



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)

INTERIM RESULTS 2004

The board of directors (the “Directors”) of Golden Dragon Group (Holdings) Limited (the “Company”) (the “Board”) 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 2004, 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 2004

NOTES	Six months ended	
	30.6.2004 HK\$'000 (unaudited)	30.6.2003 HK\$'000 (unaudited)
Turnover	62,342	49,214
Cost of goods sold	(23,698)	(17,989)
Gross profit	38,644	31,225
Other operating income	134	613
Distribution costs	(19,653)	(17,681)
Administrative expenses	(10,706)	(8,566)
Profit from operations	5 8,419	5,591
Finance charges	(3,285)	(3,212)
Profit before taxation	5,134	2,379
Taxation	6 (1,529)	(847)
Profit before minority interests	3,605	1,532
Minority interests	(56)	(449)
Net profit for the period	3,549	1,083
Dividend	7 –	–
Basic earnings per share	8 HK0.61 cents	HK0.19 cents

NOTES:

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Absolute Target Limited, a company incorporated in the British Virgin Islands.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in production and sales of a series of health care and pharmaceutical products.

2. 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 and with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting”.

3. 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 2003.

4. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating businesses-production and sales of health care products and pharmaceutical products. These businesses are the basis on which the Group reports its primary segment information.

Segment information for the six months ended 30 June 2004 and 30 June 2003 about these businesses is presented below.

	Health care products		Pharmaceutical products		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment turnover	47,793	42,086	14,549	7,128	63,392	49,214
Segment result	7,761	6,772	6,751	4,074	14,512	10,846
Other operating income					134	613
Unallocated corporate expenses					(6,227)	(5,868)
Profit from operations					8,419	5,591
Finance charges					(3,285)	(3,212)
Profit before taxation					5,134	2,379
Taxation					(1,529)	(847)
Profit before minority interests					3,605	1,532
Minority interests					(56)	(449)
Net profit for the period					3,549	1,083

Geographical segments

The Group’s operations are mainly located in the People’s Republic of China (the “PRC”) and accordingly, no analysis by geographical segment is presented.

5. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2004 HK\$'000	30.6.2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,583	1,618
Amortisation of intangible assets	733	–
Allowance for bad and doubtful debts	350	–
Interest income	(71)	(205)

6. TAXATION

	Six months ended	
	30.6.2004 HK\$'000	30.6.2003 HK\$'000
Income tax in the PRC (other than Hong Kong)	1,529	847
No Hong Kong Profits Tax is payable by the Company or its subsidiaries operating in Hong Kong 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.		

Shenyang Chenlong Longevity Ginseng Co., Ltd. (“Shenyang Chenlong”), a wholly-owned subsidiary of the Company, is entitled to a 50 per cent relief on PRC income tax at the reduced rate of 7.5 per cent for the three years ending 31 December 2004. In addition, Shenyang Chenlong is entitled to an exemption of the local income tax of 3 per cent during the five years ending 31 December 2004, followed by a 50 per cent relief for the next three years ending 31 December 2007.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

7. INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for the six months ended 30 June 2004 (2003: Nil).

8. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the net profit for the six months ended 30 June 2004 of HK\$3,549,000 (Six months ended 30 June 2003: HK\$1,083,000) and on 584,000,000 (Six months ended 30 June 2003: 584,000,000) shares in issue during the six months ended 30 June 2004.

No diluted earnings per share is presented because the exercise price of the Company’s potential ordinary shares was higher than the average market price for shares for the period.

MANAGEMENT REPORT, DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND MARKET CONDITIONS

The following is the six-month business review ended 30 June 2004 (the “period under review”) presented by the Directors of the Group.

During the period under review, the Group recorded an unaudited aggregate turnover of approximately HK\$62,342,000, representing an increase of approximately 26.7 per cent when compared with approximately HK\$49,214,000 in the corresponding period in 2003. The unaudited consolidated profits attributed to shareholders was approximately HK\$3,549,000 in the period under review, representing an increase of approximately 227.7 per cent from approximately HK\$1,083,000 in the corresponding period in 2003. The Directors consider that the increase in profit was mainly attributable to the Group’s effort of improving the business operations during the period under review. Please refer to the relevant paragraphs below for details. The earnings per share for the period under review was approximately HK 0.61 cents (corresponding period in 2003: approximately HK 0.19 cents).

