

LILANZ 利郎

China Lilang Announces 2020 Annual Results

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Revenue at RMB2,681 Million Net Profit at RMB557 Million
Total Dividend for the Year at HK44 Cents Per Share

(Hong Kong, 18 March 2021) **China Lilang Limited** (“China Lilang” or the “Company”, together with its subsidiaries, known as the “Group”; stock code: 1234) today announced its 2020 annual results.

Results highlights

- Revenue at RMB2,681 million
 - Net profit amounted to RMB557 million
 - Earnings per share were RMB46.53 cents
 - Proposed a final dividend of HK19 cents per share and a special final dividend of HK8 cents per share, maintaining a relatively high payout ratio
 - New retail business developed rapidly, with online store sales up more than 1.2 times year-on-year
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Mr. Wang Dong Xing, Chairman and Executive Director of China Lilang, said,

“In face of the complex and volatile retail market, China Lilang adopted flexible strategies and promoted the new retail business to give full play to complementary advantages of online and offline. The Group also strived to keep the channel healthy and decisively cancelled some of the spring and summer orders while strictly controlling pre-orders for the fall and winter collections. The total retail sales of LILANZ products resumed growth in the second half of the year, and total retail sales growth in the fourth quarter reached 10-15%, primarily benefiting from the nationwide cold weather. Both the inventory level and its ageing have improved. During the year, the Group launched a number of brand promotional campaigns, which won multiple awards from the advertising industry, further enhancing LILANZ’s brand awareness and reputation.”

For the year ended 31 December 2020, revenue of the Group decreased year-on-year by 26.7% to RMB2,681 million. The amount was after the provision of HK\$390 million made for inventory buy-back in respect of the conversion of some of the core collection stores to consignment model starting spring and summer 2021. Profit from operations decreased by 33.5% to RMB651 million. Operating profit margin was down by 2.5 percentage points to 24.3%. Net profit was RMB557 million, down by 31.4%. Earnings per share declined 31.4% to RMB46.53 cents.

The Group maintained a healthy financial position with sufficient cash flows. The Board of Directors recommended payment of a final dividend of HK19 cents per share and a special final dividend of HK8 cents per share. Together with the interim dividends already paid, total dividend for the year amounted to HK44 cents, maintaining a relatively high payout ratio.

Combating the challenges the pandemic brought to its business, China Lilang speeded up the development of its new retail business during the year. By mounting different promotional and marketing activities online, the Group attracted more customer traffic to its online stores, as such, online store sales increased by more than 1.2 times year-on-year. In addition to online stores, the Group had set up stores on WeMall Mall for its smart casual collection and core collection, a move to promote its brand via the social media platform and also enlarge the virtual inventories of physical stores, resulting in higher sales efficiency per store and enabling more effective inventory control.

During the year, the Group actively enhanced management of its sales channels. After the conversion of the smart casual collection from consignment model to direct-retailing in the second half year of 2020, the inventory control of the collection has improved and inventory balance reduced. The Group also pragmatically optimized its retail network by closing underperforming stores and opening stores in carefully selected quality shopping malls to enhance the efficiency of stores. In addition, the Group encouraged distributors to open stores in outlet malls in the second half of the year as a recurring channel for inventory clearance. At the year end, LILANZ had a total of 2,761 retail stores, representing a net decrease of 54 stores. The number of stores in shopping malls was 807, accounting for 29% of the total store count and approximately 32% of total retail floor area.

