



# Golden Dragon Group (Holdings) Limited

## 金龍集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

### INTERIM RESULTS 2002

The Board of Directors (the “Directors”) of Golden Dragon Group (Holdings) Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated income statement of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002, together with the comparative figures over the corresponding period last year are set out below:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2002

NOTES	Six months ended	
	30.6.2002 HK\$'000 (unaudited)	30.6.2001 HK\$'000 (unaudited) (note 1)
Turnover	92,595	122,684
Cost of goods sold	(31,265)	(43,648)
Gross profit	61,330	79,036
Other revenue	427	579
Distribution costs	(28,882)	(30,186)
Administrative expenses	(14,588)	(8,168)
Profit from operations	4 18,287	41,261
Finance charges	(1,921)	(1,442)
Profit before taxation	16,366	39,819
Taxation	5 (3,377)	(4,460)
Profit before minority interests	12,989	35,359
Minority interests	(2,602)	(4,204)
Net profit for the period	10,387	31,155
Dividend	6 8,760	21,500
Basic earnings per share	7 HK1.78 cents	HK6.11 cents

#### Notes

##### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with SSAP 25 “Interim Financial Reporting”.

##### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statement for the year ended 31 December 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the financial statements, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

##### Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating or investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

##### 3. SEGMENTAL INFORMATION

The Group is primarily engaged in production and sale of a series of health care products and operates only in the People’s Republic of China (the “PRC”). All significant identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

##### 4. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	1,238	985
Interest income	(210)	(578)

##### 5. TAXATION

No Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiary since they had no assessable profit for the period.

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profit applicable to each individual company within the Group in the PRC.

The Group did not have any significant unprovided deferred taxation for the period or unprovided deferred tax asset or liability at the balance sheet date.

Pursuant to relevant laws and regulations in the PRC, the Group’s PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The tax charge provided has been made after taking these tax incentives into accounts.

The effective income tax of the Group for the current period is 21% (six months ended 30 June 2001: 11%). For the current period, the major reconciling item is the losses incurred by certain members of the Group for which no deferred taxation is recognised as it is uncertain whether the potential tax benefits will be recognised in the foreseeable future. For the six months ended 30 June 2001, the major reconciling item is the profit made by a member of the Group which was within the PRC income tax exemption period.

##### 6. DIVIDEND

During the period, a dividend of HK\$1.50 cents per share was paid to shareholders as the final dividend for 2001. The directors do not recommend the payment of any interim dividend.

The dividend of HK\$21,500,000 for the six months ended 30 June 2001 represents the dividend declared by a subsidiary of the Group to the then shareholders prior to the Group Reorganisation.

##### 7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2002 is based on the net profit for the period of HK\$10,387,000 and on 584,000,000 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2001 is based on the net profit for that period of HK\$31,155,000 and on the weighted average of 510,028,729 shares that would have been in issue during that period as if the Group Reorganisation had been completed on 1 January 2001.

No diluted earnings per share is presented, as the Company did not have any dilutive potential ordinary shares in issue.

### MANAGEMENT REPORT, DISCUSSION AND ANALYSIS

#### Review of Market Conditions and Business Operation

The Directors present the following business review of the Group for the six months ended 30 June 2002.

The Group recorded an unaudited consolidated turnover of approximately HK\$92,595,000 in the period under review, representing a decrease of approximately 24.5% when compared with approximately HK\$122,684,000 in the corresponding period in 2001. Unaudited consolidated profit attributable to shareholders amounted to approximately HK\$10,387,000 in the period under review, representing a decline of 66.7% from approximately HK\$31,155,000 in the corresponding period in 2001. The Directors consider that the decrease in profit was mainly attributable to reduced turnover and a rise in distribution cost. Please refer to the relevant paragraphs below for details. Accordingly, earnings per share for the period under review was approximately 1.78 HK cents per share (Corresponding period in 2001: approximately 6.11 HK cents per share).

