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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1234)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the “**Board**”) of China Lilang Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together referred to as the “**Group**”) for the six months ended 30 June 2019. This announcement, containing the full text of the 2019 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results.



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FINANCIAL HIGHLIGHTS

Six months ended 30 June			
	2019 (RMB million)	2018 (RMB million)	Changes (%)
Revenue	1,540.0	1,293.1	+19.1
Gross profit	638.2	541.9	+17.8
Profit from operations	464.8	381.4	+21.9
Profit for the period	388.5	340.7	+14.0
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	32.5	28.5	+14.0
— Diluted	32.5	28.5	+14.0
Interim dividend per share	HK18 cents	HK16 cents	+12.5
Special interim dividend per share	HK8 cents	HK7 cents	+14.3
	(%)	(%)	(% points)
Gross profit margin	41.4	41.9	-0.5
Operating profit margin	30.2	29.5	+0.7
Net profit margin	25.2	26.3	-1.1
Return on average shareholders' equity ⁽¹⁾	11.3	10.7	+0.6
Effective tax rate	21.2	19.1	+2.1
Advertising and promotional expenses and renovation subsidies (as percentage of revenue)	9.1	9.5	-0.4
	Six months ended 30 June 2019	Year ended 31 December 2018	Six months ended 30 June 2018
Average inventory turnover days ⁽²⁾	129	98	78
Average trade receivables turnover days ⁽³⁾	87	72	85
Average trade payables turnover days ⁽⁴⁾	102	92	81

Notes:

- (1) Return on average shareholders' equity is equal to profit for the period divided by the average of the beginning and closing balance of total shareholders' equity.
- (2) Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by cost of sales and multiplied by the number of days in the relevant period.
- (3) Average trade receivables turnover days is equal to the average of the beginning and closing trade and bills receivables balance divided by revenue (including value-added tax) and multiplied by the number of days in the relevant period.
- (4) Average trade payables turnover days is equal to the average of the beginning and closing trade and bills payables balance divided by cost of sales and multiplied by the number of days in the relevant period.

MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY REVIEW

In the first half of 2019, the trade talks between China and the United States had been suspended without an agreement being reached, adding uncertainties to the prospects for global economic development. Key economies showed signs of slowing growth and the global markets took a cautious turn. During the same period, the economy in China maintained steady growth. Its GDP growth in the first and second quarters was 6.4% and 6.2% respectively while overall GDP growth for the first half of the year was 6.3%. The Chinese government has launched larger scale tax cut and fee reduction measures. Nationally, additional tax cuts and fee reductions for the first half of this year totaled RMB1.17 trillion and the tax cuts for the full year are expected to total RMB2 trillion. The measures are expected to stabilize growth and employment, improve business environment and stimulate market activities.

China's consumption demand kept growing. In the first half of 2019, total retail sales of consumer goods rose by 8.4% year-on-year. Total retail sales of apparel, footwear, headwear and knitwear increased by 3.0% year-on-year. For the first five months of this year, China's consumer confidence index remained at a relatively high level at 123.4 points. In addition, China's consumption trend index was 115 points in the first quarter, slightly higher than the 113 points in the preceding quarter and close to its historical peak. This reflected the upward trend of personal willingness to spend among Chinese citizens.

During the period under review, China Lilang Limited (the "Company" or "China Lilang," together with its subsidiaries, the "Group") adhered to its corporate strategy adopted in the past few years of enhancing product design, providing products with better value-for-money while accelerating channel transformation, and achieved a steady growth in its business results. For the first half of the year ended 30 June 2019, revenue increased by 19.1% year-on-year to RMB1,540.0 million. Revenue of LILANZ rose by 20.3%. Net profit climbed 14.0% to RMB388.5 million. Earnings per share were RMB32.5 cents, an increase of 14.0%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



During the period, the sales efficiency of LILANZ retail stores further improved and retail stores in operation for more than 18 months recorded high single-digit same-store sales growth on average. The Group implemented its market expansion plan as scheduled and added 83 stores in the first half of the year, moving towards its goal of net opening of approximately 200 stores for the full year. Meanwhile, the Group continued to transform its sales channels. The number of stores in shopping malls increased to about 680, accounting for almost 25% of its total. Apart from optimizing its bricks-and-mortar retail store network, the Group has also continued its active effort to develop new retail business. Sales of its online stores in the first half of the year accelerated year-on-year.

The Group remained financially robust with healthy cash flows during the period despite the rise in net working capital as business expanded. The Board of Directors has resolved to distribute payment of an interim dividend of HK18 cents per share and a special interim dividend of HK8 cents per share, thereby maintaining a relatively high dividend payout ratio.



FINANCIAL REVIEW REVENUE

The Group's revenue for the period rose by 19.1% to RMB1,540.0 million. Revenue of LILANZ increased by 20.3%. The revenue growth was driven by the high single-digit same-store sales growth for the period recorded by the stores in operation for more than 18 months and also the opening of stores with larger average floor areas last year. Excluding the effect of the consignment inventories of the smart casual collection, the increase in sales aligned with the order growth in its spring and summer, and fall trade fairs.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

By product category, tops remained the major contributor to revenue, accounting for 53.6% of LILANZ's revenue, with a 22.5% growth in sales. Sales of footwear products, for which the Group stepped up investment in the research and development in the past two years, continued its growth momentum of last year. Total orders for footwear products for full year 2019 surged by over 50% and the sales for the period rose by more than 30%.

REVENUE BY REGION

Apart from the North Eastern China region, all regions benefitted from the new stores added since 2018 and the same-store sales growth during the period, and thus recorded increases in sales. In particular, sales growth for the period in the Northern China region was the most remarkable, reaching 40.0%. The Group changed its distributor of the core collection in Shanxi province in early 2018. After the efforts made to adjust its store network in the past year, sales from the province noticeably increased. Sales from the Eastern China region grew by 26.8% during the period, which was mainly driven by the sales growth of the smart casual collection. Sales from the Central and Southern China region increased by 22.6%. The sales growth was driven by the increasing number of stores in shopping malls in Hunan and Guangdong provinces in the past year. In the North Eastern China region, sales stayed flat during the period after the reduction of store count in 2018.