As for brand management and promotion, the Group increased promotion activities during the year to showcase LILANZ's young product positioning. In the fourth quarter, the Group engaged Han Han and Li Dan as brand ambassadors and carried out a series of promotional campaign featured by the brand-new duo, which attracted tremendous attention from the market and customers, and were included among the "2020 Top 15 Best Commented Cases" by the Advertising Gate APP. During the year, the Group launched LILANZ crossover products with *China Daily*, Chinese comic "Under One Person", Japanese cartoon "Doraemon", 80s US graffiti artist Jean Michel Basquiat and emerging artist Nick etc., respectively. The promotional campaign for LILANZ X CHINA DAILY products won the "Gold Case Award" and was accredited among the "Top 100 Branding Cases of the Year" at the ADMEN International Award Presentation Ceremony. In addition, the in-depth interactive communication in colleges in respect of the promotion of LILANZ as the business wear brand of the new generation won the "Brand Rejuvenation Award" and the "Top 10 Brand Rejuvenation Cases Award" at the ADMEN International Award Presentation Ceremony.

In 2021, China Lilang will adopt a prudent strategy for store openings which will focus on optimizing the existing store network, and will further strengthen the management of the retail network. The Group will continue to add more stores in quality shopping malls in provincial capitals and prefectural level cities and will also add stores in outlets as a recurring channel for inventory clearance. The plan for the year is to add 100 to 150 stores and the target for total retail sales growth is 10% or more.

In order to more closely control the retail stores and reduce inventory risk, the Group will reform the operation model of the core collection in 2021 by converting selected distributors with higher management capability to the consignment operation model starting from the 2021 spring and summer collections. Under the consignment model, the Group would be able to manage inventory more effectively as product transfers will be more flexible. The consignment model would also enable the virtual inventory of individual stores to expand, and thus help improve store efficiency. Furthermore, the consignment model will allow the Group to continue to leverage the retail management talents of distributors while using the Group's financial resources to accelerate channel upgrade in any particular regions by adding stores in quality shopping malls in provincial capitals and prefecture level cities. As part of the change to the consignment model, the Group would buy-back from these stores past-season products totalling about RMB390 million as at 28 February 2021. Provision for such inventory buy-back was made in 2020 and deducted from the revenue.

Regarding new retail business, the Group has turned its online stores into self-operating, instead of distributor-operated stores, since January 2021. This could improve the management and control of online stores and facilitate the launch of special edition products online. Online stores have been set up on the WeChat Mall for both the core collection and the smart casual collection. It is expected that the customer base of the WeChat store will continue to expand, complementing the physical retail stores with virtual inventory to increase sales efficiency.

As for brand promotion, the Group will continue to organize a range of activities through online and offline channels to promote its brand, and launch crossover products with *China Daily* or other parties. The Group also plans to use new store images to attract more customers. The seventh-generation store image renovation of the core collection will gradually roll out to existing stores, with a plan to cover about 500 existing stores in 2021. It also plans to launch a new store image for the smart casual collection in the second half of 2021.

The Group's new headquarters in Fujian officially commenced operation in February 2021. Phase I of the new logistics park is expected to open in the second half of 2021, which will facilitate better inventory management within the Group.

Mr. Wang concluded,

“At the Chinese government’s effective epidemic control measures, the mainland economy has been recovering quickly. With that plus the new structure of dual circulation as proposed by the central government which encourages residents to expand consumption, and in turn drive economic growth, the Group is cautiously optimistic about development of the retail market. Looking ahead to 2021, building on its solid brand foundation, China Lilang will adopt a prudent approach towards market development, focus on optimizing its existing store network and strengthening management of its retail network. Apart from stepping up growing the new retail business, it will also enhance sales and marketing and inventory management to boost its stores efficiency. The Group will continue to adhere to the strategy of providing products that represent excellent value for money. After the efforts made in the past few years in upgrading research and development and supply chain management, the Group now affords products that stand out in original design with great value-for-money. The Group is confident that its business will continue to outperform those of its peers. We will continue endeavoring to enhance the competitiveness and value-for-money of our products over the long run so as to further consolidate our leading position in the menswear industry in China and realize sustainable long-term growth”

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About China Lilang

China Lilang is one of the leading PRC menswear enterprises. As an integrated fashion enterprise, the Group designs, sources and manufactures high-quality business and casual apparel for men and sells under the LILANZ brand across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC.

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