



China Lilang Announces 2020 Interim Results

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Revenue of RMB1,093 Million and Net Profit of RMB269 Million Interim Dividends of HK17 Cents Per Share

(19 August 2020 - Hong Kong) **China Lilang Limited** (“China Lilang” or the “Company”, together with its subsidiaries, known as the “Group”; stock code: 1234) has today announced its 2020 Interim results.

Results Highlights

- Revenue amounted to RMB1,093 million
- Net profit amounted to RMB269 million
- Earnings per share were RMB22.5 cents
- Total interim dividends of HK17 cents per share
- Total retail sales target for the second half of the year remains at no less than mid-single-digit growth

Mr. Wang Dong Xing, Chairman and Executive Director of China Lilang, said:

“As the novel coronavirus pandemic (the “Pandemic”) started to ease in March, apparel retail stores in China gradually resumed business. Noticing that consumers are paying more attention to the convenience and safety of shopping, the Group stepped up its efforts to promote e-commerce business, driving online retail sales to increase substantially for the period. The Group also continued to optimize its physical retail store network and adhere to the strategy of providing products of excellent value-for-money to ensure that its product design and quality would gain the favor of customers.”

For the six months ended 30 June 2020, revenue of the Group amounted to RMB1,093 million, down by 29.0%. Profit from operations decreased by 34.0% to RMB307 million. Net profit was down by 30.8% to RMB269 million. Earnings per share were RMB22.5 cents, down by 30.8%.

The Group has maintained a healthy financial position and expects that operating cash flows would be improved in the second half of the year. The Board of Directors has resolved to distribute payment of an interim dividend of HK12 cents (2019 interim: HK18 cents) per share and a special interim dividend of HK5 cents (2019 interim: HK8 cents) per share, once again maintaining a relatively high payout ratio.

During the period under review, China Lilang adopted active measures against the challenges brought by the Pandemic. Although retail stores had gradually resumed business since March, it would take some time for the traffic of physical stores to recover. To alleviate the impact of the decline in consumer traffic of physical stores on retail sales and also the distributors, the Group stepped up its efforts to promote e-commerce business by increasing online advertising activities to boost e-commerce traffic and organizing online sales promotion, driving up online retail sales by more than 1.5 times as compared to the same period last year. Sales by the physical stores to VIP customers via the customer relationship management system on the WeChat platform also increased.

Meanwhile, China Lilang continued to optimize its physical retail store network by closing some underperforming stores and opening stores in carefully selected high quality shopping malls to increase store sales. During the period, the number of retail stores decreased by 98 to 2,717. There were 768 stores in shopping malls, representing 28% of total store count and 31% total retail area. There were 268 stores for the smart casual collection.

To ensure the channels healthy, the Group adopted active measures to support distributors in alleviating inventory pressure. In addition to extending credit period granted to distributors, the Group cancelled some of the spring and summer orders and reduced products of the fall collection as planned to facilitate the destocking of the spring inventory in the second half of the year. The Group also strictly controlled the pre-order levels of the 2020 fall and winter trade fairs held in the second quarter to reduce the risk of further inventory backlog.

For brand management and promotion, the Group launched a number of IP crossover series and carried out promotional campaigns to complement the launches in the 2020 spring and summer season. In particular, to promote the launch of the LILANZ × CHINA DAILY crossover products, the Group commissioned a number of influencers to showcase the new products on various online platforms such as Tik Tok, Xiaohongshu.com, Weibo and Douyu.com, attracting market attention and enhancing brand value.

Looking forward, maintaining the channels healthy and reducing inventory to a reasonable level will be a focus for the second half of the year. In addition to clearing inventories via online stores and the outlet sales event held in the headquarters at year end, the Group has reduced products for the 2020 fall collection to facilitate the destocking of the 2020 spring products in the second half of the year. It has also reduced the pre-order levels of the 2020 fall and winter trade fairs and prepared sufficient production capacity to cope with additional orders, thus reducing the risk of further backlog of inventory. The Group will also add stores in outlet malls to accelerate inventory clearance. Furthermore, the Group will continue to monitor the inventory level through the ERP system, and targets to reduce inventories to a more reasonable level through the aforementioned measures and organizing appropriate promotional and marketing events when necessary.

The Group remains cautious in expanding its store network in the second half of the year and expects that the total number of stores by the end of 2020 will be largely the same as that at the end of 2019. In addition to opening stores in outlet malls as planned, the Group will continue to encourage distributors to open more stores in premium shopping malls. However, it is expected that some stores with low profitability will be closed.

With respect to the smart casual collection, as disclosed in the 2019 annual report, the Group would replace the consignment model with a direct-retail model to strengthen inventory management, market expansion, brand marketing and training of retail personnel. On 1 July 2020, 228 existing stores of the smart casual collection have been converted to direct-retail model. Other 40 stores will continue to be operated by distributors, and some of which are expected to be closed when the existing sales agreements expire.

Regarding the new retail and brand promotion, the Group will continue to conduct brand advertising and promotion on Baidu, Weibo, Tik Tok, and other portals and will organize various promotional sales events to attract more traffic to the online stores. The Group will launch a number of crossover collections in the second half of the year, including crossover products with American graffiti artist Jean Michel Basquiat. The Group has also appointed a new brand ambassador and will start a new round of brand promotion in the fourth quarter. The store image upgrade for the core collection will be undertaken in stages. In 2020, the plan for rolling out the seventh-generation store image to existing stores will be adjusted to cover 10 to 20 stores. Different decorative materials will be used subject to different market positions of the stores to achieve a better cost efficiency.

The renovation work of the new headquarters in Fujian had been suspended early this year due to the Pandemic. The work has now been resumed. It is expected that the headquarters will begin operation in the beginning of next year and hopefully the 2021 fall trade fair could be held there. Phase I of the new logistics park is still targeted for opening in late 2021.

Chairman Wang Dong Xing concluded:

“Sino-US trade issues remain unresolved while the Pandemic fluctuates, adding uncertainties to the global economy. China’s retail market will also be affected. As a well-established menswear enterprise, China Lilang has distinctive advantages in areas such as products, retail management, cost control, and financial position. The Group will continue to improve operating efficiency, inventory management, e-commerce business and brand promotion, and is confident that it will continue to outperform other industry peers. The target total retail sales growth of LILANZ products for the second half of the year remains at no less than mid-single-digit.”

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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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