According to information released by the Society of Health Food of the PRC, turnover of health food in 2001 declined by 43% from the previous year. The health food market remained depressed in 2002. Amid such unfavourable market conditions, the Company maintained the existing sales strategy while adopting a series of contingency measures. The Company organized sales activities at selected supermarkets and designated booths in department stores in the eastern region of the PRC, and other products of the Group were given as complimentary gifts in order to stimulate sales which also served as part of its promotional campaign. These efforts also helped in strengthening and adjusting the products’ leading edge of display in the end market. The Company also emphasized on showcase promotion of its products.

As the market became more mature and recognition having been given to the Company’s brandname, the Company was able to spend less in advertising in the market in eastern region of the PRC. The Company also continued to expand its points of sale in new markets such as Beijing, Wuhan and Chongqing, and maintain its product image. Based on the advertising budget of the previous year, the Company expended further on TV commercials to consolidate its brand image and strengthen the positioning of its products in the new markets. Despite of the above measures, the Group could only managed to minimize the impact of a general shrinkage in sales of the health food market.

#### NEW PRODUCT DEVELOPMENT

- The new product “Yan Ling Shu Ke” (延齡舒可) (originally named “Pill for Reducing Blood Sugar” (降糖丹) ) launched to the market in December 2001 generated a turnover of HK\$5,800,000. Sales of the product reached HK\$8,900,000 in the first half of the year.
- Progress of the acquisition and co-operative development of the new products, namely “Piglyketone” (匹格列酮) and “Azithromycin Granules” (阿奇霉素微囊細粒劑) were well underway according to schedule. It is expected that “Azithromycin” (阿奇霉素) will obtain approval for production in December 2002, and probably also for “Piglyketone” (匹格列酮) although it was somewhat delayed as compared with the original plan. Production of both new products is anticipated to commence in early 2003.
- The new product funded and developed by the Company for pimple treatment, “Mei Nuo Ping” (美諾平) , will have a postponement of one month in obtaining production approval. It is expected to obtain production approval at the end of September and commence production in October.
- In early 2002, the Company signed a contract for technology transfer with瀋陽中海生物技術開發有限公司 for the acquisition of “Yan Suan A Bi Duo Er” (鹽酸阿比朵爾). The product is a State first class new medicine of antibiotics for curing influenza. The total amount of transfer fee under the said contract is HK\$3,600,000, of which HK\$470,000 has been paid. Further research and development and clinical testing will take approximately one year whereas production approval is expected to be obtained in 2004.
- The original application for “Nuclein” (核能元) was still under review, and the granting of production approval is expected within the year.

#### DEVELOPMENT OF NEW MARKETS

The Group had not developed any new market in the first half of the year, and focus was mainly placed on further promotion of the Beijing, Wuhan and Chongqing markets so as to explore and develop further their potentials. The Group plans to expand into such new markets as Shenzhen and Quanzhou, Fujian Province in the second half of the year.

#### EMPLOYEES, TRAINING AND PERFORMANCE REVIEW

The Group has a total of approximately 1,000 employees both in the PRC and Hong Kong (roughly the same for the corresponding period last year). Meanwhile, the Group took advantage of the low sales season in the first half of the year to conduct a one-week intensive training to the sales persons. The training is aimed at team building, staff cooperation, professionalism training, management of staff attitude, development of work values, scientific evaluation of working capability, education for the requisite qualities of staff, sales techniques, consumer psychology, etc. The objectives are to develop professionalism of the salespersons, and fully exploit the potentials of its business staff.

#### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2002, use of proceeds from the listing was as follows:

- for plant renovation and replacement of equipment to meet the high standard of GMP, a total amount of HK\$5.5 million was spent, exceeding the planned expenditure of HK\$2.5 million by more than HK\$3.0 million. The project has completed.
- An amount of more than HK\$1.30 million was paid as new technology transfer fee for the acquisition of the new medicine “Piglyketone” (匹格列酮) . A further HK\$0.80 million shall be paid under the contract which is in line with HK\$2.10 million as planned in the Prospectus.
- An amount of more than HK\$0.60 million was paid for the acquisition of “Azithromycin Granules” (阿奇霉素微囊細粒劑) . A further amount of approximately HK\$0.10 million shall be paid under the contract. This is largely in line with HK\$0.70 million as planned in the Prospectus.
- An amount of HK\$0.31 million was paid on projects of installing additional production facilities and raising production volume.
- An amount of HK\$23.0 million, exceeding the planned expenditure by HK\$5.0 million, was spent for new market expansion and market promotion for existing products of the Group in order to develop new markets more effectively.
- An amount of more than HK\$0.47 million was paid as new technology transfer fee for the acquisition of “Yan Suan A Bi Duo Er” (鹽酸阿比朵爾) .

As at 30 June 2002, bank loans of the Group at fixed rate in the PRC amounted to approximately RMB53,000,000 (equivalent to HK\$50,000,000), representing an increase of approximately RMB3,000,000 (equivalent to HK\$2,800,000) as compared to the outstanding loans at 31 December 2001. Since movements of Renminbi against other currencies, in particular the Hong Kong dollar were more stable, the Directors do not anticipate any major foreign exchange risks, therefore the Group has not arranged for any currency hedge. The Group has secured short-term floating rate loan of HK\$27,000,000 for working capital. An amount of approximately HK\$1,900,000 was paid as aggregate interest of bank loans, and no property of the Group was pledged to banks to secure banking facilities, nor was there the use of any financial instruments for hedging purposes.

Gearing ratio of the Group increased from approximately 24% as at 31 December 2001 to approximately 39% as at 30 June 2002. The calculation of which is based on net borrowings of approximately HK\$77,917,000 (31 December 2001: HK\$47,170,000) and shareholders’ fund of approximately HK\$197,932,000 (31 December 2001: HK\$196,305,000).

#### CONTINGENT LIABILITIES

As at 30 June 2002, no assets of the Group were pledged or involved in any litigation. Accordingly, the Group had no significant contingent liabilities.

#### SHORT AND LONG TERM BUSINESS DEVELOPMENT PLANS

- The Group will continue to develop the new markets as explored last year, namely Beijing, Changdu, Chongqing and Wuhan, and increase its penetration into these markets to seek for opportunities in expanding the neighbouring regional markets. It is anticipated that sales in these markets have potentials of further growth.
- The Group will continue to develop new markets, such as Shenzhen and Quanzhou, Fujian Province in the second half of the year, in achieving steady business growth for the Group.
- The GMP improvement for the Group’s medicine production plants has been inspected and certified by the Ministry of National Medicine Supervision in May 2002. Production commenced in July 2002, and existing products include “Kang Gu Zeng Sheng Plan” (抗骨增生片) and “Tong Mai Ke Li” (通脈夥粒) . Production of “Mei Nuo Ping” (美諾平) will commence in October this year whereas “Azithromycin” (阿奇霉素) and “Piglyketone” (匹格列酮) will be key products for production in 2003. Production of “Yan Suan A Bi Duo Er” (鹽酸阿比朵爾) are expected to be launched in 2004. The Group will focus on the production of medicines and health food as its key development strategies in the future.
- The Group also has proactively diversified its businesses. Other than production of health food and medicines, the Group has participated in a property investment project jointly with an experienced developer in Guangzhou. The project will commence in the second half of the year, and the Group’s investment amounted to approximately HK\$20.0 million.

#### PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities.

#### CODE OF BEST PRACTICE

During the period, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

#### AUDIT COMMITTEE

The audit committee, the management and the auditors of the Company have reviewed the accounting principles adopted by the Group and the interim financial report for the six months ended 30 June 2002.

On behalf of the Board  
**Golden Dragon Group (Holdings) Limited**  
**Wong Yin Sen**  
Chairman

Hong Kong, 26 September 2002

#### Notes:

- A detailed results announcement will be published on the website of the Stock Exchange at <http://www.hkex.com.hk>. in due course, containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules.
- The 2002 interim report of the Company is expected to be dispatched to shareholders of the Company in late September 2002.