
GOLDLION
HOLDINGS LIMITED

Dr. the Hon. Tsang Hin Chi, G.B.M.,
Chairman of the Group

GROUP RESULTS

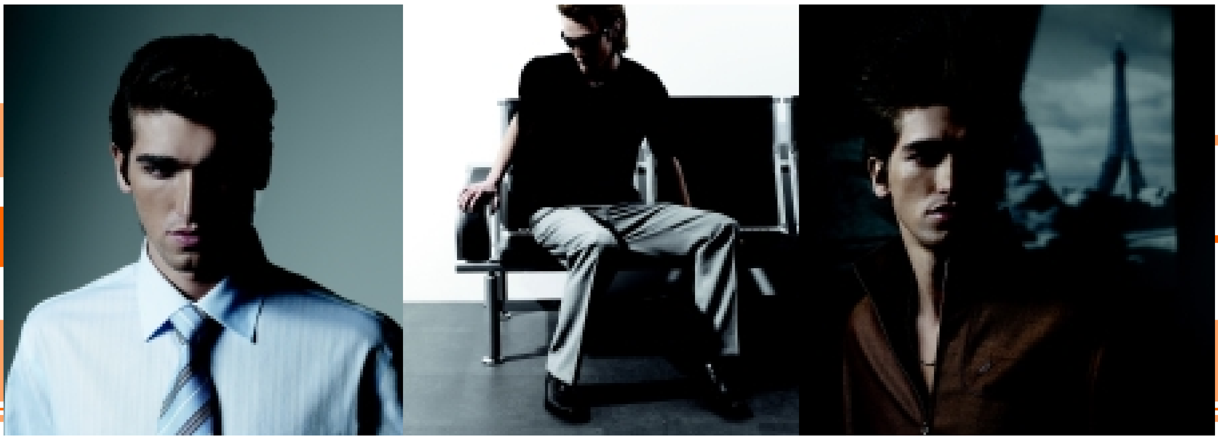
Led mainly by the rise in turnover and gross profit, the Group's operating profit for the financial year ended 31 December 2004 amounted to HK$97,510,000, representing a hefty year-on-year increase of 53%. As such, the profit attributable to shareholders was HK$68,675,000, increasing by a large margin of 52% when compared with last year's HK$45,150,000. Correspondingly, profit ratio of the year increased by 3.2 percentage points from 8.8% to 12%.

The Group's total turnover for the year increased by 12% over that of last year to HK$571,390,000. During the year, satisfactory growth was recorded for all the major sources of income including sales of goods, rental income from investment properties, building management fee and licensing income.

Gross profit from sales of goods stood at 51.6%, or 4 percentage points higher than last year's 47.6%. The increase was mainly due to the stringent control of production costs.

FINAL DIVIDEND

The Directors have recommended the payment of a final dividend of 4.0 HK cents per share (2003: 3.0 HK cents per share) for the year ended 31st December 2004, totalling HK$37,485,000 (2003: HK$28,113,000). Subject to the shareholders' approval at the forthcoming Annual General Meeting, the final dividend will be paid on 1st June 2005 to shareholders whose names appear on the Register of Members as at 20th May 2005.



BUSINESS REVIEW

Apparel Business

China Mainland Market

China mainland remained to be the primary market for the Group's apparel business. Although the mainland economy continued to prosper, competition in the apparel sector became more intense. Nevertheless, the Group's overall apparel sales registered a growth of 9%, tallying with expectations.

To achieve its target volumes of sales, the Group imposed greater control over product design, style of display in shops and service quality in order to boost its general brand image. Measures taken included:

– Adopting a new style for product design so as to cater to the taste and demand of a younger and fashion-conscious market. Materials, workmanship and packaging were also improved to bring about a fresh look in the Group's wide range of products. Responses from the market have been highly encouraging.

– Continuing to strengthen the partnership between the Group and its distributors. Well aware of the importance of the distributors' performance to the Group's operations, the Group devised a stringent appraisal system to help its distributors upgrade their management of sales and in turn their service to the customers. As a result, their sales increased to the benefit of the Group.

– Hiring famous interior designers to refurbish the Group's various outlets. During the year, all the major outlets have been repackaged. Together with the elegant window displays, the trendy outlets not only impress the customers with their chic but also serve to accentuate the style of the merchandise.

In addition to the increase in sales, operational profit from the mainland market also compared favorably with that of last year mainly because of the effective control measures taken during the year. These included:

- Perfecting the customer ordering system. Through such a system, well-informed estimates could be made in time to regulate sourcing more flexibly so that stocks can be kept at a minimum level to save on storage expenses for unnecessary stocks.

- Lowering production costs effectively to bring up gross profit. This was achieved without compromising the quality through strict cost control and budgetary monitoring.

Singapore and Malaysia Markets

With the economy of Singapore picking up considerably, the Group registered a remarkable growth of 20% at Hong Kong dollars, or 13% at the local currency, in its annual sales. This was the fifth consecutive year in which growth in sales has been recorded for the market.

The strong sales were attributed mainly to the apt market strategy and effective marketing drives such as engaging in joint promotional activities with major local department stores, placing more advertisements, providing more discounts and offering attractively packaged gift packs during festivals. As a result, the products sold well throughout the year and were well received by the local consumers. In terms of sales, the Group has been the leader for similar products and operates 4 specialty stores and 17 counters in Singapore.

