Golden Dragon Group (Holdings) Limited

金龍集團（控股）有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 329)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

The Board of Directors (the "Directors") of Golden Dragon Group (Holdings) Limited (the "Company") is pleased to announce that the audited consolidated income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006, together with the comparative figures for the previous year are set out below:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTES	**2006** *HK$'000*	2005 *HK$'000*
Turnover		**219,473**	176,763
Cost of goods sold		**(118,924)**	(79,199)
Gross profit		**100,549**	97,564
Other income		**1,609**	423
Distribution costs		**(64,205)**	(63,585)
Administrative expenses		**(27,009)**	(19,368)
Finance costs	*4*	**(3,555)**	(3,285)
Profit before tax		**7,389**	11,749
Income tax expense	*5*	**(2,023)**	(2,769)
Profit for the year	*3*	**5,366**	8,980
Attributable to:			
Equity holders of the parent		**5,366**	8,980
Basic earnings per share	*6*	**HK0.87 cents**	HK1.54 cents

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER, 2006

	2006 *HK$'000*	2005 *HK$'000*
Non-current assets		
Property, plant and equipment	**28,954**	29,512
Goodwill	**3,934**	3,934
Available-for-sales investments	—	—
Intangible assets	**3,968**	5,397
Prepaid lease payments	**2,406**	2,470
	39,262	41,313
Current assets		
Inventories	**131,844**	87,056
Trade receivables	**84,612**	110,929
Deposits and other receivables	**17,007**	38,474
Prepaid lease payments	**64**	64
Amounts due from related companies	**57,208**	2,029
Bank balances and cash	**64,046**	68,400
	354,781	306,952
Current liabilities		
Trade payables	**11,038**	4,355
Accruals and other payables	**31,221**	36,025
Amounts due to directors	—	3,020
Amount due to related companies	—	3,902
Borrowings	**44,836**	36,493
Taxation payable	**1,262**	1,351
Obligations under a finance lease	—	158
	88,357	85,304
Net current assets	**266,424**	221,648
Total assets less current liabilities	**305,686**	262,961
Capital and reserves		
Share capital	**70,080**	58,400
Reserves	**235,606**	168,768
Equity attributable to equity holders of the parent	**305,686**	227,168
Non-current liability		
Preferred shares issued by a subsidiary	—	35,793
	305,686	262,961

Notes:

1. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December, 2005 or 1 January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies[3]
HK(IFRIC) — INT 8	Scope of HKFRS 2[4]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC) — INT 12	Service concession arrangment[8]

[1] Effective for annual periods beginning on or after 1 January, 2007.
[2] Effective for annual periods beginning on or after 1 January, 2009.
[3] Effective for annual periods beginning on or after 1 March, 2006.
[4] Effective for annual periods beginning on or after 1 May, 2006.
[5] Effective for annual periods beginning on or after 1 June, 2006.
[6] Effective for annual periods beginning on or after 1 November, 2006.
[7] Effective for annual periods beginning on or after 1 March, 2007.
[8] Effective for annual periods beginning on or after 1 January, 2008.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating business — production and sales of health care products, pharmaceutical products and electronic cigarettes components. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Business segments

RESULTS

	Health care products		**Pharmaceutical products**		**Electronic cigarettes components**		**Total**	
	2006 *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*
Segment turnover	**83,690**	100,583	**33,063**	30,088	**102,720**	46,092	**219,473**	176,763
Segment result	**573**	9,020	**2,011**	3,699	**21,110**	12,080	**23,694**	24,799
Other income							**1,609**	423
Unallocated corporate expenses							**(14,359)**	(10,188)
Finance costs							**(3,555)**	(3,285)
Profit before tax							**7,389**	11,749
Income tax expense							**(2,023)**	(2,769)
Profit for the year							**5,366**	8,980

BALANCE SHEET

	Health care products		**Pharmaceutical products**		**Electronic cigarettes components**		**Total**	
	2006 *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*
ASSETS								
Segment assets	**167,129**	209,023	**35,019**	51,985	**116,616**	15,761	**318,764**	276,769
Unallocated corporate assets							**75,279**	71,496
Consolidated total assets							**394,043**	348,265
LIABILITIES								
Segment liabilities	**26,305**	26,786	**3,248**	4,682	**12,300**	4,156	**41,853**	35,624
Unallocated corporate liabilities							**46,504**	85,473
Consolidated total liabilities							**88,357**	121,097

