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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 2022

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 2022. This announcement, containing the full text of the 2022 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		
	2022 (RMB million)	2021 (RMB million)	Changes (%)
Revenue	1,397.8	1,354.3	+3.2
Gross profit	681.3	670.8	+1.6
Profit from operations	293.9	307.8	-4.5
Profit for the period	257.0	271.5	-5.3
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	21.5	22.7	-5.3
— Diluted	21.5	22.6	-4.9
Interim dividend per share	HK13 cents	HK13 cents	—
Special interim dividend per share	HK5 cents	HK5 cents	—
	(%)	(%)	(% points)
Gross profit margin	48.7	49.5	-0.8
Operating profit margin	21.0	22.7	-1.7
Net profit margin	18.4	20.0	-1.6
Return on average shareholders' equity ⁽¹⁾	6.9	7.4	-0.5
Effective tax rate	17.8	17.0	+0.8
Advertising and promotional expenses and renovation subsidies (as percentage of revenue)	6.9	6.4	+0.5
	Six months ended 30 June 2022	Year ended 31 December 2021	Six months ended 30 June 2021
Average inventory turnover days ⁽²⁾	217	145	208
Average trade receivables turnover days ⁽³⁾	54	57	69
Average trade payables turnover days ⁽⁴⁾	91	79	93

Notes:

- (1) Return on average shareholders' equity is equal to profit for the period divided by the average of the beginning and closing balances of total shareholders' equity.
- (2) Average inventory turnover days is equal to the average of the beginning and closing inventory balances 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 receivables balances 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



economy as a whole showing a steady recovery. According to the National Bureau of Statistics of China, the GDP for the first half of 2022 increased by 2.5% year-on-year.⁴ The darkest period in apparel retail demand passed in June and a recovery trend was seen.

INDUSTRY REVIEW

In the first half of 2022, the international environment was complex and severe, with frequent domestic outbreaks of the novel coronavirus pandemic ("COVID-19" or the "Pandemic"). This put pressure on consumer market operations and caused market sales to fall from March to May¹. The overall offline retail of the apparel industry was inevitably hit hard, and coupled with last year's high base, resulted in a significant

decline in retail sales. According to the National Bureau of Statistics of China, in the first half of 2022, the total retail sales of consumer goods decreased by 0.7% year-on-year, with the total retail sales of apparel, footwear, headwear and knitwear falling by 6.5% year-on-year.^{2,3} However, as the Pandemic prevention and control situation improved and the policies to promote consumption took effect, consumer demand was gradually released and the consumer market gradually recovered, with the domestic



¹ http://www.stats.gov.cn/tjsj/sjjd/202207/t20220715_1886496.html

² http://www.stats.gov.cn/tjsj/sjjd/202207/t20220715_1886496.html

³ http://www.stats.gov.cn/tjsj/sjjd/202207/t20220715_1886496.html

⁴ http://www.stats.gov.cn/tjsj/zxfb/202207/t20220715_1886607.html

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the period under review, China Lilang Limited (the “Company” or “China Lilang”, together with its subsidiaries, the “Group”) actively responded to the challenges posed by the Pandemic, and steadily implemented a series of reform initiatives. Affected by the Pandemic and supply chain disruptions, the overall inventory level in the apparel industry was relatively high. The Group stepped up its efforts to clear the inventories, and the book balance was reduced by the end of June. The Group continuously optimised its retail channels to enhance store efficiency. During the period, there were 2,627 stores, representing a net decrease of 106 stores. Currently, there are 920 consignment core collection stores, representing 39% of the total number of core collection stores. In the first half of the year, the total retail sales of the Group’s products maintained positive growth, achieving low single-digit growth year-on-year.

During the period, the Group also continued to promote its new retail business. After the conversion of the e-commerce to a direct-to-retail model, sales promotion and e-commerce live streaming were organised in a more flexible manner, and e-commerce became a more effective channel for inventory clearance. The complementary advantages of online and offline services were leveraged through the WeChat Mall business. Starting from the first half of the year, the Group also increased the proportion of seasonal product sales and launched hot products during the 618 shopping festival, showcasing its rapid replenishment capability.

For the first half year ended 30 June 2022, revenue increased by 3.2% year-on-year to RMB1,397.8 million. While adhering to the strategy of providing products that represent excellent value for money, the Group increased the markup rate of certain products based on product design and market competitiveness during the period and the gross profit of the smart casual business has improved during the period. However, due to the impact of the delayed recognition of sales resulting from the shift from the core collection distribution model to the consignment model, which drives up the proportion in total retail sales with a gross profit margin lower than that of smart casual collection, and the rise in raw material prices during the period, hence overall gross profit margin decreased by 0.8 percentage points year-on-year to 48.7%. Net profit decreased by 5.3% to RMB257.0 million. Net profit margin declined by 1.6 percentage points to 18.4%. Earnings per share were RMB21.5 cents, a decline of 5.3%.

During the period, the Group maintained a healthy financial position with sufficient cash flow. The Board of Directors resolved to pay an interim dividend of HK13 cents per share and a special interim dividend of HK5 cents per share, maintaining a stable payout ratio.



FINANCIAL REVIEW

Revenue

The Group’s revenue for the period increased by 3.2% to RMB1,397.8 million. As 39% of the core collection stores were converted to the consignment model, the recognition of certain sales taking place under the previous distributor model at the end of last year delayed to this year under the consignment model, coupled with the Group’s vigorous efforts in off-season inventory clearance at the beginning of the year, resulting in a significant growth in the sales for the first quarter compared with the same period last year. On the other hand, certain stores were temporarily suspended due to the Pandemic from March to May and the shipment of fall items was delayed. Meanwhile, the consumer market was hit by the spread of the Pandemic and the ensuing lockdowns and suspension of certain business operations. As a result, the contribution of sales from conversion to consignment model in the first quarter was largely offset.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

By product category, tops remained the major revenue contributor, accounting for 58.6% (first half of 2021: 55.2%) of total revenue for the period, with a 10.2% increase in sales. Pants accounted for 23.8% (first half of 2021: 24.5%) of total revenue, with a 0.8% increase in sales. Sales of accessories dropped by 6.6%, of which the sales of footwear products of the core collection increased by 10.6%.

