MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

The total turnover of the Group for the six months ended 30th June 2001 was HK$223,763,000 (2000: HK$ 215,018,000), representing an increase of 4% over the corresponding period last year. During the period under review, the Group has implemented a series of measures to streamline its operations and to control the operating cost, in order to improve its operational efficiency. Accordingly, total operating expenses were decreased as compared to those of the corresponding period last year and profit attributable to shareholders was substantially improved to HK$24,922,000 (2000: loss of HK$136,668,000).

FINANCIAL CONDITION

The Group's cash and bank balances was approximately HK$244,396,000 as at 30th June 2001 and the current ratio is 3.8. The Group's total liabilities were HK$108,891,000, including the bank loans and overdrafts of HK$3,653,000. The Group's liabilities to equity ratio was 0.06 based on the average shareholders' equity of HK$1,744,000,000.

With a focus on China mainland and Singapore markets, the Group is exposed to foreign currency exchange rate fluctuations in these regions. In order to manage such risks effectively, the Group has increased the proportion of purchases from local suppliers.

As at 30th June 2001, the Group neither had any charge on assets nor contingent liabilities.

BUSINESS REVIEW

Last year, the Group had undergone certain restructuring programme to divide its businesses into two divisions, namely Apparel and Commercial Network. The Apparel division mainly comprises of Goldlion's traditional businesses in distribution of garments and accessories. The Commercial Network division comprises of the Group's businesses of property investment and the operation of a newly developed Commercial Center.

Apparel

China mainland Market:

During the period under review, the Group formulated a new set of marketing strategies in response to the ever-changing market condition and the intensified competition in the apparel industry. The measures included strengthening controls in product design and use of materials according to the requirements of customers. Moreover, the Group's subsidiaries in the PRC improved their ability in market information collection and analysis by enhancement in computer application. The new inventory software system has allowed the Group to pose better control on inventories. On the other hand, the Group has committed to shorten production cycle to enhance its responsiveness to the changing market. Furthermore, the Group adopted a policy to set prices according to levels acceptable by the market. As a result, even though the increase in turnover was only 8% over the corresponding period last year, the actual sales volume was higher than those of the corresponding period last year. At the same time, despite the pricing adjustment, the Group managed to maintain it's profit margin at a reasonable level. The Group also recorded royalty income of HK$2,010,000 which doubled last year's amount.

The Group is going to identify new potential agents who will make contribution to the Group's profitability, and terminate the contracts with agents whose performance are not in line with the Group's future development.

Singapore and Malaysia Market:
Notwithstanding the slowdown in local economy during the year, the Group was able to post increase in its turnover during the period under review, and continue to make contributions to the Group's operating profit. During the period, the turnover of the Singapore market, in terms of local currency, recorded a 4% increase as compared with that of the corresponding period last year. The Group currently operates three boutiques and twenty-five retail outlets in Singapore. Moreover, the Group has expanded its business to Malaysia at the beginning of this year. The Group currently has forty retail outlets in Malaysia and managed to breakeven.

Hong Kong Market:
In view of the continuous weak sentiment in the local retail business coupled with the expiry of the lease of the Group's counters in certain department stores, the number of the Group's retail outlets have dropped from fourteen in last year to seven counters and one franchised store in the current year. Accordingly, the turnover in aggregate dropped significantly but the remaining outlets managed to maintain their turnover at last years' level.

Commercial Network Business
Property Investment:
During the period under review, the Group's total rental income and building management fees were soared by 100%, from last year's HK$8,002,000 to HK$16,718,000.

– Except certain floor designated for the "Goldlion Global Commercial Center", all shopping and office spaces in the Goldlion Digital Network Centre in Tianhe District, Guangzhou have been leased out, and generated rental income of approximately HK$8,900,000 to the Group during the period.

– The Goldlion Commercial Building in Shenyang is currently undergoing an internal renovation and refurbishment, upon its completion in 2002, the building will contribute rental income to the Group.

- The 2nd to 4th floors of Goldlion Holdings Center in Shatin, Hong Kong with a total floor area of 11,750 sq.m. has been leased out last year, bringing the Group reasonable rental income during the period.

- In the middle of last year, the Group acquired an industrial building at 3 Yuk Yat Street, Tokwawan, together with the adjacent property of the Group at 5 Yuk Yat Street, with the total site area of 1,400 sq.m. Due to the uncertainty of the current property market, the Group holds these two buildings for investment instead of converting the sites for residential use as proposed and continues to explore feasibility of combining these two sites.

Commercial Center:
To best leverage the opportunities brought about by the economic globalization and China's impending accession to the WTO, the Group designated three floors at the Goldlion Digital Network Building in Tianhe District, Guangzhou for "Goldlion Global Commercial Center" (the "GGCC"), providing members of the GGCC and tenants with business center, distant offices, leisure and entertainment facilities with a view to add value to the building. The GGCC finished its renovation work and opened in August this year. Some of the services and facilities are available to members and tenants and some others will be introduced and available soon.

PROSPECTS

Confronted with the adverse condition of the local and external economies coupled with the opportunities and challenges brought by China's imminent entry into the WTO, the Group is committed to prudently and proactively tune its operating strategies in each major market to explore new markets on the one hand and closely monitor the operating expenses on the other hand.

HUMAN RESOURCES

As at 30th June 2001, the Group has approximately 1,200 staffs. The Group provides its staff with remuneration packages in line with the prevailing level in the industry. Management of the Group also reviews the Group's relevant remuneration policy on regular basis.