OTHER INFORMATION

	Health care products		**Pharmaceutical products**		**Electronic cigarettes components**		**Unallocated**		**Total**	
	2006 *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*
Additions of property, plant and equipment	**15**	3	**631**	413	—	—	—	5	**646**	421
Allowance for obsolete stocks	—	1,000	—	—	—	—	—	—	—	1,000
Depreciation of property, plant and equipment	**1,361**	1,834	**534**	626	**140**	—	**190**	211	**2,225**	2,671
Amortisation of intangible assets	—	—	**652**	2,129	**938**	923	—	—	**1,590**	3,052
Loss on written off of property, plant and equipment	—	(74)	—	—	—	—	—	—	—	(74)

Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC") and the segments assets of the Group are substantially located in the PRC. Accordingly, no analysis by geographical segment is presented.

3. PROFIT FOR THE YEAR

	THE GROUP	
	2006 *HK$'000*	2005 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments	**5,646**	5,582
Other staff costs		
— salaries and allowances	**8,490**	8,193
— retirement benefits scheme contributions	**384**	366
	14,520	14,141
Amortisation of intangible assets (included in cost of sales)	**1,590**	3,052
Amortisation of prepaid lease payments	**64**	64
Allowance for obsolete stocks	—	1,000
Write back for bad and doubtful debts	—	(3,000)
Impairment loss on available-for-sale investments	—	1,000
Cost of inventories recognised as expense	**117,334**	76,147
Auditors' remuneration	**920**	820
Write off of property, plant and equipment	—	74
Depreciation and amortisation		
— owned assets	**2,225**	2,483
— asset held under a finance lease	—	188
	2,225	2,671
Operating lease rentals in respect of land and buildings	**4,286**	3,958
Rental income	**(234)**	(231)
Interest income	**(366)**	(72)

4. **FINANCE COSTS**

	2006 HK$'000	2005 HK$'000
The finance costs represent interests on:		
— bank borrowings wholly repayable within five years	**1,823**	2,457
— other loans	**1,708**	—
— a finance lease	**24**	28
— preferred shares issued by a subsidiary	**—**	800
	3,555	3,285

5. **INCOME TAX EXPENSE**

	2006 HK$'000	2005 HK$'000
Current tax:		
PRC Enterprise Income Tax	**2,023**	2,769

No Hong Kong Profits Tax is payable by the Company or its subsidiaries operated in Hong Kong since they had no assessable profit for the year.

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profit applicable to each subsidiary in the PRC.

The Group's PRC subsidiaries are subject to the PRC income tax and local income tax at the following rate:

	2006	2005
Shenyang Jinlong Health Care Products Co. , Ltd. ("Shenyang Jinlong")	**18%**	18%
Shenyang Chenlong Longevity Ginseng Co. , Ltd. ("Shenyang Chenlong")	**16.5%**	15%
Shenyang Jinlong Pharmaceutical Co. , Ltd. ("Jinlong Pharmaceutical")	**7.5%**	7.5%
Other PRC subsidiaries	**33%**	33%

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Jinlong is subject to PRC income tax of 15% and local income tax of 3%.

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Chenlong is subject to PRC income tax of 15% tax and local income tax of 1.5%.

Pursuant to relevant tax rules and regulations in the PRC, Jinlong Pharmaceutical is 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. In 2005, Jinlong Pharmaceutical is entitled to a 50% relief from PRC income tax of 15% for the three years ending 31 December, 2007 and entitled to an exemption of the local income tax of 3%. Therefore, Jinlong Pharmaceutical is subject to PRC income tax of 7.5% for the period.