Revenue by Region

The total retail sales of the Group's products recorded low single-digit growth year-on-year in the first half of the year. Nevertheless, the sales revenue of different regions for the period varied due to the impact of the Pandemic, the proportion of the core collection stores under the consignment model, the smart casual collection under the direct-to-retail model and the e-commerce under self-operated model in different regions.

Sales in Eastern China grew by 8.5%, primarily because proportion of core collection stores under the consignment model was relatively higher so that benefitted from the delayed sales recognition factor from the conversion of the distributor model to the consignment model, and sales from e-commerce, which recorded a notable growth in the period, were included in the Eastern China region.

Sales in Central and Southern China and North-Western China, where the proportion of core collection stores under the consignment model was relatively higher, increased by 5.6% and 16.4%, respectively, reflecting the favourable effect of the delayed sales recognition from the conversion of the distributor model to the consignment model.

Sales in Northern China, North-Eastern China and South-Western China decreased by 11.6%, 8.6% and 10.1%, respectively, as the proportion of stores under the distributor model was relatively higher, which resulted in a less favourable effect from the delayed sales recognition from the conversion of the distributor model to the consignment model.

Eastern China and Central and Southern China remained the top geographical revenue contributors, together accounting for 65.4% (first half of 2021: 62.9%) of the total revenue. The retail stores in these two regions accounted for 54.8% (first half of 2021: 55.7%) of the total store count.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue by region for the period is set out below:

Region	Six months ended 30 June		2021		Changes (%)
	2022	% of	RMB million	% of	
	RMB million	revenue		revenue	
Northern China ¹	97.8	7.0%	110.6	8.2%	-11.6%
North-Eastern China ²	34.9	2.5%	38.2	2.8%	-8.6%
Eastern China ³	568.0	40.6%	523.5	38.6%	8.5%
Central and Southern China ⁴	347.1	24.8%	328.7	24.3%	5.6%
South-Western China ⁵	208.0	14.9%	231.3	17.1%	-10.1%
North-Western China ⁶	142.0	10.2%	122.0	9.0%	16.4%
Total	1,397.8	100.0%	1,354.3	100.0%	3.2%

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 4.8% year-on-year to RMB716.4 million. The gross profit margin was 48.7%, a decrease of 0.8 percentage points year-on-year. The decrease was primarily due to the deferral of sales to the period as a result of the conversion of the core collection from the distributor model to the consignment model, which allowed for a higher percentage of total sales of the core collection with a lower gross profit margin. The rise in raw material prices during the period also pulled down the overall gross profit margin.

Other Net Income

Other net income amounted to RMB13.7 million (first half of 2021: RMB17.3 million), and included China's local government grants of RMB3.4 million (first half of 2021: RMB10.3 million). The decrease in government grants for the period was mainly due to the absence of government grants to one of the major operating subsidiaries this year. The government grants were unconditional and awarded at the discretion of the relevant authorities.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased slightly by RMB1.2 million to RMB316.2 million during the period. The decrease in expenses was primarily attributable to less operating expenses incurred by smart casual collection and online direct-to-retail stores. Selling and distribution expenses accounted for 22.6% of the total revenue, down by 0.8 percentage points compared with the same period last year. Operating expenses incurred by smart casual collection and online direct-to-retail stores decreased by RMB13.4 million to RMB146.6 million, accounting for 10.5% (first half of 2021: 11.8%) of the total revenue, mainly attributable to the impact of suspension or closure of certain stores as a result of the Pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Advertising expenses and renovation subsidies increased by RMB9.6 million to RMB96.4 million during the period, accounting for 6.9% (first half of 2021: 6.4%) of the total revenue. The increase was mainly due to the increased marketing efforts at the retail level.

Administrative Expenses

Administrative expenses amounted to RMB84.9 million, and the expenses to sales ratio increased to 6.1% (first half of 2021: 4.6%). This was an increase of RMB23.2 million compared with the expenses for the same period last year. The increase in expenses for the period was mainly due to the increase in expenses such as depreciation incurred following the full commencement of operation of the headquarters and the increase in renovation and decoration costs and other expenses. Besides, there are impairment charges in accounts receivables and right-of-use assets amounted to RMB6.8 million and RMB4.4 million, respectively.

Other Operating Expenses

Other operating expenses mainly comprised charitable donations of RMB60,000 (first half of 2021: RMB1.2 million).

Profit from Operations

Profit from operations decreased by 4.5% to RMB293.9 million. The decrease was mainly attributable to the increase in administrative expenses and decrease in gross profit margin. Operating profit margin declined by 1.7 percentage points to 21.0%.

Net Finance Income

Net finance income was RMB18.7 million, which was RMB0.7 million lower than the same period last year. The decrease was mainly attributable to the foreign exchange loss of RMB0.12 million arising from the depreciation of RMB during the period as compared with the foreign exchange gain of RMB4.3 million arising from the appreciation of RMB last year. On the other hand, through the operation of making bank loans for placing time deposits with higher return in order to increase net interest income, net interest income increased by RMB3.6 million.

Income Tax

The effective income tax rate for the period was 17.8%, up by 0.8 percentage points compared with the same period last year. One of the Group's subsidiaries in China obtained the "Advanced and New Technology Enterprise" status and was eligible for a preferential tax rate of 15% between 2019 and 2022, while another two subsidiaries established in Tibet were eligible for a local preferential tax rate of 15% until 2030.

Net Profit

Net profit for the period was RMB257.0 million, down by 5.3%. Net profit margin declined by 1.6 percentage points to 18.4%.

Earnings per Share

Earnings per share were RMB21.5 cents, down by 5.3%.