The Eastern China and the Central and Southern China regions remained the top contributors to revenue, accounting for 58.7% (first half of 2018: 56.5%) of the total. The retail stores in these two regions accounted for 54.2% (31 December 2018: 54.0%) of the total number of stores.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue by region for the period is set out below:

Region	2019		Six Months Ended 30 June		
	RMB million	% of revenue	2018 RMB million	% of revenue	Changes (%)
Northern China ¹	144.2	9.4%	103.0	8.1%	40.0%
North Eastern China ²	77.7	5.0%	77.3	6.0%	0.5%
Eastern China ³	504.7	32.8%	397.9	31.1%	26.8%
Central and Southern China ⁴	399.1	25.9%	325.4	25.4%	22.6%
South Western China ⁵	284.2	18.5%	261.5	20.4%	8.7%
North Western China ⁶	130.1	8.4%	114.8	9.0%	13.3%
Subtotal of LILANZ	1,540.0	100.0%	1,279.9	100.0%	20.3%
Others	–		13.2		
Total of the Group	1,540.0		1,293.1		19.1%

- 1 Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
- 2 North Eastern China includes Heilongjiang, Jilin and Liaoning.
- 3 Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.
- 4 Central and Southern China includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.
- 5 South Western China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.
- 6 North Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

COST OF SALES AND GROSS PROFIT MARGIN

Cost of sales increased by 20.0% year-on-year to RMB901.8 million. As sales increased, subcontracting charges rose by 66.9% to RMB 185.6 million.

Gross profit margin stood at 41.4%, slightly down by 0.5 percentage point year-on-year. The Group continued to offer consumers products of excellent value-for-money so as to gain the market while targeting to maintain a stable gross profit margin.

OTHER NET INCOME

Other net income amounted to RMB53.0 million, which comprised mainly government grants of RMB41.8 million (first half of 2018: RMB37.8 million) and adjustments to amounts payable to suppliers due to quality or other reasons. The Group's entitlement to the government grants was unconditional and under the discretion of relevant authorities.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 12.9% to RMB172.6 million, accounting for 11.2% of the total revenue, down by 0.6 percentage point compared with the same period last year. Advertising expenses and renovation subsidies increased by RMB16.2 million to RMB139.4 million, equivalent to 9.1% (first half of 2018: 9.5%) of the total revenue. Apart from higher advertising expenses, renovation subsidies also increased as 191 new stores were opened during the period and shelves for footwear products were added in more stores.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to RMB50.1 million, up by RMB3.4 million compared with last year. The rise in administrative expenses was mainly attributable to the operation center for the smart casual collection in Shanghai, which commenced operation in the fourth quarter last year.

OTHER OPERATING EXPENSES

Other operating expenses mainly comprised charitable donations of RMB3.5 million (first half of 2018: RMB2.7 million).

PROFIT FROM OPERATIONS

Profit from operations increased by 21.9% to RMB464.8 million, which was mainly driven by the increase in sales. Operating margin increased by 0.7 percentage point to 30.2% as expenses ratios dropped due to the rise in sales.

NET FINANCE INCOME

Net finance income was RMB28.5 million, down by RMB11.0 million year-on-year. Both the cash balance and the bank deposit interest rate decreased during the period.

INCOME TAX

The effective income tax rate was 21.2% for the period, up by 2.1 percentage points year-on-year. The “Advanced and New Technology Enterprise” status of one of the Group’s PRC subsidiaries expired at the end of 2018. The result of the renewal application for 2019 is expected to be confirmed by the end of the year and provision was made for the related income tax for the period according to the standard tax rate.

NET PROFIT

Net profit was RMB388.5 million for the period, up by 14.0%, which was mainly driven by the increase in sales. Net profit margin was 25.2%. Net profit margin declined by 1.1 percentage points due to an increase in effective income tax rate.

EARNINGS PER SHARE

Earnings per share were RMB32.5 cents, up by 14.0%.

INTERIM DIVIDEND

The Board has resolved to distribute payment of an interim dividend of HK18 cents (first half of 2018: HK16 cents) per ordinary share and a special interim dividend of HK8 cents (first half of 2018: HK7 cents) per ordinary share in respect of this financial year, making a total dividend payment of approximately HK\$311.3 million (equivalent to approximately RMB273.8 million). The interim dividend and special interim dividend will be paid in cash on or around 13 September 2019 to shareholders whose names appear on the register of members of the Company on 30 August 2019.

BUSINESS REVIEW

SALES CHANNEL MANAGEMENT

Through the LILANZ retail stores operated by distributors, the Group establishes a distinctive brand image, provides professional retail services, and raises consumers’ spending desire so as to drive sales. A wholesale model has been adopted for the sales of the core collection while a consignment model has been adopted for the sales of the smart casual collection.

The Group continued to promote the upgrade of its sales channels during the period. It assisted distributors in planning store distribution, locations and numbers, and provided practical support to distributors in their retail network optimization by moving stores to better locations where necessary to improve store efficiency. Besides, the Group continued to encourage distributors to open stores in shopping malls in provincial capitals and prefectural level cities to better cater for the consumption pattern of consumers. The number of stores in shopping malls increased to more than 680 by the end of June 2019 (31 December 2018: 600), accounting for almost 25% of the total store count, and their sales performance were in line with expectations.