Despite the Group’s overall performance for the period under review which was better than the corresponding period in 2003, the Group had faced intense competitions in the PRC’s health care products market together with the surging cost of sales including advertising and promotion costs, consequently this sector even with its modest growth was unable to generate satisfactory revenue for the Group. For the period under review, the Group achieved sales income of HK\$62,342,000, an increase of 26.7 per cent from the corresponding period in 2003. Of which, the sales income of “Baoling Longevity Ginseng”「保齡蔘」was approximately HK\$32,379,000, “American Ginseng”「西洋蔘」was HK\$15,414,000 and pharmaceutical products was HK\$14,549,000.

In coping with the situation mentioned above, the Group endeavored to expand the markets for other products, as a result the pharmaceuticals products, including “Azithromycin Granules”「阿奇霉素微囊細粒劑」and “Mei Nuo Ping”「美諾平」achieved satisfactory results. Meanwhile, the Group is seeking to explore the non-traditional health care products market for diversification.

NEW PRODUCT DEVELOPMENT

In the second half of 2003, the Group obtained an approval to produce “Azithromycin Granules”「阿奇霉素微囊細粒劑」and generated the Group’s sales income by approximately HK\$2,000,000. During the period under review, the product contributed further to the Group’s sales income of approximately HK\$2,758,000. The Directors believe that the sales of “Azithromycin Graules”「阿奇霉素微囊細粒劑」have a potential to increase significantly as the Group has launched a promotion campaign for the product.

After the launch of product “Mei Nuo Ping”「美諾平」in 2002, which is good for pimples treatment and can be taken orally together with ointment for external use, the product achieved a sales income of approximately HK\$7,122,000 for the period under review, which is nearly the same level as the corresponding period in 2003. Since there is a large number of similar products existing in the PRC and the market is extremely competitive, the Group has to consciously control the cost of marketing activities while expanding its market coverage so as to enhance the cost benefits of the Group’s products.

For the period under review, “Korean Ginseng”「高麗蔘」, a traditional health care product, contributed a sales income of HK\$1,653,000. The product was not introduced in the market in the corresponding period in 2003. Likewise, there are many compatible products existing in the PRC market and competition is fierce. Therefore, the Directors expect to achieve a moderate growth in the sales of this product.

In view of the persisting dire conditions of the health care products market, the Group decides that it is inappropriate to undertake large scale marketing promotion for the new product “Xiang Fei Jiao Nang”「香妃膠囊」. As such, the product is treated as a reserved product and the specific timing for the market launch is under consideration.

The approval of “Nuclein”「核能元」is still being processed. A clinical test approval was granted for another new product “Luo Hong Mei Su”「羅紅霉素」for which further approvals are still being processed.

Following the enhancement of the production technology of the product “Baoling Longevity Ginseng”「保齡蔘」, (the product’s registration reference Liao Wei Jian Zi (1996) No.0136 of which has been changed to Guo Yao Zhan Zi No. B20021010 as approved by the State Pharmaceutical Supervision and Administration Bureau of the PRC in December 2002), the product is expected to be launched in the second half of 2004.

In addition, the Group is now developing its own health care products such as “Zhuang Gu Fan”「壯骨粉」“Bing Tong Yan Wo Kou Fu Ye”「冰糖燕窩口服液」, “Wu Ji Jing”「烏雞精」and “Qi Cai Zhen Zhu Ye”「七彩珍珠液」. The product “Qi Cai Zhen Zhu Ye”「七彩珍珠液」was granted the approval already, while approvals of the other products are still being processed.