Interim Dividend

The Board recommended the payment of an interim dividend of HK13 cents (first half of 2021: HK13 cents) per ordinary share and a special interim dividend of HK5 cents (first half of 2021: HK5 cents) per ordinary share in respect of this financial year, making a total dividend payment of approximately HK\$215.5 million (equivalent to approximately RMB184.3 million). The interim dividend and special interim dividend will be paid in cash on or around 22 September 2022 to shareholders whose names appear on the Company's register of members on 7 September 2022.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



The total retail sales recorded mid-to-high single-digit growth year-on-year for the first quarter of the year, with a low single-digit drop in the second quarter. Overall, the first half year recorded low single digit growth year-on-year.

As at the end of June 2022, LILANZ had a total of 2,627 retail stores nationwide, representing a net decrease of 106 stores during the period, and the aggregate retail floor area decreased by 2.6% compared with the end of last year to approximately 393,597 square metres (31 December 2021: 404,020 square metres). Among which, 73 core collection stores and 33 smart casual collection stores were closed. The store closures were mainly focused on the Eastern China region, as the region was significantly affected by the Pandemic during the period. At the same time, the Group continued to consolidate and develop its nationwide sales network through long-term partnerships with distributors to reach more customers across China.

BUSINESS REVIEW

Sales Channel Management

Through the LILANZ retail stores operated by distributors, the Group continued to build a distinctive brand image and provide professional retail services. Last year, the Group converted stores from the core collection to the consignment model for operation. Thus far, nearly 40% of core collection stores are operating under the consignment model, and this delayed the timing of relevant sales recognition from the end of last year to this year. This, coupled with the vigorous efforts to clear off-season inventory, resulted in China Lilang's sales for the first quarter of the year recording a significant year-on-year increase. At the same time, the Group benefitted from a series of discount promotions launched during the period, with 20% or more off of in-season items and an average of 50% off of out-of-season items.

However, since many regions were affected by the resurgence of the Pandemic from March to May this year, China's retail sector was hit hard. The containment measures implemented in certain major cities (including Shanghai) resulted in the temporary shut down of some stores, and the launch of certain fall items was delayed to August. As a result, sales only increased slightly by 3.2% year-on-year.

During the period, the Group continued to pragmatically support distributors in optimising the retail network by closing certain underperforming stores while opening stores in carefully selected quality shopping malls and prime shop locations. The Group also promoted the increased use of the WeChat platform in physical stores to achieve higher store efficiency. To further enhance store efficiency, the Group revamped its store network, optimised the store locations by moving closer to first- and second-tier markets, and enhanced the space layout of stores during the period.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Changes to the number of LILANZ stores by region are as follows:

Region	Number of Stores			As at 30 June 2022
	As at 1 January 2022	Opened during the period	Closed during the period	
Northern China	272	7	18	261
North-Eastern China	158	3	3	158
Eastern China	784	23	80	727
Central and Southern China	736	31	57	710
South-Western China	508	18	23	503
North-Western China	275	13	20	268
	2,733	95	201	2,627

As at the end of June 2022, the number of stores in shopping malls reached 818 (31 December 2021: 852), accounting for 31.1% of the total store count and 33.3% of the total retail area; and the number of outlet stores reached 48 (31 December 2021: 49).

As at 30 June 2022, 257 of the 2,627 LILANZ stores were the Group's direct-to-retail stores, and the other stores were operated by distributors or sub-distributors respectively. The majority of the smart casual stores need to be re-authorised due to the adjustment of market factors. During the period, the number of distributors decreased from 69 at the end of last year to 65, while the number of sub-distributors fell from 733 to 720. The breakdown of store numbers is as follows:

	30 June 2022		31 December 2021	
	Number of distributors	Number of stores	Number of distributors	Number of stores
Direct-to-retail stores	—	257	—	290
Distributors	65	1,256	69	1,303
Sub-distributors	720	1,114	733	1,140
Total number of stores		2,627		2,733
Street stores		1,471		1,528
Stores in shopping malls and outlet stores		866		901
Shop-in-shops in department stores		290		304
Total number of stores		2,627		2,733

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

To further enhance the brand image and shopping experience of LILANZ, the Group started to roll out the seventh-generation store image of the core collection to existing stores last year. The Group used different decorative materials according to the different market positioning of the stores to achieve better cost efficiency, and the abovementioned plan was completed in the first half of this year. For stores of the smart casual collection, the new store image plan was launched in the second half of last year and completed in the first half of this year, which enabled LILANZ to showcase a more fashionable and fresh brand image to attract more customers.

With respect to inventory management, the inventory balance was reduced during the period as more effort was put into inventory clearance. For core collection, the delayed launch of 2022 fall items and the sell-through rate of spring and summer products fell by around 10% increased the inventory level. Distributor channel inventory of spring items was at a higher level,

and the rest were at a healthy level. For smart casual collection, inventory of direct-to-retail stores continued to improve and inventory levels reduced. As at the end of June 2022, a provision of RMB114.7 million was made in accordance with the Group's inventory provision policy.

New Retail Development

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

Following the shift of the online store operations to the direct-to-retail model, the Group can organise sales promotion and e-commerce live streaming in a more flexible manner, and e-commerce was used more effectively for inventory clearance. On the other hand, delivery logistics was hampered by the Pandemic and the

retail sales value of online stores for the period slightly increased by 1% year-on-year. While sales acceleration in the past two years mainly focused on inventory clearance, the Group is increasing the proportion of seasonal product sales during the period. While the Group gradually added more new products to its online sale channels and launched new products during the 618 shopping festival, it reorganised its in-house production plant in a prompt manner and added seven production lines. This demonstrated the Group's ability to replenish orders swiftly, marking the continuous development of the new model of selling new products online.