As at the end of June 2019, LILANZ had a total of 2,753 retail stores nationwide, representing a net increase of 83 stores during the period, and the aggregate retail floor area increased by 3.7%, as compared with the end of 2018 to about 394,100 square meters (31 December 2018: 379,900 square meters). Among them, there were 255 specialty stores for the smart casual collection, up by 43 stores during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Changes in the number of LILANZ stores in different regions are as follows:

Region	Number of Stores			As at 30 June 2019
	As at 1 January 2019	Opened during the Period	Closed during the Period	
Northern China	278	27	8	297
North Eastern China	207	8	7	208
Eastern China	764	66	48	782
Central and Southern China	677	46	14	709
South Western China	482	24	16	490
North Western China	262	20	15	267
Total	2,670	191	108	2,753

To further enhance the brand image of LILANZ and shopping experience of consumers, the Group plans to launch the seventh-generation store image for the core collection on a pilot basis in some of its new stores to be opened in the second half of the year. Consistent with the previous practice, the Group will provide materials for the seventh-generation store renovation and plans to roll this out to existing stores by phases to maintain a unified store image and at the same time showcase a more fashionable and fresh brand image, hence attracting more customers.

The Group continues to assist distributors in upgrading in-store product display and retail services. To ensure the highest quality of management and service at its stores, the Group has continued to provide training to distributors. In July 2019, the Group organized a large-scale training seminar in Suzhou for its distributors to deepen their understanding of new retail development and sharpen their inventory and sales personnel management skills and customer care service skills. In addition, the Group promptly monitors sales and inventories at stores via its ERP system. At present, channel inventories of the spring and summer collection though is slightly higher than that in the same period last year and yet remains at a healthy level.

The Group has also established stable relations with its distributors. All LILANZ distributors have maintained business relationships with the Group for over a decade. As at 30 June 2019, LILANZ had 77 distributors and 789 sub-distributors. As distributors opened more stores and some of the sub-distributors with sub-optimal management standards were phased out, the number of stores operated by distributors increased to 1,594 and the related percentage to total store counts kept rising. This reflects the Group's growing foothold in first- and second-tier markets and its improving standards in retail management.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

	30 June 2019		31 December 2018	
	Number of distributors	Number of stores	Number of distributors	Number of stores
Self-operated stores	–	1	–	1
Distributors	77	1,594	77	1,470
Sub-distributors	789	1,158	808	1,199
Total number of stores		2,753		2,670
Street stores and stores in shopping malls		2,439		2,354
Shops-in-shops in department stores		314		316
Total number of stores		2,753		2,670

NEW RETAIL DEVELOPMENT

New retail business remains one of the Group's top priorities for future business development. The Group promotes the business of its LILANZ core collection and smart casual collection by actively integrating online services with offline in-store experiences while optimizing its logistics services.

Currently, online stores have been set up on major online sales platforms for both the LILANZ core collection and smart casual collection. It also provides customer relations management services via the WeChat platform. During the period, the Group organized various activities to promote the online businesses of the two collections, including the launch of online special edition products, commissioning KOLs to promote products, placing advertisements on renowned web portals and collaborating with the search engine of Baidu to increase traffic. E-commerce sales for the period recorded encouraging growth year-on-year, however, its contribution to total sales remained negligible and the Group hopes to create a greater room for growth in coming years.

PRODUCT DESIGN, DEVELOPMENT AND SUPPLY CHAIN MANAGEMENT

The Group has enhanced the personality-themed design of its products and increased the proportion of its originally-designed products to provide better value-for-money and differentiate itself from its peers. Originally-designed products are expected to reach the 70% target in total product mix available for sale in 2019. Of these, the proportion of products utilizing proprietary fabrics developed by the Group rose near to the target of 50%.

The Group has also kept on enriching its product mix, especially adding more youthful and fashionable products to meet the demand of customers of first- and second-tier markets and of shopping malls. This product enhancement also supports the Group's strategy to promote its products to a younger demographic. In addition, the Group has increased the proportion of season-neutral products such as lightweight down jackets for the winter, jeans and shirts to further reduce the potentially adverse impact of extreme weather on sales and improve overall sales efficiency. Among the season-neutral product lines, sales performance of footwear products has been particularly outstanding.

The Group's international and local research and development teams have also kept abreast of the popular trends in the international market. With the objective of meeting fashion needs of Mainland China's consumers, the teams design value-for-money menswear products that are simple yet fashionable in style targeting different market segments of the core and smart casual collections. There are currently about 400 staff members in the Group's research and development department engaged in such areas as product design, material development and production scheduling, seeking to increase its overall competitiveness of its products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BRAND MANAGEMENT AND PROMOTION

China Lilang owns and operates the LILANZ brand and currently sells menswear products in two collections — the core collection and the smart casual collection. The core collection, principally targeting consumers between the ages of 25 and 45, has been well-received in traditional third- and fourth-tier markets and is gradually expanding into first- and second-tier markets. The smart casual collection, targeting consumers between the ages of 20 and 30 in first- and second-tier markets, comprises more classic-style products than the core collection.

The Group manages its brand mainly through focusing on products and store image, and continues to enhance brand awareness by opening large-scale stores alongside targeted brand advertising and promotion campaigns. Such campaign activities encompass placing advertisements on the Beijing-Shanghai High Speed Railway and soft advertisements in traditional print media and web portals, as well as sharing mix-and-match fashion tips, introducing new season products and updating news of the brand on the WeChat platform to attract followers and potential customers.

In the first half of 2019, the Group worked with the Academy Award of Advertising Festival of Chinese College Students to solicit print ads from college students designed for the brand with its registered brand slogan “Less is More” as the theme. The Group received over 2,000 works in total. As part of the event, the Group had a tour around higher educational institutions around China to introduce its branding philosophy “Less is More.” This helped the promotion of the Group’s products to a younger demographic.

In addition, the Group has commissioned celebrities to shoot product photos and KOLs for advertisements used in traditional print media and web portals. Hot items were also launched on the “June 18 Shopping Festival” to increase customer flow and enhance its brand exposure online.