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	**7,389**	11,749
Tax at PRC income tax rate of 33% (2005: 33%)	**2,438**	3,877
Tax effect of expenses not deductible for tax purpose	**2,874**	1,690
Tax effect of tax losses not recognised	**356**	212
Effect of tax relief entitled by the Company's subsidiaries	**(3,645)**	(3,010)
Taxation for the year	**2,023**	2,769

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$1,721,000 (2005: HK$642,000) available for offset future profits. No provision of deferred taxation has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

6. **BASIC EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006 HK$'000	2005 HK$'000
Earnings		
Earnings for the purposes of basic earnings per share	**5,366**	8,980

	2006 '000	2005 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**616,960**	584,000

Diluted earnings per share has not been presented as there were no potential ordinary shares in both years presented.

7. **FINAL DIVIDENDS**

No interim dividend was declared for the year. The Board does not recommend the payment of any final dividend for the year ended 31 December 2006 (2005: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE CONDITIONS

For the year 2006, the Group recorded sales of health care products of HK$83,690,000, representing a decrease of 16.80% from the corresponding period in the previous year, and sales of pharmaceutical products amounted to HK$33,063,000, increasing by 9.89% from the corresponding period in the previous year, while the sales of Electronic Cigarettes Components, rose 122.86% to HK$102,720,000 from the corresponding period in the previous year. Overall, the Group recorded a satisfactory sales turnover of HK$219,473,000, representing an increase of 24.16% when compared with the previous year.

Since competition in the PRC's health care products and pharmaceutical products market remained intense and distribution cost, advertising and marketing expenses continued to be substantial, the business of these products was unable to generate satisfactory profit growth for the Group. Therefore, the Group has been actively developing new products with health concept such as Electronic Cigarettes Component, a tobacco substitute health care product, and satisfactory results were achieved in this area.

Meanwhile, the Group continued to seek for opportunities in the market of other non-traditional health care products for diversification, aiming to enhance our business performance and strengthen the foundation for the Group's further development.

PRODUCT DEVELOPMENT

The Group increased its investment in the development of pharmaceutical products. In 2006, the Group completed the development and proceeded to the registration of a total of 15 new pharmaceutical products. Currently, the Group has obtained the production approval of "Hai Te Ling" (咳特靈) and commenced small-scale production. Amlodipine Besylate Tablets (苯磺酸氨地平) and Pidotimod Capsule (匹多莫德膠囊) have been granted the approval for clinical research while all requisite approvals are expected to be granted in three months from the date of this announcement. With the delay of the relevant departments of the State Pharmaceutical Administration in review and approval of the other 12 new products, it is expected that these products will all be reviewed and approved in the second half of 2007. In conclusion, the Group's profit will be enhanced with its strategy of diversification in pharmaceutical products.

REGIONAL DEVELOPMENT

In respect of the pharmaceutical business, the Group focused on establishing distribution channels and networks in 2006. The Group completed the tender in 21 provinces and cities and received the approval in pricing in 29 provinces and cities. The Group's end customers rose to 482 as compared with 252 in 2005 and this laid a solid foundation for the steady growth in sales of pharmaceutical products.

PROSPECTS FOR THE YEAR 2007 AND DEVELOPMENT PLAN

To resume the growth track of the sales of its health care products, the Group has not only improved its products packing and increased the product mix, but also made use of direct sales channels on TV in Guangdong and Henan during the fourth quarter of 2006. In view of the delightful results achieved, the Group will expand the scale and geographical reach of tele-sales. We believe that with the above measures, the sales of health care products will resume its growth in 2007.

The Group has completed the development of certain products in 21 provinces and cities and this laid a strong foundation for its pharmaceutical products. Three products are expected to be launched in 2007 and which will enhance the stable development of the Group.

In addition, the Group is planning to acquire the entire shareholding of Best Partners Worldwide Limited, which engages in the manufacturing and sales of Electronic Cigarettes Components. Best Partners Worldwide Limited takes an active position in developing the domestic and overseas markets under the brand name of "Ruyan" (如烟) with a turnover and net profit of HK $ 280 million and more than HK $ 90 million achieved respectively in 2006. Such achievement represents an enormous development potential of the business of electronic cigarettes. The above acquisition plan is near completion and will greatly expand the scope of business and enhance the long term development of the Group.