In addition to setting up LILANZ core collection and smart casual collection online stores on major online shopping platforms, the Group also actively promoted its business using the WeChat platform, providing customer relationship management services via the platform and setting up stores in WeChat Mall. This has comprehensively capitalised on the complementary advantages of online and offline services of WeChat Mall business, thus driving store efficiency growth.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



Product Design, Development and Supply Chain Management

The Group continued to enhance the personalisation and original design of its products to provide greater value for money and differentiate itself from its peers. The proportion of originally designed products was maintained at around 70% among products sold during the period, and the proportion of products utilising proprietary fabrics developed by the Group was around 50%. The proportion of originally designed products further increased to around 75% in the 2022 summer collection. To facilitate the launch of fast-moving products in its ecommerce channel, the Group was actively developing new supply relationships to source the related materials. This, together with the rapid replenishment capability of the Group's in-house production plant, is expected to enable the launch of more fast-moving products online.

The new logistics centre aims to commence full operation before September 2022, which will see its logistics arrangements ready for the peak e-commerce season. The new logistics centre will be powered by an intelligent system that can optimise the Group's nationwide logistics network and facilitate the effective delivery of goods to stores, thus further enhancing its inventory control and logistics efficiency.

In addition, as a result of product design and supply chain management improvements, the Group's products showed cost advantages over those of its peers, and the smart casual collection gradually upgraded the fashion and design elements of its products. While the Group continued to adhere to the strategy of providing products that represent excellent value for money, the Group increased the markup rate of products based on the product design and market competitiveness. As a result, the gross profit margin of the smart casual collection improved during the period.

The Group's international and local research and development teams have always kept abreast of popular international trends. With the objective of meeting the fashion needs of Mainland China's consumers, the teams design value-for-money menswear products that are simple yet fashionable. There are around 522 staff members in the Group's research and development department who are meticulous in all areas of product design, material development and sample creation, to enhance the overall competitiveness of the Group's products.

Brand Management and Promotion

China Lilang continues to adhere to the strategy of providing products that represent excellent value for money. It owns and operates the "LILANZ" brand, which sells menswear products through its core collection and smart casual collection. The core collection, which primarily targets consumers aged 25 to 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, which targets consumers aged 20 to 30 in first- and second-tier markets, comprises more classic designs than the core collection.

During the period, the Group continued to enhance the personalisation and original design of its products to provide greater value for money. On the brand promotion front, Lilang has formed a co-branding partnership with *Chinese National Geography* magazine and artist Cao Yu (Leo), and LESS IS MORE has formed a co-branding partnership with the science fiction "*The Three-Body Universe*" for its shop image. Han Han, the Group's brand ambassador, has a new film, "*Only Fools Rush In*", scheduled for the first day of the Lunar New Year, and Lilang has officially announced that

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



it is the official menswear partner for the film. In addition, the summer collection by LESS IS MORE brand ambassador Gao Hanyu was launched. Also, Lilang and Chinese National Geography magazine co-organised the “Chinese Landscape” original contest to present the art of nature in clothing so that more people can feel and appreciate the “Chinese landscape.” This series of brand promotion activities has effectively boosted the rejuvenation of the brand and enhanced the brand power.

Charity

In addition to its brand promotion activities, the Group also continued to contribute to society by striving to promote social corporate responsibility, so that those in need could receive appropriate assistance and the Group’s corporate image is enhanced. The Group also made environmental contributions. During the period, it participated in and responded to World Earth Day and Chinese White Dolphin Protection Day by adopting environmentally friendly fabrics and techniques. In addition, the Group is passionate about social welfare affairs, and the Board of Directors and all employees are committed to the



community. During the period, the Group donated RMB5 million in cash and materials to support Quanzhou’s anti-pandemic frontline, and co-sponsored a youth aesthetic education programme with True Love Dream, focusing on the “Artistic Life” course for five consecutive years from 2022 to 2027, to help more students discover themselves and beauty through aesthetic education.

PROSPECTS

Looking ahead to the second half of 2022, the macro environment is uncertain as the Pandemic in Mainland China is not yet fully under control, the real estate market is unstable and there are frequent international political issues. However, with the Pandemic gradually easing and the central government implementing economic stimulus measures to accelerate economic recovery and revive consumer confidence, the Group is cautiously optimistic about the retail market. The Group will continue to adopt flexible sales strategies, striving to maintain channel health and reduce inventory risk. Also, the Group will consolidate its store network, accelerate new retail development and enhance its brand image while striving to outperform its peers.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

With approximately 40% of the core collection stores operating under the consignment model and the smart casual collection stores and online shops operating under the self-operated model, the Group's control over its sale channels has been strengthened. In the second half of the year, the Group will take full advantage of the mutual exchange of inventory and the complementary advantages of WeChat Mall stores and physical stores to promote channel optimisation, improve the store network, and enhance store efficiency, brand promotion and product sell-through rates in order to better capture the recovery of consumer market. In consideration of uncertainties in the macro environment, the total retail sales growth target for the year 2022 has been revised from more than 10% to single-digit growth.

In the second half of the year, China Lilang will adopt a prudent store opening strategy with a view to maintaining steady growth and profitability. It will optimise its store network in Hefei, Nanchang, Jiangsu and other regions to increase the number of stores in quality shopping malls and expand the virtual inventories of its stores to enhance store efficiency. Due to the uncertainty of the Pandemic, the Group has adopted a more prudent approach to store openings and revised its original annual target of a net increase of 50 to 150 stores for the full year of 2022 to maintain the same number of stores as the previous year, which means

an increase of approximately 100 stores in the second half of the year.

As for new retail, the Group will continue to promote e-commerce. Other than being a channel for inventory clearance, online stores are becoming an important tool for Group to launch more new products. The Group launched new products through online stores during this year's 618 shopping festival, and will launch a special online edition of the environmentally friendly collection in the second half of the year. Prior to the 11 November shopping festival, the Group will launch unique, quality items online, creating an outstanding consumer experience with precise online promotions to respond to individual needs in the market, develop consumer loyalty and raise gross profit margins, providing a new growth point for the full year's performance.