TRADE FAIRS

The retail sales performance of LILANZ continues to outperform industry peers. The growth of orders in its 2019 fall and winter trade fairs held during the period are as follows:

Trade fairs	Total order value growth (based on wholesale prices)
2019 fall	21%
2019 winter	10–13%

In the 2019 winter trade fair conducted in May, the confidence of distributors was affected by the escalating Sino-US trade conflict and slow-down of retail growth, plus there was a slight year-on-year decrease of average unit price across major winter product categories due to lower material costs. As a result of these factors, order growth was slower than expected.

The 2020 spring and summer trade fair has begun on 12 August 2019 and the Group is confident the orders will grow no less than high-single digit year-on-year.

AWARDS

In the first half of the year, the Group ranked among the “Top 500 Brands in China” at the Third China Brand Innovation Conference (第三屆中國品牌創新大會) and received the “China (Industry) Quality Evaluation Gold Award 2019” (二零一九中國(行業)質量評鑒金獎).

PROSPECTS

In the second half of 2019, the Sino-US trade negotiation will remain as the market focus and hopefully the countries will reach consensus soon. However, amid the uncertain economic prospects, the Group believes that companies with strengths and competitiveness will have obvious advantages. China Lilang remains cautiously optimistic about the menswear industry in China. In the second half of the year, it will steadily continue its expansion with the aim to further enlarge its market share.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group will continue its market expansion in the second half and keeps the target of adding around 200 stores for the full year. It will also encourage distributors to open more stores in shopping malls to upgrade the sales channel. Stores for the core collection will be opened mainly in third- and fourth-tier markets. As for the market expansion of the smart casual collection, based on the experience over the past two years, the Group plans to optimize its strategy. Towards that end, it will put more efforts to develop markets in provincial capital cities such as Zhengzhou, Xi'an, Hefei, Changsha, Guiyang and Nanchang. Whereas in Zhejiang, Wenzhou, Suzhou, Nanjing, Qingdao and Tianjin, the Group will gradually develop the brand and stores will only be opened in key shopping areas. As for the Beijing and Shanghai markets, the Group will focus on brand building and promotion to supplement the business development in other markets.

Over the past few years, the Group has adhered to the strategy of "improving product quality without raising the price" and spared no effort in improving product design, craftsmanship and materials, and has successfully made the products more competitive. Originally-designed products are expected to reach the target of 70% of the total product mix available for sale in 2019. The proportion of products utilizing proprietary fabrics developed by the Group rose near to the target of 50%. In the second half, China Lilang will adhere to the strategy of providing products with better value-for-money to ensure product competitiveness.

Regarding the new retail business, special edition hot items were launched on the June 18 online shopping day and recorded satisfactory sales. In the second half, more online special editions of specific product categories are to be launched. More styles will also be available on the online stores to boost customer flow.

As for brand promotion, China Lilang will continue to upgrade the shopping experience that it provides. The more fashionable seventh generation store image will be adopted in some of the new stores of the core collection on pilot basis in the second half of the year, and is planned to roll out to other stores by phases starting 2020. The Group is also actively preparing to launch cross over products with other IPs for the 2020 spring and summer collections and to launch more special edition hot items for its online shops so as to enlarge the customer base through different channels.

The Group maintains its target of high single-digit same-store sales growth for the second half. Facing the uncertain business environment, the Group will closely monitor and control inventory level across the channels through its ERP system, and keep it at a healthy level through appropriate sales and marketing activities. The 2020 spring and summer trade fair has begun on 12 August 2019, and the Group is confident it can record no less than high-single digit growth.

The operation center for the smart casual collection in Shanghai has started operation in the fourth quarter of last year. Staff recruitment is currently underway, and hopefully various talents in areas such as product design and brand promotion will be on board in the second half of this year. The new headquarters in Fujian is still under renovation and the commencement of operation will be postponed to 2020.

In the long run, China Lilang will retain its multi-brand development strategy, with the hope to strengthen its product competitiveness and price-to-value ratio, further consolidate its leading position in the Chinese menswear industry and realize sustainable long-term growth, so that the Group can reward its shareholders, staff and customers for their support.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES CASH AND BANK BALANCES AND CASH FLOWS

	As at 30 June 2019 RMB million	As at 31 December 2018 RMB million
Amounts pledged as security for bills payable	2.9	15.2
Cash and cash equivalents	1,880.9	1,842.9
Total cash and bank balance	1,883.8	1,858.1
Less: Bank loans	(237.4)	–
Net cash	1,646.4	1,858.1

As at 30 June 2019, the Group's total cash and bank balance was mainly denominated in Renminbi (98.5%).

The bank loans as at 30 June 2019 were denominated in Hong Kong Dollars, unsecured, repayable within 1 year or on demand and carried interest at floating rates.

The increase in cash and cash equivalents balance by RMB38.0 million during the period was mainly attributable to:

- Net cash generated from operating activities amounting to RMB171.3 million. The major reconciling item between the amount of net operating cash inflow and the net profit for the period of RMB388.5 million was the decrease in trade and bills payables by RMB201.4 million over the period. While credit terms with

suppliers during the period remained similar as in 2018, the large trade and bills payables balance at the end of 2018, due to the building up of consignment inventories of the smart casual collection in the last quarter, dropped over the period.

- Net cash outflows from investing activities amounting to RMB41.0 million, comprising mainly capital expenditure totalling RMB69.5 million, less interest income of RMB28.5 million.
- Net cash outflows from financing activities amounting to RMB92.2 million, mainly attributable to the payments of the final dividends totalling RMB328.2 million in respect of the year ended 31 December 2018, less the proceeds from bank loans totalling RMB237.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

TRADE WORKING CAPITAL TURNOVER DAYS

	Six months ended 30 June 2019	Year ended 31 December 2018	Six months ended 30 June 2018
Average inventory turnover days	129	98	78
Average trade receivables turnover days	87	72	85
Average trade payables turnover days	102	92	81

Inventory turnover days

The Group's average inventory turnover days was 129 days.