LIQUIDITY AND FINANCIAL ANALYSIS

As at 31 December 2006, bank loans of the Group amounted to HK$20.974 million, representing a decrease of HK$15.519 million as compared to the total outstanding loans as at 31 December 2005, all of which were short-term loans due within one year and part of which were loans in Renminbi. Since movements of Renminbi against other currencies, in particular the Hong Kong dollar were more stable, the Directors do not anticipate to face any major currency exposures, therefore the Group has not arranged any currency hedge.

During the year, an amount of HK$1.823 million was paid as aggregate interest of bank loans (2005: HK$2.457 million). The Group did not use property as securities for such bank facilities, nor the use of any financial instruments for hedging purposes.

Gearing ratio of the Group reduced from approximately 16.13% as at 31 December 2005 to approximately 14.67% as at 31 December 2006. This calculation is based on net borrowings of approximately HK$44.836 million (2005: HK$36.651 million) and shareholders fund of approximately HK$305.686 million (2005: HK$227.168 million).

As at 31 December 2006, the balance of the inventories amounted to HK$131.844 million, representing a increase of HK$44.788 million when compared with the corresponding period of the previous year.

ACQUISITION

These was no material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2006. However, the Company entered into a non-legally binding memorandum of understanding ("MOU") with Dragon Concept Investments Limited ("Dragon Concept"), the shareholding of which is owned as to 52.11% by Mr. Wong Yen Sin and 47.89% by Mr. Hon Lik, both are executive Directors. Pursuant to the MOU, the Company shall acquire or procure to acquire not less than 30% interest in a company which shall be a direct or an indirectly subsidiary of Dragon Concept. On 13 February 2007, a sale and purchase agreement was entered into between Ability Act Investments Limited, the shareholding of which is owned as to 60.5% by Dragon Concept and Wealthy Well Investments Limited, a wholly owned subsidiary of the Company, for the acquisition of the entire issued share capital of Best Parnters Worldwide Limited for a consideration of RMB1,120,000,000 (subject to adjustment) (the "Acquisition"). Detail of the Acquisition are set out in the announcement of the Company dated 7 December 2006, 19 March 2007 and 3 April 2007.

CHARGE OF ASSETS

As at 31 December 2006, the Group had no bank deposits pledged to banks to secure banking facilities granted to its subsidiaries (2005: nil).

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not provide any form of guarantees for any outside companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EMPLOYEE POLICY

In addition to maintaining a stable employee policy, the Group will also improve employee benefits. In 2006, the Group organized enforcement, occupational quotient, manpower bottle-neck and efficient communications trainings for its management staff with an aim of upgrading their administrative abilities. Our employee policy aims at remunerating and rewarding outstanding staff while laying off staff who fail to perform satisfactorily in order to arouse the morale and initiative of the staff.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 June 2007 to 8 June 2007 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting (the "AGM"), all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00p.m. on 4 June 2007.

AUDIT COMMITTEE

The audit committee of the Company and the management of the Company have reviewed the accounting principles and practices adopted by the Group and have discussed the matters relating to auditing, financial reporting procedures and internal control, including the review of the final results of the Group for the year ended 31 December 2006.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2006 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") set out in the Appendix 14 to the Rules Governing the Listing of Securities an The Stock Exchange of Hong Kong Limited (the "Listing Rules") and has complied with the CG Code during the year ended 31 December 2006, save for the following deviation:

(i) the independent non-executive Directors and non-executive Director were not appointed for specific terms as required by paragraph A.4.1. of the CG Code but they are subject to retirement by rotation in accordance with the articles of association of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific inquiries to the Directors, all Directors confirmed that they have complied with the Model Code throughout the year 2006.

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

During the year 2006, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the reporting period.

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

DIRECTORS

As at the date of this announcement, the executive Directors are Mr. Wong Yin Sen, Mr. Hon Lik, Mr. Wong Hei Lin, Mr. Li Kim Hung, Isaacs; the non-executive Director is Ms. Cheng Kong Yin; and the independent non executive Directors are Mr. Pang Hong, Mr. Cheung Kwan Hung, Anthony and Mr. Ding Xun.

By order of the Board
Golden Dragon Group (Holdings) Limited
Wong Yin Sen
Chairman

Hong Kong, 24 April 2007