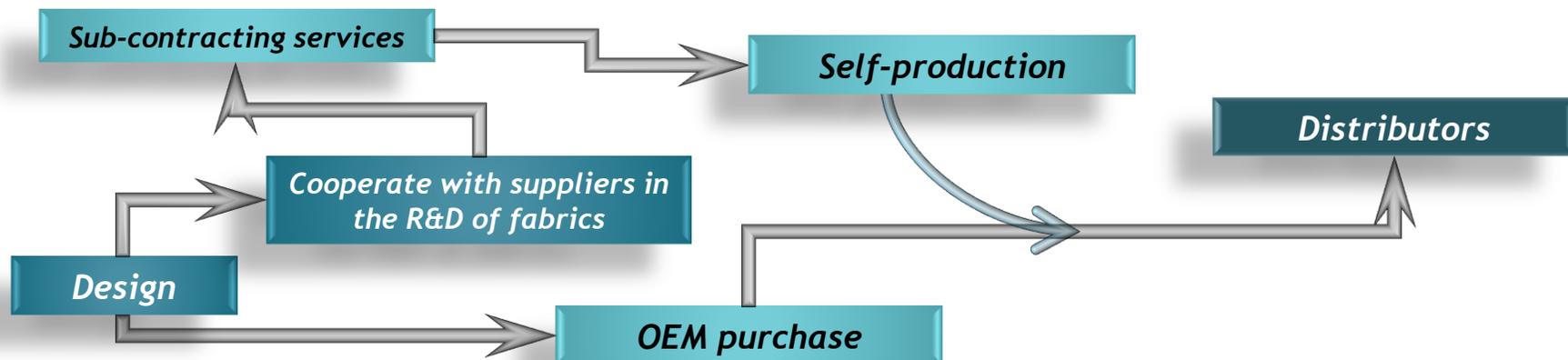


Cost and Quality Control

- Worked within the existing production scale and balanced the proportion of self-production, OEM purchases and process outsourcing arrangement to achieve optimal quality and cost efficiency
- Strengthened quality control and production scheduling by reducing average number of suppliers to an optimal level of 3 to 5 per product category
- Expanded the “Toyota Production System” to 4 production lines and improved efficiency and quality control

Product Innovation

- Collaborated with suppliers in the R&D of unique quality fabrics to increase the Group’s products innovation, enlarge product differentiation, as well as control costs and enhance product quality
- Worked with OEM suppliers on product development to expand product range to meet market demand
- Improved the materials used in pant products boosting sales up by 51.4% to RMB476.2 million
- Successfully developed more footwear products driving sales of accessories up by 69.2% to RMB116.5 million



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3. Prospects and Strategies



Brand Management

- To introduce next generation “LILANZ” store image to further enhance brand image
- More advertising and promotion supports such as road side billboard and TV advertising to support regional expansion

Products

- Persist in the individualised and fashionable style in product design
- Continue to upgrade the fabrics used to produce high value-added products
- Continue to diversify product range



Production and Supply Chain

- Continue to partner with sizable and quality suppliers to improve cost control and product quality
- Continue to collaborate with fabric producers to develop innovative and premium quality fabrics

Sales Network

- Plan to open 250 to 300 “LILANZ” stores and about 150 “L2” stores in 2012
- Open two “LILANZ” self-operated flagship stores, and 10-20 mega stores targeted at major cities in 2012
- Acquired a 679m² store at the Wanda Plaza in Xian City as one of the self-operated flagship store, scheduled to open in 2H2012
- Target to complete connecting all retail outlets online in 2012

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4. Open Forum



	Order amount	Delivery of order started in
2011 Fall	↑ 28%	June 2011
2011 Winter	↑ 34%	August 2011
2012 Spring and Summer	↑ 28.5%	January 2012

	Order amount	Delivery of order started in
2011 Autumn and Winter	↑ 135%	June and August 2011
2012 Spring and Summer	↑ 100%	January 2012