Inventory balance dropped by RMB66.5 million during the period to RMB609.9 million. When compared to the interim period last year, inventory balance increased by RMB284.4 million. The increase was largely due to the increase in consignment inventories of the smart casual collection as it was converted to consignment model during 2018. In addition, 2019 autumn and winter trade fair orders increased year-on-year and also more finished products had been received from subcontractors by the end of June 2019 as the 2019 autumn and winter trade fairs and so as the related production scheduling were about 10 days earlier than that in 2018.

As at 30 June 2019, all consignment inventories aged within one year by season.

Trade receivables turnover days

The Group's average trade and bills receivables turnover days was 87 days.

When compared to the interim period last year, the trade receivables balance increased by 11.7% to RMB874.6 million as revenue for the period increased by 19.1% year-on-year. When compared to the balance at the end of 2018, trade receivables balance increased by RMB52.1 million. As in previous years, extended credit terms have been granted by the Group to distributors during the peak delivery period for the fall and winter products from June to September.

Trade payables turnover days

The Group's average trade and bills payables turnover days was 102 days. The turnover days based on the period end balance was 81 days which was the same as the interim period last year.

Trade and bills payables balance dropped by RMB201.4 million during the period to RMB405.8 million. While credit terms with suppliers during the period remained similar as in 2018, the large trade and bills payables balance at the end of 2018, due to the building up of consignment inventories of the smart casual collection in the last quarter, dropped over the period.

When compared to the interim period last year, the trade and bills payables balance increased by 21.1% to RMB405.8 million as business expanded.

PLEDGE OF ASSETS

As at 30 June 2019, deposits with banks totalling RMB2.9 million (31 December 2018: RMB15.2 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2019, the Group had total capital commitments of RMB451.6 million, primarily related to the construction of the new headquarters and the logistics center, both of which are expected to be completed in 2020.

These capital commitments are expected to be financed by internal resources of the Group.

As at 30 June 2019, the Group had no material contingent liabilities.

FINANCIAL MANAGEMENT POLICIES

The Group continues to control financial risks in a prudent manner. The functional currency of the Company is the Hong Kong Dollars and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly recognized in equity as a separate reserve. As the Group conducts business transactions principally in Renminbi, the exchange rate risk at the Group's operational level is not significant.

HUMAN RESOURCES

As at 30 June 2019, the Group had 2,667 staff. Total staff costs for the period amounted to approximately RMB109.1 million (the first half of 2018: RMB89.1 million).

The Group places great emphasis on recruiting and training quality personnel. We recruit talents from universities and technical schools and provide pre-employment and on-going training and development opportunities to our staff members. Our training programs cover areas such as sales and production, customer service, quality control, trade fairs planning, work place ethics and other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees based on factors such as market rates, workload, responsibility, job complexity as well as the Group's performance. The Group has also adopted a share option scheme to recognize, reward and promote the contribution of the employees to the growth and development of the Group.

REVIEW REPORT OF THE AUDITOR



REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA LILANG LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 16 to 35 which comprises the consolidated statement of financial position of China Lilang Limited (the "Company") as of 30 June 2019 and the related consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	2019 RMB'000	2018 RMB'000
Revenue	3	1,539,993	1,293,097
Cost of sales		(901,791)	(751,181)
Gross profit		638,202	541,916
Other net income		52,956	42,118
Selling and distribution expenses		(172,601)	(152,884)
Administrative expenses		(50,072)	(46,672)
Other operating expenses		(3,714)	(3,095)
Profit from operations		464,771	381,383
Net finance income	4	28,457	39,467
Profit before taxation	5	493,228	420,850
Income tax	6	(104,701)	(80,184)
Profit for the period		388,527	340,666
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company and subsidiaries outside the mainland of the People's Republic of China (the "PRC")		2,044	(842)
Total comprehensive income for the period		390,571	339,824
Earnings per share	7		
Basic (cents)		32.5	28.5
Diluted (cents)		32.5	28.5

The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 21 to 35 form part of this interim financial report. Details of dividends payable to shareholders of the Company are set out in note 17.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 — unaudited
(Expressed in Renminbi)

	Note	30 June 2019 RMB'000	31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	8	711,196	699,124
Investment properties	9	121,432	98,811
Lease prepayments	10	—	102,766
Right-of-use assets	2, 10	102,851	—
Intangible assets		7,740	6,752
Deposits for purchases of property, plant, equipment and land use rights		27,454	11,860
Deferred tax assets		10,969	6,016
		981,642	925,329
Current assets			
Inventories	11	609,870	676,411
Trade and other receivables	12	1,025,667	952,620
Pledged bank deposits	13	2,901	15,201
Cash and cash equivalents		1,880,867	1,842,850
		3,519,305	3,487,082
Current liabilities			
Bank loans	14	237,411	—
Trade and other payables	15	624,932	817,417
Lease liabilities	2, 16	1,318	—
Contract liabilities		12,660	40,728
Current tax payable		131,370	134,485
		1,007,691	992,630
Net current assets		2,511,614	2,494,452
Total assets less current liabilities		3,493,256	3,419,781
Non-current liabilities			
Deferred tax liabilities		30,935	19,922
Lease liabilities	2, 16	87	—
		31,022	19,922
Net assets		3,462,234	3,399,859

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2019 — unaudited
(Expressed in Renminbi)

	Note	30 June 2019 RMB'000	31 December 2018 RMB'000
Capital and reserves			
Share capital		105,517	105,517
Reserves		3,356,717	3,294,342
Total equity		3,462,234	3,399,859

The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 21 to 35 form part of this interim financial report.