As for retail management, the Group will enhance the Lilang Member Programme by organising more member activities and providing exclusive promotions and discounts. As for employees, the Group will strengthen training in terms of product planning, innovative research and development, technology enhancement and product promotion, thus improving the professional marketing abilities of its employees. Also, the Group will comprehensively strengthen its retail information system, extend its retail space through WeChat Mall mini applications, and connect

online and offline platforms to quickly organise and analyse sales information, realise real-time data sharing, and formulate strategies in a timely manner to meet customer needs and improve sales efficiency.

In terms of product design, the Group will bring environmental protection and sustainable development elements into its products, and will launch an eco-friendly products collection starting from the spring and summer seasons and thereafter quarterly. Such plan reflects the Group's commitment to responding to the national goal of achieving carbon peaking by 2030 and carbon neutrality by 2060.⁵

In the long run, China Lilang will retain its multi-brand strategy as it endeavours to strengthen its product competitiveness and value for money to further consolidate its leading position in the menswear industry and realise sustainable long-term growth to reward its shareholders, staff and customers for their support.



⁵ <https://news.cfwn.cn/v342008-1.htm>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

CASH AND BANK BALANCES AND CASH FLOWS

	As at 30 June 2022 RMB million	As at 31 December 2021 RMB million
Pledged bank deposits	246.4	12.1
Cash and cash equivalents	1,681.2	1,571.6
Fixed deposits held at banks	100.0	—
Total cash and bank balance	2,027.6	1,583.7

As at 30 June 2022, the Group had time deposits totalling RMB300.0 million (31 December 2021: Nil). The Group's total cash and bank balance was mainly denominated in Renminbi (99.6%).

As at 30 June 2022, the Group had bank loans maturing within one year totalling RMB463.2 million (31 December 2021: RMB72.6 million) and bank loans maturing over one year totalling RMB183.5 million (31 December 2021: Nil). All the bank loans carried interest at fixed rates.

Cash and cash equivalents balance increased by RMB109.6 million. Major cash flow movements during the period were as follows:

- Net cash generated from operating activities amounting to RMB246.7 million. The major reconciling item between the amount of net operating cash inflow and the net profit for the period of RMB257.0 million was the decrease in trade and bills payables balance by RMB190.1 million. The control over the channel has increased and the inventory management enhanced. The Group has adjusted backward the production and delivery schedules of some of the fall and winter products and the period end balance of the trade payables reduced as a result.
- Net cash outflows from investing activities amounting to RMB504.3 million, comprising mainly capital expenditure totalling RMB231.9 million and placing of pledged deposits and time deposit totalling RMB300.0 million.
- Net cash intflows from financing activities amounting to RMB367.8 million, mainly attributable to the proceeds from bank loans totalling RMB575.5 million, the payments of the final dividends totalling RMB163.3 million in respect of the year ended 31 December 2021, and capital and interest elements of lease rentals paid totalling RMB40.3 million.

TRADE WORKING CAPITAL TURNOVER DAYS

	Six months ended 30 June 2022	Year ended 31 December 2021	Six months ended 30 June 2021
Average inventory turnover days	217	145	208
Average trade receivables turnover days	54	57	69
Average trade payables turnover days	91	79	93

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Inventory turnover days

The Group's average inventory turnover days was 217 days for the period, an increase of 9 days as compared to the interim period last year.

Inventory balance decreased by RMB67.5 million to RMB826.2 million. The decrease was mainly attributable to the decrease in finished goods of smart casual collection and raw materials.

As for the smart casual collection, inventory balance continued to improve as more off-season inventories were sold.

As at 30 June 2022, a provision of RMB114.7 million was made in accordance with the Group's inventory provision policy.

Trade receivables turnover days

The Group's average trade receivables turnover days was 54 days for the period, as compared to 69 days for the interim last year. Turnover days reduced as sales revenue in the second quarter decreased.

As at 30 June 2022, a provision of RMB17.4 million was made in accordance with the Group's trade receivables provision policy.

Trade payables turnover days

The Group's average trade and bills payables turnover days was 91 days for the period, as compared to 93 days for the interim last year. There were no material changes in the payment terms with suppliers.

PLEDGE OF ASSETS

As at 30 June 2022, deposits with banks totalling RMB246.4 million (31 December 2021: RMB12.1 million) were pledged as securities for bills payable and bank loans. The pledged bank deposits will be released upon the settlement of relevant bills payable and bank loans.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2022, the Group had total capital commitments of RMB138.1 million, primarily related to the construction of the logistics center, which is expected to be completed by September 2022.

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

As at 30 June 2022, 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 2022, the Group had 3,477 staff. Total staff costs for the period amounted to approximately RMB175.4 million (first half of 2021: RMB172.5 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. On 3 July 2020, the Group granted options to subscribe for a total of 11,500,000 shares of the Company to its employees under the share option scheme at an exercise price of HK\$4.31 per share. The options will be vested during the period from 3 July 2022 to 3 July 2024.

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 17 to 33 which comprises the condensed consolidated statement of financial position of China Lilang Limited (the "Company") as of 30 June 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated 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 2022 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

19 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022— unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue	3	1,397,753	1,354,299
Cost of sales		(716,404)	(683,479)
Gross profit		681,349	670,820
Other net income		13,735	17,286
Selling and distribution expenses		(316,165)	(317,344)
Administrative expenses		(84,927)	(61,688)
Other operating expenses		(63)	(1,246)
Profit from operations		293,929	307,828
Net finance income	4	18,726	19,385
Profit before taxation	5	312,655	327,213
Income tax	6	(55,648)	(55,757)
Profit for the period		257,007	271,456
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")		8,223	(4,109)
Total comprehensive income for the period		265,230	267,347
Earnings per share	7		
Basic (cents)		21.5	22.7
Diluted (cents)		21.5	22.6

The notes on pages 22 to 33 form part of this interim financial report. Details of dividends payable to shareholders of the Company are set out in note 18.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 — unaudited
(Expressed in Renminbi)