With a growth rate of 3% in turnover, sales in Malaysia remained stable. In view of the unsound local market and hence the relatively high business risks, the Group exercised caution in its operation by maintaining 25 counters during the year. This accounted for the moderate growth in sales but the increase in profit was still satisfactory.

Trendy products of Goldlion from our licensees

Hong Kong Market

Thanks mainly to the Individual Visit Scheme and CEPA, the economy of Hong Kong as a whole has been recovering. The retail market also rebounded to the benefit of our local apparel business. The annual retail turnover shot up by 14% over that of the last year.

To make the most of the increasingly bullish retail market, the Group launched a series of measures during the year to improve its product quality and design and the style of its outlets. Responses from the market have so far been encouraging.

There are at present 1 shop, 8 counters and quite a number of consignment outlets in major department stores in Hong Kong.

Licensing income

Licensing income for the year totaled HK$25,752,000, representing a dramatic increase of 40% over that of last year. This was partly because license fees were to increase annually in accordance with mainland's licensing agreements for leather goods and shoes. Another reason for the soar in income from this source was that full-year license fees for jewellery products, undergarments and woolen sweaters mainly for the China market had become receivable in the year since the grant of such licenses began only in the second half of the previous year.

With licensing income becoming a major source of income, our Group will continue to process with prudence applications for licenses for other products in order to protect our brand image. In fact, a designated department has been set up to support the licensees and monitor the use of their respective licenses.

Property investment

Property markets in Hong Kong and Guangzhou continued to thrive. Following years of decline, the local market, in particular, revived at a fast pace as spurred by the economic upturn. The leasing market also became active to the benefit of the Group. The Group's total annual rental income amounted to HK$45,226,000, or 18% over that of last year.

In Guangzhou where the economy has been booming in recent years, there has been a growing demand for quality offices with rentals climbing continually. Leasing of the Group's "Goldlion Digital Network Centre" in Tianhe, Guangzhou was good. Rentals from the building continued to rise over the year and was 17% higher than that of last year. At an occupancy rate of nearly 100%, the building is primarily leased out to large domestic and multinational enterprises. The commendable quality of the building and high standard of property management service, coupled with its prime location in the central commercial district of Guangzhou, the building has been very much sought after by the large enterprises. This is why rental levels have all along been in the top bracket in the local market.

Optimistic about the outlook of the property market in Guangzhou, the Group restructured its local property portfolio during the year. Twelve newly completed quality residential units have been acquired, repackaged and leased out as service apartments. The response has been good so far and the return has met with the Group's expectations. During the year, several relatively older properties that the Group had been holding for years were sold, yielding a profit of about HK$2,670,000.

Leasing of the Group's "Goldlion Commercial Building" in Shenyang has also improved for the year. Annual income from rentals and management fees was higher than that of last year. The leasing position has been improving steadily following the adjustment in our leasing strategy in last year. The occupancy rate was nearly 100% and the rental levels have largely matched with expectations.

Back in Hong Kong, the Group's leasing performance was in line with the improving local property market. The whole block of property at No. 3 Yuk Yat Street, Tokwawan was let out at the end of last year. The occupancy rate of "Goldlion Holdings Centre" also climbed sharply and the rental levels also compared favorably with those of last year. Taken together, the rentals received locally was 21% higher than those of last year.

PROSPECTS

During the year, the Group succeeded in enhancing the Group's profitability by means of a range of control strategies. With such a solid foundation for further development, the Group is expected to make even more steady advances in its business in the coming year.

As far as the China Mainland apparel market is concerned, the Group will continue to provide optimum conditions for its business. In addition to keeping up with its proven operation and marketing strategy from last year, further efforts will be made to develop new products, promote brand image, expand the market, train up staff and upgrade customer service.

As for Singapore, besides consolidating and building on its existing satisfactory performance, the Group plans to introduce other apparel products into the market. An example is the "Camel Active" line of casual wear, the local franchise of which has recently been granted. As a trial, the first counter for the brand has just been launched whilst its first specialty store is scheduled to be opened in the second quarter of 2005.

Turning to Hong Kong where the retail market is expected to improve further, the Group plans to readjust its marketing strategy to expand its local retail operation, increase retail outlets and strengthen publicity in order to maximize profitability.

In the area of property investment, the Group is optimistic about the outlook of the property market in Guangzhou. This prompted the Group to enter into two agreements with two connected persons at the end of the year to acquire four floors of "Goldlion Digital Network Centre" with a total floor area of 5,402 square meters at a total consideration of RMB81,340,000. The agreements have already been approved by the Company's independent shareholders at the Extraordinary General Meeting held on 7th February 2005 and formalities for the transfer of the properties are expected to be completed by the end of May 2005, thereby increasing the Group's interest in the block to 65% of its total gross floor area for satisfactory rental returns. The Group will continue to identify quality properties in Guangzhou with a view to further augmenting returns from the Group's property portfolio.

Thanks to the booming property market in Guangzhou and the rebounding leasing market in Hong Kong, the Group's income and returns from property investment are expected to rise steadily to a level above that of the current year.

All in all, the Group is poised to seize any opportunity that comes its way and to develop aggressively in order to provide higher returns for our shareholders.

ACKNOWLEDGMENT

On behalf on the board, I would like to extend my gratitude to our staff for their dedication and continuous support.

Dr. Tsang Hin Chi
Chairman

Hong Kong, 6th April 2005