REGIONAL DEVELOPMENT

The sales of the health care products of the Group were basically maintained at their original markets for the period under review. As the traditional health care product markets in the PRC continued to be uninspiring, the Group has not taken up any development plan to explore into other regional markets. The sales coverage of the product “Mei Nuo Ping”「美諾平」has been expanded from the original north-eastern part

of China to eastern China. Capitalising on the Group’s original sales network, the sales cost was effectively reduced. On the other hand, the new antibiotic product “Azithromycin Granules”「阿奇霉素微囊細粒劑」was launched for sale in October 2003. At present, the market coverage of the product is confined to the north-eastern part of China, bringing a satisfactory turnover of approximately HK\$2,758,000 during the period under review. The Group plans to expand its market coverage to eastern China in the second half of 2004, and carry out a nationwide marketing campaign. The sales prospect of the product in the PRC market is expected to be positive.

LIQUIDITY AND FINANCIAL ANALYSIS

An amount of US\$ 4,000,000 was raised with the issue of the first stage of 4,000,000 preferred shares by a subsidiary of the Group. The second stage of financing as well as investment is expected to be carried out in the second half of 2004 upon the Group obtaining of the new medicine certificate for nasal spray insulin. As at 30 June 2004, bank loans of the Group at fixed rate amounted to HK\$86,622,000, representing an increase of 6.7 per cent when compared with the total outstanding loans as at 31 December 2003. They were short-term loans due within one year with partial in Renminbi loans. Since movements of Renminbi against other currencies, in particular Hong Kong dollar were stable, the Directors do not anticipate to face any major currency exposure, therefore the Group has not arranged for any currency hedge. During the period under review, an amount of HK\$3,285,000 was paid as aggregate interest of bank loans and preferred shares (Corresponding period in 2003: HK\$3,212,000). The Group did not use any property as security for such banking facilities, nor was there the use of any financial instruments for hedging purposes.

Gearing ratio of the Group increased slightly from approximately 38.9 per cent as at 31 December 2003 to approximately 41.0 per cent as at 30 June 2004. This calculation is based on net borrowings of approximately HK\$87,065,000 (31 December 2003: HK\$81,727,000) and shareholders’ fund of approximately HK\$212,426,000 (31 December 2003: HK\$208,877,000).

As at 30 June 2004, the balance of the inventories amounted to HK\$109,306,000, representing a slight increase of 1.1 per cent when compared with the corresponding period of the previous year.

CHARGE OF ASSETS

As at 30 June 2004, the Group’s bank deposits of approximately HK\$13,033,000 (31 December 2003: HK\$20,626,000) were pledged to banks to secure general banking facilities granted to its subsidiaries.

CONTINGENT LIABILITIES

As at 30 June 2004, 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.

SHORT AND LONG TERM BUSINESS PROSPECTS AND DEVELOPMENT PLANS

Amidst the intense market competition, the Group failed to achieve satisfactory sales performance in the health care products market. In view of this, the Group committed to diversify its products. It is expected that apart from the product “Baoling Longevity Ginseng”「保齡蔘」which will maintain stable growth, the sales of other types of products will achieve better results. Meanwhile, the Group is also actively developing other associated health care products, aiming to explore other health care products in addition to the traditional health care products, and to enrich its product mix as well as strengthen its market share. Moreover, the Group is also involved in the production of ingredients for relevant products and raw materials to realise its diversified development strategy.

For the pharmaceutical market, leveraging on the Good Manufacturing Practice (“GMP”) accreditation which recognises the Group’s quality control on its pharmaceutical production facilities, the Group will continuously increases its products sales and market, and provides the essential equipment for the production of pharmaceutical products in order to capture more market share.

The Group will keep on looking for further valuable business opportunities, and explore more rooms for development to bring better return to the investors, and maximise the Group’s value in the investment market.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, neither 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 under review, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

AUDIT COMMITTEE

The audit committee of the Board and the management of the Company have reviewed the accounting principles and practices adopted by the Group and have discussed the matters related to auditing, financial reporting procedures and internal control, including the review of the interim financial report during the period under review.

The interim financial report during the period under review has been reviewed by the audit committee of the Board and the management of the Company as well as Messrs. Deloitte Tohmatsu, the auditors of the Company, in accordance with the Statements of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants.

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

Hong Kong, 22 September 2004

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 paragraph 46 of Appendix 16 to the Listing Rules.
- The 2004 interim report of the Company is expected to be despatched to shareholders of the Company in late September 2004.