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	8	1,422,468	1,200,183
Investment properties	9	117,059	118,772
Right-of-use assets	10	260,995	289,437
Intangible assets		6,428	6,919
Deposits for purchases of plant and equipment		911	20,558
Lease rental deposits		42,319	44,296
Pledged bank deposits	13	200,000	—
Fixed deposits held at banks	14	100,000	—
Deferred tax assets		58,281	55,053
		2,208,461	1,735,218
Current assets			
Inventories	11	826,195	893,737
Trade and other receivables	12	758,698	795,076
Pledged bank deposits	13	46,381	12,104
Cash and cash equivalents	14	1,681,172	1,571,619
		3,312,446	3,272,536
Current liabilities			
Bank loans	15	463,161	72,620
Trade and other payables	16	708,183	870,083
Lease liabilities	17	98,373	97,568
Contract liabilities		42,669	46,429
Current tax payable		175,704	174,766
		1,488,090	1,261,466
Net current assets		1,824,356	2,011,070
Total assets less current liabilities		4,032,817	3,746,288
Non-current liabilities			
Bank loans	15	183,500	—
Deferred tax liabilities		17,689	9,217
Lease liabilities	17	54,860	63,683
		256,049	72,900
Net assets		3,776,768	3,673,388

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2022 — unaudited
(Expressed in Renminbi)

	30 June 2022 RMB'000	31 December 2021 RMB'000
Capital and reserves		
Share capital	105,517	105,517
Reserves	3,671,251	3,567,871
Total equity	3,776,768	3,673,388

Authorised for issue by the board of directors in Hong Kong on 19 August 2022.

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 22 to 33 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022— 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 2021	105,517	31,411	266,037	24,941	(27,908)	3,253,527	3,653,525
Changes in equity for the six months ended 30 June 2021:							
Profit for the period	—	—	—	—	—	271,456	271,456
Other comprehensive income for the period	—	—	—	—	(4,109)	—	(4,109)
Total comprehensive income for the period	—	—	—	—	(4,109)	271,456	267,347
Equity-settled share-based payment	—	—	—	1,645	—	—	1,645
Dividends approved in respect of the previous year	—	—	—	—	—	(267,936)	(267,936)
Appropriation to statutory reserve	—	—	5,376	—	—	(5,376)	—
As at 30 June 2021	105,517	31,411	271,413	26,586	(32,017)	3,251,671	3,654,581
As at 1 January 2022	105,517	31,411	270,994	28,243	(33,000)	3,270,223	3,673,388
Changes in equity for the six months ended 30 June 2022:							
Profit for the period	—	—	—	—	—	257,007	257,007
Other comprehensive income for the period	—	—	—	—	8,223	—	8,223
Total comprehensive income for the period	—	—	—	—	8,223	257,007	265,230
Equity-settled share-based payment	—	—	—	1,449	—	—	1,449
Dividends approved in respect of the previous year	—	—	—	—	—	(163,299)	(163,299)
Appropriation to statutory reserve	—	—	150	—	—	(150)	—
As at 30 June 2022	105,517	31,411	271,144	29,692	(24,777)	3,363,781	3,776,768

The notes on pages 22 to 33 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022— unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Operating activities		
Cash generated from operations	300,811	169,108
Tax paid	(54,103)	(45,719)
Net cash generated from operating activities	246,708	123,389
Investing activities		
Payments for the purchases of property, plant and equipment, and intangible assets	(231,895)	(170,073)
Net proceeds from/(payments of) lease rental deposits	1,977	(6,577)
Interest income received	25,256	19,001
Net placements of pledge deposits	(200,000)	—
Net placements of fixed deposits held at banks with maturity over three months	(100,000)	—
Other cash inflows arising from investing activities	398	1,353
Net cash used in investing activities	(504,264)	(156,296)
Financing activities		
Proceeds from bank loans	575,500	16,652
Repayment of bank loans	—	(16,652)
Dividends paid	(163,299)	(267,936)
Interest expense paid	(4,160)	(19)
Capital element of lease rentals paid	(36,554)	(79,807)
Interest element of lease rentals paid	(3,708)	(3,872)
Net cash generated from/(used in) financing activities	367,779	(351,634)
Net increase/(decrease) in cash and cash equivalents	110,223	(384,541)
Cash and cash equivalents at 1 January	1,571,619	1,738,934
Effect of foreign exchange rate changes	670	(671)
Cash and cash equivalents at 30 June	1,681,172	1,353,722

The notes on pages 22 to 33 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 19 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 16.

The financial information relating to the financial year ended 31 December 2021 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 2021 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 18 March 2022.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group. None of those developments are relevant to the Group’s interim financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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”).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

4. NET FINANCE INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Interest income	25,256	19,001
Interest on bank loans	(2,701)	(19)
Interest on lease liabilities	(3,708)	(3,872)
Net foreign exchange (loss)/gain	(121)	4,275
	18,726	19,385

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Amortisation of intangible assets	1,850	1,807
Depreciation		
— owned property, plant and equipment	55,703	36,416
— investment properties	1,713	1,713
— right-of-use assets	57,857	58,054
Short term lease rental expenses	5,210	7,946
Research and development costs	59,139	47,222
Subcontracting charges (Note (i))	155,441	114,197
Inventory write-down (Note 11(b))	35,786	5,174
Impairment losses on trade receivables (Note 12)	6,775	—
Impairment losses on right-of-use assets (Note 10)	4,358	—

Note:

- (i) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

6. INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax — PRC Corporate Income Tax	50,404	46,749
Deferred tax	5,244	9,008
	55,648	55,757

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 2022 and 2021.
- (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 2022. 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 2022.
- (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.

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 RMB257,007,000 (2021: RMB271,456,000) and the weighted average number of ordinary shares in issue of 1,197,485,000 (2021: 1,197,485,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

7. EARNINGS PER SHARE (CONTINUED)

(B) DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share is based on the profit for the period of RMB257,007,000 (2021: RMB271,456,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company.