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

Hong Kong, 13 August 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 — unaudited
(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
As at 1 January 2018	105,492	27,096	251,996	24,430	(41,574)	2,774,291	3,141,731
Changes in equity for the six months ended 30 June 2018:							
Profit for the period	–	–	–	–	–	340,666	340,666
Other comprehensive income for the period	–	–	–	–	(842)	–	(842)
Total comprehensive income for the period	–	–	–	–	(842)	340,666	339,824
Cancellation of shares bought back	(21)	–	–	21	–	–	–
Shares issued under share option scheme	36	3,409	–	(1,036)	–	–	2,409
Dividends approved in respect of the previous year	–	–	–	–	–	(252,712)	(252,712)
As at 30 June 2018	105,507	30,505	251,996	23,415	(42,416)	2,862,245	3,231,252
As at 1 January 2019	105,517	31,411	257,038	23,176	(43,161)	3,025,878	3,399,859
Changes in equity for the six months ended 30 June 2019:							
Profit for the period	–	–	–	–	–	388,527	388,527
Other comprehensive income for the period	–	–	–	–	2,044	–	2,044
Total comprehensive income for the period	–	–	–	–	2,044	388,527	390,571
Dividends approved in respect of the previous year	–	–	–	–	–	(328,196)	(328,196)
As at 30 June 2019	105,517	31,411	257,038	23,176	(41,117)	3,086,209	3,462,234

The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 21 to 35 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Operating activities		
Cash generated from operations	273,037	269,640
Tax paid	(101,757)	(73,324)
Net cash generated from operating activities	171,280	196,316
Investing activities		
Payments for the purchases of property, plant and equipment, and intangible assets	(50,877)	(120,865)
Payment for purchase of land use rights	(18,653)	–
Interest income received	28,510	38,035
Increase in fixed deposits held at banks with maturity over three months	–	(200,000)
Other cash inflows arising from investing activities	12	829
Net cash used in investing activities	(41,008)	(282,001)
Financing activities		
Proceeds from bank loans	237,411	250,000
Repayment of bank loans	–	(250,000)
Dividends paid	(328,196)	(252,712)
Interest expense paid	(765)	(3,223)
Capital element of lease rentals paid	(646)	–
Interest element of lease rentals paid	(30)	–
Net proceeds from shares issued under share option scheme	–	2,409
Net cash used in financing activities	(92,226)	(253,526)
Net increase/(decrease) in cash and cash equivalents	38,046	(339,211)
Cash and cash equivalents at 1 January	1,842,850	1,823,281
Effect of foreign exchange rate changes	(29)	798
Cash and cash equivalents at 30 June	1,880,867	1,484,868

The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 21 to 35 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 13 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes which do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements.

The interim financial report is unaudited, but has been reviewed by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 15.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 13 March 2019.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases — incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. Under the transition methods chosen, there is no significant cumulative effect of the initial application of IFRS 16 recognised by the Group as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and the effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 16, *Leases* (continued)

(b) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(c) Lessor accounting

The Group leases out two retail outlets and one office unit as the lessor of operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 16, *Leases* (continued)

(d) Transitional impact

At the date of transition to IFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- (i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as disclosed in note 19(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	2,339
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(242)
Less: total future interest expenses	(67)
Lease liabilities recognised at 1 January 2019	2,030

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 16, *Leases* (continued)

(d) Transitional impact (continued)

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Reclassification from lease prepayments (Note) RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Lease prepayments	102,766	(102,766)	–	–
Right-of-use assets	–	102,766	2,030	104,796
Total non-current assets	925,329	–	2,030	927,359
Lease liabilities (current)	–	–	1,526	1,526
Current liabilities	992,630	–	1,526	994,156
Net current assets	2,494,452	–	(1,526)	2,492,926
Total assets less current liabilities	3,419,781	–	504	3,420,285
Lease liabilities (non-current)	–	–	504	504
Total non-current liabilities	19,922	–	504	20,426
Net assets	3,399,859	–	–	3,399,859

Note: Lease prepayments represent prepayments of land use rights on leasehold land located in the PRC. The Group is granted land use rights for a period of 50 years. The net carrying amount of lease prepayments was reclassified as right-of-use assets at the date of initial application of IFRS 16. Also, there were no ongoing payment obligations under the terms of the land lease, so no lease liabilities were recognised at the date of initial application of IFRS 16.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 16, *Leases* (continued)

(e) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The total cash outflows for leases under operating and financing activities during the six months ended 30 June 2019 were RMB1,656,000 and RMB676,000, respectively.

The impact of adoption of IFRS 16 on the Group's financial results and cash flows was not significant for the six months ended 30 June 2019.

3. REVENUE

The principal activities of the Group are manufacturing and sale of branded menswear and related accessories in the PRC. Revenue represents the sales value of goods sold less returns, discounts and value added taxes ("VAT").

4. NET FINANCE INCOME

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Interest income	28,510	42,584
Interest on bank borrowings	(875)	(3,223)
Interest on lease liabilities (Note)	(39)	–
Net foreign exchange gain	861	106
	28,457	39,467

Note: The Group has initially applied IFRS 16 at 1 January 2019, using modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Amortisation of lease prepayments	—	1,191
Amortisation of intangible assets	1,464	1,275
Depreciation		
— owned property, plant and equipment	16,732	13,254
— right-of-use assets (Note (i))	1,956	—
Short term lease rental expenses	1,561	—
Research and development costs	58,135	37,192
Subcontracting charges (Note (ii))	185,626	111,253

Notes:

- (i) The Group has initially applied IFRS 16 at 1 January 2019, using modified retrospective approach. Under this approach, comparative information is not restated. See note 2.
- (ii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

6. INCOME TAX

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Current tax — PRC Corporate Income Tax	98,641	80,685
Deferred tax	6,060	(501)
	104,701	80,184

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2019 and 2018.
- (iii) Taxation for the Group's PRC subsidiaries is calculated using the income tax rates applicable to the subsidiaries. In accordance with the relevant PRC Corporate Income Tax Law, regulations and implementation guidance notes, one of the subsidiaries had been granted Advanced and New Technology Enterprise status and was entitled to a reduced income tax rate at 15% for the three years ended 31 December 2018. In addition, two of the Group's subsidiaries incorporated in the Tibet Autonomous Region of the PRC are entitled to a reduced income tax rate of 15% in 2019.
- (iv) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of RMB388,527,000 (2018: RMB340,666,000) and the weighted average number of ordinary shares in issue of 1,197,485,000 (2018: 1,197,043,000).