Weighted average number of ordinary shares (diluted):

	Six months ended 30 June	
	2022 '000	2021 '000
Weighted average number of ordinary shares	1,197,485	1,197,485
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	—	1,845
Weighted average number of ordinary shares (diluted)	1,197,485	1,199,330

8. PROPERTY, PLANT AND EQUIPMENT

	2022 RMB'000	2021 RMB'000
Net book value, as at 1 January	1,200,183	923,727
Additions	278,365	207,816
Disposals (net carrying amount)	(377)	(1,309)
Depreciation charge for the period	(55,703)	(36,416)
Net book value, as at 30 June	1,422,468	1,093,818

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

9. INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
Net book value, as at 1 January	118,772	122,198
Depreciation charge for the period	(1,713)	(1,713)
Net book value, as at 30 June	117,059	120,485

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.

10. RIGHT-OF-USE ASSETS

	2022 RMB'000	2021 RMB'000
Net book value, as at 1 January	289,437	279,407
Additions	55,092	77,877
Disposals	21,319	(12,764)
Depreciation charge for the period	(57,857)	(58,054)
Impairment losses	(4,358)	—
Net book value, as at 30 June	260,995	286,466

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. As at 30 June 2022, rental deposits of RMB42,319,000 (31 December 2021: RMB44,296,000) were paid for the leases, which will be held by the lessors throughout the respective lease terms.

11. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Raw materials	105,228	147,510
Work in progress	62,776	93,213
Finished goods	658,191	653,014
	826,195	893,737

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

11. INVENTORIES (CONTINUED)

(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Carrying amount of inventories sold	680,618	678,305
Write-down of inventories (Note 5)	35,786	5,174
	716,404	683,479

12. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Trade receivables	467,169	494,712
Less: Loss allowance	(17,414)	(10,639)
Trade receivables, net of loss allowance	449,755	484,073
Prepayments to suppliers	29,556	2,927
Prepaid advertising expenses	1,275	1,144
VAT deductible	182,890	226,569
Current tax prepayment	4,637	—
Other deposits, prepayments and receivables	90,575	80,363
	758,698	795,076

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 receivables, based on the invoice date and net of loss allowance, is as follows:

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Within 3 months	203,342	389,034
Over 3 months but within 6 months	196,126	86,724
Over 6 months but within 1 year	50,287	8,315
	449,755	484,073

The Group grants a credit period of 30 to 240 days (31 December 2021: 30 to 240 days) to its distributors.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

The movement in the loss allowance account for trade receivables during the period is as follows:

	2022 RMB'000	2021 RMB'000
As at 1 January	10,639	16,597
Impairment losses for the period (Note 5)	6,775	—
As at 30 June	17,414	16,597

The Group measures loss allowance for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix.

The Group keeps assessing the expected loss rates based on the Group's historical credit loss experience over the past years, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of the reporting period over the expected lives of the receivables.

Normally, the Group does not obtain collateral from customers.

13. PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bank loans (see note 15) and bills payable (see note 16). The pledged bank deposits will be released upon the settlement of the relevant bills payable and bank loans.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

14. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Cash and cash equivalents in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows		
— Cash at bank and in hand	1,681,172	1,571,619
Fixed deposits held at banks	100,000	—
Pledged bank deposits (Note 13)	246,381	12,104
Total cash at bank and in hand	2,027,553	1,583,723

15. BANK LOANS

As at 30 June 2022 and 31 December 2021, the bank loans were as follows:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Within 1 year or on demand	463,161	72,620
Sub-total	463,161	72,620
Over 1 year but within 2 years	1,000	—
Over 2 years but within 3 years	182,500	—
Sub-total	183,500	—
Total	646,661	72,620

As at 30 June 2022, a bank loan of RMB184,500,000 was secured by the pledged bank deposit of RMB200,000,000.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

16. TRADE AND OTHER PAYABLES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Trade payables	285,422	427,283
Bills payable	1,730	8,140
Trade and bills payables	287,152	435,423
Accrued salaries and wages	27,525	42,096
Payables for purchase of property, plant and equipment	185,005	156,824
Retirement benefit contribution payable	25,524	25,524
Other payables and accruals	182,977	210,216
	708,183	870,083

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 2022 RMB'000	31 December 2021 RMB'000
Within 3 months	272,128	399,050
Over 3 months but within 6 months	10,651	33,454
Over 6 months but within 1 year	3,659	1,710
Over 1 year	714	1,209
	287,152	435,423

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

17. LEASE LIABILITIES

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period are as follows:

	At 30 June 2022		At 31 December 2021	
	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	98,373	100,809	97,568	99,845
After 1 year but within 2 years	44,079	45,623	49,960	53,567
After 2 years but within 5 years	10,781	13,966	13,723	15,462
	153,233	160,398	161,251	168,874
Less: Total future interest expenses		(7,165)		(7,623)
Present value of lease liabilities		153,233		161,251

18. DIVIDENDS

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Declared and payable after interim period:		
Interim dividend of HK13 cents per ordinary share (2021: HK13 cents per ordinary share)	133,077	129,614
Special interim dividend of HK5 cents per ordinary share (2021: HK5 cents per ordinary share)	51,183	49,851
	184,260	179,465

The interim dividend and special interim dividend have not been recognised as liabilities as at 30 June 2022.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

18. 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	
	2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous financial year of HK11 cents per ordinary share (2021: HK19 cents per ordinary share)	112,268	188,548
Special final dividend in respect of the previous financial year of HK5 cents per ordinary share (2021: HK8 cents per ordinary share)	51,031	79,388
	163,299	267,936

19. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has adopted a share option scheme (the "Share Option Scheme") pursuant to an ordinary resolution passed by the shareholders on 23 April 2019 for the purposes of providing incentives and rewards to eligible participants who contribute to the Group. On 3 July 2020, the Group granted options to subscribe for a total of 11,500,000 shares of the Company to its employees under the Share Option Scheme at an exercise price of HK\$4.31 per share. The options will be vested during the period from 3 July 2022 to 3 July 2024. Details of the number and weighted average exercise price of share options granted under the Share Option Scheme during the period were as follows:

	Exercise price	No. of options
Outstanding at 1 January 2022	HK\$4.31	11,500,000
Lapsed during the period	HK\$4.31	(337,000)
Outstanding at 30 June 2022	HK\$4.31	11,163,000
Exercisable at 30 June 2022	—	—

The share options outstanding under the Share Option Scheme at 30 June 2022 had a weighted average remaining contractual life of 8 years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi)

20. COMMITMENTS

Capital commitments of the Group in respect of property, plant and equipment, and computer system and software outstanding at 30 June 2022 not provided for in the financial statements were as follows:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Contracted for	75,916	108,760
Authorised but not contracted for	62,152	63,112
	138,068	171,872

21. MATERIAL RELATED PARTY TRANSACTIONS

(A) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Short-term employee benefits	3,774	3,723
Contributions to defined contribution retirement benefit scheme	67	56
Share-based compensation	261	154
	4,102	3,933

(B) OTHER RELATED PARTY TRANSACTION

On 21 February 2022, the Group entered into a sales and purchase agreement ("Agreement") with a vendor for the acquisition of properties located at Lilang Creative Park at a consideration of RMB205,000,000. The vendor is effectively 23.22% and 6.78% owned by Mr. Wang Cong Xing and Mr. Cai Rong Hua respectively. Both are executive directors of the Group and shareholders of Xiao Sheng International Limited, the Controlling Shareholder. Mr. Cai is also the brother-in-law of Mr. Wang Liang Xing, a shareholder of Xiao Sheng International Limited, an executive Director and the brother of Mr. Wang Cong Xing 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.

The Agreement was executed in the period ended 30 June 2022.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2022, 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 of shares (Note 1)	Number of underlying shares (Note 1&2)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Wang Liang Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Cai Rong Hua	The Company	Beneficial owner	1,810,000 shares (L)	—	0.151%
	The Company	Settlor of a discretionary trust (Note 4)	7,200,000 shares (L)	—	0.601%
	Xiao Sheng International (Note 3)	Settlor of a discretionary trust (Note 4)	800 shares of US\$1.00 each (L)	—	8.247%

OTHER INFORMATION (CONTINUED)

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number of shares (Note 1)	Number of underlying shares (Note 1&2)	Approximate percentage of shareholding
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	—	0.376%
	Xiao Sheng International (Note 3)	Beneficial owner	500 shares of US\$1.00 each (L)	—	5.155%
Mr. Pan Rong Bin	The Company	Beneficial owner	3,171,000 shares (L)	—	0.264%
	The Company	Interest of spouse	—	150,000 shares (L)	0.013%
	Xiao Sheng International (Note 3)	Beneficial owner	300 shares of US\$1.00 each (L)	—	3.093%

Notes:

- The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.
- The interests in underlying shares represent the interests in share options granted pursuant to the Company's share option scheme, details of which are set out in the paragraph below headed "Share Option Scheme".
- As at 30 June 2022, 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 4), 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.
- 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 2022, 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.

OTHER INFORMATION (CONTINUED)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2022, 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 of shares (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%

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 2022, 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 4), 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 2022, 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 4), 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) 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 2022, 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.

OTHER INFORMATION (CONTINUED)

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”) pursuant to an ordinary resolution passed by the shareholders on 23 April 2019 for the purposes of providing incentives and rewards to eligible participants who contribute to the Group. Details of the Share Option Scheme are set out in the 2021 Annual Report of the Company.

Details of the movements of the options during the period are set out below:

Name or category of participants	As at 1 January 2022	Number of options			As at 30 June 2022	Exercise price	Date of grant	Exercise period
		Exercised	Cancelled	Lapsed				
Mr. Chen Wei Jin (note 1(a))	433,000	—	—	—	433,000	HK\$4.31	3 July 2020	Note 2(a)
Mr. Wang Jun Hong (note 1(b))	350,000	—	—	—	350,000	HK\$4.31	3 July 2020	Note 2(b)
Mr. Wang Zhi Yong (note 1(c))	350,000	—	—	—	350,000	HK\$4.31	3 July 2020	Note 2(b)
Ms. Chen Zhi Mei (note 1(d))	150,000	—	—	—	150,000	HK\$4.31	3 July 2020	Note 2(b)
Employees	10,217,000	—	—	(337,000)	9,880,000	HK\$4.31	3 July 2020	Note 2(c)
	11,500,000	—	—	(337,000)	11,163,000			

Notes:

- 1 Options granted to associates (as defined in the Listing Rules):
 - a. Mr. Chen Wei Jin, the head of the group ordering department of the Group, is the brother-in-law of Mr. Wang Dong Xing, an executive Director and a controlling shareholder of the Company.
 - b. Mr. Wang Jun Hong, a president of the product planning department of the Group, is the son of Mr. Wang Dong Xing.
 - c. Mr. Wang Zhi Yong, a vice president of the sales and marketing department of the Group, is the son of Mr. Wang Liang Xing, an executive Director and a controlling shareholder of the Company.
 - d. Ms. Chen Zhi Mei, the assistant to the head of the sales and marketing department of the Group, is the wife of Mr. Pan Rong Bin, an executive Director of the Company.

OTHER INFORMATION (CONTINUED)

2 Exercisable periods of options:

- a. The options are exercisable by the grantee during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 129,000 options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 130,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.
- b. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 30% of the options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 60% of the options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.
- c. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of two year period after the date of grant and ending on the day falling ten years after the date of grant, during which, (a) up to 2,934,000 options granted may be exercised on or prior to the end of the third year after the date of grant; (b) subject to (a), up to 2,979,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (c) subject to (a) and (b), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

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 2022.

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 2022.

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 2022 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 2022.

OTHER INFORMATION (CONTINUED)

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, 8 September 2022 to Friday, 9 September 2022 (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, 7 September 2022 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, 19 August 2022

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 2022)

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 2022 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

Shum Chi Chung

Company Secretary

Hong Kong, 19 August 2022