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2019 and 2018, and therefore, diluted earnings per share is the same as the basic earnings per share.

8. PROPERTY, PLANT AND EQUIPMENT

	2019 RMB'000	2018 RMB'000
Net book value, as at 1 January	699,124	429,945
Additions	51,437	84,370
Transfer to investment properties (note 9)	(24,176)	–
Disposals (net carrying amount)	(12)	(829)
Depreciation charge for the period	(15,177)	(11,885)
Net book value, as at 30 June	711,196	501,601

9. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Net book value, as at 1 January	98,811	101,549
Transfer from property, plant and equipment (note 8)	24,176	–
Depreciation charge for the period	(1,555)	(1,369)
Net book value, as at 30 June	121,432	100,180

The investment properties are located in the PRC under medium-term leases.

Investment properties are stated at cost less accumulated depreciation and impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the shorter of the respective unexpired terms of the leases and their estimated useful lives, being no more than 40 years after the date of completion.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

10. LEASE PREPAYMENTS AND RIGHT-OF-USE ASSETS

	2019 RMB'000
As at 1 January:	
— Reclassification from lease prepayments (net carrying amount) (Note)	102,766
— Capitalisation of operating lease contracts	2,030
Additions	11
Depreciation charge for the period	(1,956)
Net book value, as at 30 June	102,851

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 2.

The Group's right-of-use assets contain the land use rights and properties leased for own use. The interest of land use rights in the PRC are prepaid upon acquisition. The leases related to properties are typically run for an initial period of one to five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and restrictions.

11. INVENTORIES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Raw materials	143,339	181,989
Work in progress	58,544	118,097
Finished goods	407,987	376,325
	609,870	676,411

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

12. TRADE AND OTHER RECEIVABLES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Trade receivables	883,764	830,064
Less: Loss allowance	(9,154)	(9,154)
	874,610	820,910
Bills receivable	–	1,630
Trade and bills receivables, net of loss allowance	874,610	822,540
Prepayments to suppliers	86,960	5,875
Prepaid advertising expenses	1,977	2,844
VAT deductible	48,658	109,413
Other deposits, prepayments and receivables	13,462	11,948
	1,025,667	952,620

Trade and other receivables net of loss allowance are expected to be recovered or recognised as expense within one year.

An ageing analysis of the trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 3 months	564,545	754,191
Over 3 months but within 6 months	278,664	68,349
Over 6 months but within 1 year	31,401	–
	874,610	822,540

The Group grants a credit period of 90 to 240 days to its customers.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

13. PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 15). The pledged bank deposits will be released upon the settlement of the relevant bills payable.

14. BANK LOANS

As at 30 June 2019, bank loans were unsecured and were repayable within one year or on demand.

15. TRADE AND OTHER PAYABLES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Trade payables	396,490	556,473
Bills payable	9,270	50,670
	405,760	607,143
Accrued salaries and wages	24,080	33,215
Payables for purchase of property, plant and equipment	73,126	73,173
Retirement benefit contribution payable	25,524	25,524
VAT payables	16,651	1,198
Other payables and accruals	79,791	77,164
	624,932	817,417

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. Bills payable were secured by pledged bank deposits (see note 13).

An ageing analysis of the Group's trade and bills payables based on the invoice date is as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 3 months	372,452	556,082
Over 3 months but within 6 months	13,087	33,549
Over 6 months but within 1 year	7,476	2,726
Over 1 year	12,655	14,786
	405,760	607,143

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

16. LEASE LIABILITIES

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019 (Note)	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	1,318	1,345	1,526	1,562
After 1 year but within 2 years	87	88	504	535
	1,405	1,433	2,030	2,097
Less: total future interest expenses		(28)		(67)
Present value of lease liabilities		1,405		2,030

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 2.

17. DIVIDENDS

Dividends payable to shareholders of the Company attributable to the period:

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Declared and payable after interim period:		
Interim dividend of HK18 cents per ordinary share (2018: HK16 cents per ordinary share)	189,531	168,246
Special interim dividend of HK8 cents per ordinary share (2018: HK7 cents per ordinary share)	84,236	73,607
	273,767	241,853

The interim dividend and special interim dividend have not been recognised as liabilities as at 30 June 2019.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

17. DIVIDENDS (CONTINUED)

Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year of HK21 cents per ordinary share (2018: HK18 cents per ordinary share)	222,326	174,954
Special final dividend in respect of the previous financial year of HK10 cents per ordinary share (2018: HK8 cents per ordinary share)	105,870	77,758
	328,196	252,712

18. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The share option scheme adopted by the Company on 4 September 2009 will expire on 3 September 2019. There was no share option outstanding thereunder during the period ended 30 June 2019.

The Company has adopted a new share option scheme (the "2019 Share Option Scheme") pursuant to an ordinary resolution passed by the Shareholders on 23 April 2019. As at 30 June 2019, no share option had been granted under the 2019 Share Option Scheme.

19. COMMITMENTS

(a) As at 30 June 2019, capital commitments not provided for in the interim financial report are as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Contracted for	42,820	55,247
Authorised but not contracted for	408,782	346,079
	451,602	401,326

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

19. COMMITMENTS (CONTINUED)

- (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties RMB'000
Within one year	1,836
After one year but within two years	503
	2,339

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases except short-term leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2.

20. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group for the period, including amounts paid to the Directors, was as follows:

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Short-term employee benefits	4,782	3,652
Contributions to defined contribution retirement benefit scheme	56	54
	4,838	3,706

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

20. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transaction

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Recurring transaction		
Lease of land and properties from Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")	1,620	1,620

Jinlang Fujian is effectively 33.3%, 33.3% and 33.4% owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing respectively, who are Directors and Controlling Shareholders of the Group, and therefore is considered a related party of the Group.

The Directors are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 30 June 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of shareholder	Name of Group company/ associated corporation	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company Xiao Sheng International Limited ("Xiao Sheng International") (Note 2)	Beneficial owner	22,950,000 shares (L)	1.917%
		Beneficial owner	2,550 shares of US\$1.00 each (L)	26.289%
Mr. Wang Liang Xing	The Company Xiao Sheng International (Note 2)	Beneficial owner	26,031,000 shares (L)	2.174%
		Beneficial owner	2,550 shares of US\$1.00 each (L)	26.289%
Mr. Wang Cong Xing	The Company Xiao Sheng International (Note 2)	Beneficial owner	22,950,000 shares (L)	1.917%
		Beneficial owner	2,550 shares of US\$1.00 each (L)	26.289%
Mr. Cai Rong Hua	The Company The Company	Beneficial owner	1,810,000 shares (L)	0.151%
		Settlor of a discretionary trust (Note 3)	7,200,000 shares (L)	0.601%
	Xiao Sheng International (Note 2)	Settlor of a discretionary trust (Note 3)	800 shares of US\$1.00 each (L)	8.247%
Mr. Hu Cheng Chu	The Company Xiao Sheng International (Note 2)	Beneficial owner	4,500,000 shares (L)	0.376%
		Beneficial owner	500 shares of US\$1.00 each (L)	5.155%
Mr. Pan Rong Bin	The Company Xiao Sheng International (Note 2)	Beneficial owner	3,051,000 shares (L)	0.255%
		Beneficial owner	300 shares of US\$1.00 each (L)	3.093%

OTHER INFORMATION (CONTINUED)

Notes:

1. The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.
2. As at 30 June 2019, Xiao Sheng International was owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 3), 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
3. The interests of Mr. Cai Rong Hua in 7,200,000 shares of the Company and 800 shares of Xiao Sheng International is held through Jia Fa International Limited ("JFIL"). The entire issued share capital of JFIL is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai as the settlor. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and short positions of substantial shareholders

As at 30 June 2019, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.24%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	74,905,000 shares (L) (Note 3)	6.26%
Value Partners Group Limited	Interest in controlled corporation	71,108,000 shares (L) (Note 4)	5.94%
Value Partners High-Dividend Stocks Fund	Beneficial owner	60,133,000 shares (L) (Note 4)	5.02 %

OTHER INFORMATION (CONTINUED)

Notes:

- (1) The letter “L” denotes the person’s long position in the shares of the Company.
- (2) These shares were held by Xiao Sheng International. As at 30 June 2019, Xiao Sheng International was owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 5), 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- (3) These shares were held by Ming Lang Investments. As at 30 June 2019, Ming Lang Investments was owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 5), 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- (4) Value Partners High-Dividend Stocks Fund is controlled by Value Partners Group Limited. Interest of Value Partners High-Dividend Stocks Fund was included in the interest of Value Partners Group Limited.
- (5) The entire issued share capital of Jia Fa International Limited is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai Rong Hua as the settlor. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 4 September 2009 (the “2009 Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the Group. The 2009 Share Option Scheme will expire on 3 September 2019 and there was no share option outstanding thereunder during the period ended 30 June 2019.

The Company has adopted a new share option scheme (the “2019 Share Option Scheme”) pursuant to an ordinary resolution passed by the Shareholders on 23 April 2019. Details of the 2019 Share Option Scheme are set out in the circular of the Company dated 19 March 2019.

As at 30 June 2019, no share option had been granted under the 2019 Share Option Scheme.

CORPORATE GOVERNANCE

The Company had complied with all code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2019.

The Company has adopted the Model Code as the Company’s code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, who confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2019.

OTHER INFORMATION (CONTINUED)

REVIEW OF INTERIM RESULTS

The Audit Committee comprises three independent non-executive Directors. The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The interim results of the Group for the six months ended 30 June 2019 have not been audited but they have been reviewed by KPMG, the auditor of the Company, and the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements to the proposed interim dividend and special interim dividend, the register of members will be closed from Thursday, 29 August 2019 to Friday, 30 August 2019 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend and special interim dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 28 August 2019 for registration.

APPRECIATION

I would like to thank our fellow Directors for their contribution and support throughout the period, and our management and staff for their dedication and hard work.

I would like to express our sincere appreciation to our shareholders, customers and suppliers as well as our business associates for their continuing support.

By Order of the Board
WANG DONG XING
Chairman

Hong Kong, 13 August 2019

OTHER INFORMATION (CONTINUED)

BOARD

Executive Directors

Mr. Wang Dong Xing (*Chairman*)

Mr. Wang Liang Xing (*Chief Executive Officer*)

Mr. Wang Cong Xing

Mr. Cai Rong Hua

Mr. Hu Cheng Chu

Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te

Mr. Nie Xing

Mr. Lai Shixian

SHARE INFORMATION

Listing date: 25 September 2009

Board lot size: 1,000 shares

Number of shares in issue: 1,197,484,919 shares (as at 30 June 2019)

IR CONTACT

If you have any inquiries, please contact:

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Telephone: (852) 2526-6968

Fax: (852) 2526-6655

Email: ir@lilanz.com.hk

Website: www.lilanz.com

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2019 Interim Report of the Company will be dispatched to shareholders and published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company's website at www.lilanz.com in due course. This announcement can also be accessed on the above websites.

GENERAL

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. Wang Dong Xing (*Chairman*)
Mr. Wang Liang Xing (*Chief Executive Officer*)
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors:

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

By order of the Board
China Lilang Limited
Ko Yuk Lan
Company Secretary

Hong Kong, 13 August 2019