



# Golden Dragon Group (Holdings) Limited

## 金龍集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liabilities)

### ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

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 2003, together with the comparative figures for the previous year are set out below:

#### AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Turnover		156,263	165,636
Cost of goods sold		(54,176)	(62,445)
Gross profit		102,087	103,191
Other operating income		938	465
Distribution costs		(58,547)	(53,103)
Administrative expenses		(24,820)	(24,362)
Profit from operations	3	19,658	26,191
Finance charges	4	(6,359)	(5,173)
Profit before taxation		13,299	21,018
Taxation	5	(2,738)	(4,238)
Profit before minority interests		10,561	16,780
Minority interests		(2,345)	(3,664)
Net profit for the year		8,216	13,116
Basic earnings per share	6	HK1.41 cents	HK2.25 cents

#### NOTES:

##### 1. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAPs”) and Interpretations approved by the HKSA:

SSAP 12 (Revised) Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

##### 2. SEGMENTS 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 about these businesses is presented below.

###### Business segments

###### RESULTS

	Health care products		Pharmaceutical products		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment turnover	138,820	156,185	17,443	9,451	156,263	165,636
Segment result	24,048	36,590	10,052	5,491	34,100	42,081
Other operating income					938	465
Unallocated corporate expenses					(15,380)	(16,355)
Profit from operations					19,658	26,191
Finance charges					(6,359)	(5,173)
Profit before taxation					13,299	21,018
Taxation					(2,738)	(4,238)
Profit before minority interests					10,561	16,780
Minority interests					(2,345)	(3,664)
Net profit for the year					8,216	13,116

###### Geographical segments

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

##### 3. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs		
Directors’ emoluments	5,154	4,801
Other staff costs		
– salaries and allowances	9,038	12,759
– retirement benefits scheme contributions	758	620
	14,950	18,180
Amortisation of intangible assets	508	–
Cost of inventories recognised as expense	49,273	53,932
Auditors’ remuneration	600	600
Loss (gain) on disposal of property, plant and equipment	101	(88)
Depreciation and amortisation		
– owned assets	3,005	2,609
– asset held under a finance lease	188	109
	3,193	2,718
Operating lease rentals in respect of land and buildings	5,879	9,202
Research and development expenditures	–	1,016
Interest income	(341)	(373)

##### 4. FINANCE CHARGES

	2003 HK\$'000	2002 HK\$'000
The finance charges represent interests on:		
– bank borrowings wholly repayable within five years	6,331	5,140
– a finance lease	28	33
	6,359	5,173

##### 5. TAXATION

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 individual company within the Group in the PRC.

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 per cent. tax relief for the next three years. The tax charge provided has been made after taking these tax incentives into account.

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

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	13,299	21,018
Tax at PRC income tax rate of 33% (2002: 33%)	4,389	6,936
Tax effect of expenses not deductible for tax purpose	1,635	1,513
Tax effect of tax losses not recognised	1,371	1,517
Effect of tax relief entitled by the Company’s subsidiaries	(4,657)	(5,728)
Tax expense for the year	2,738	4,238

At the balance sheet date, the Group has unused estimated tax losses of approximately HK\$16,414,000 (2002: HK\$8,579,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused estimated tax losses due to the unpredictability of future profit streams. The unused estimated tax losses may be carried forward indefinitely.

##### 6. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK\$8,216,000 (2002: HK\$13,116,000) and on 584,000,000 (2002: 584,000,000) shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company’s options was higher than the average market price for the shares for the year.

#### MANAGEMENT REPORT, DISCUSSION AND ANALYSIS

##### BUSINESS PERFORMANCE CONDITIONS

###### Results for the year 2003

In the year ended 31 December 2003, the audited consolidated profit of the Group amounted to HK\$8,216,000, representing a decrease of 37.4% over HK\$13,116,000 in the year 2002 due to unfavourable market conditions.

Turnover for the year 2003 was HK\$156,263,000, representing a decrease of 5.7% over HK\$165,636,000 in the year 2002.

Earnings per share for the year amounted to HK1.41 cents, representing a decrease of 37.3% over HK2.25 cents in the year 2002.

###### Business Review

2003 was an arduous year for enterprises in Asia. The outbreak of the Severe Acute Respiratory Syndrome (“SARS”) epidemic in the Asian region had a serious strike and impact on the retail market and consumer spending, halting economic growth in most countries in Asia. The business performance of the Group showed a notable decline during the first half of 2003. In coping with the situation, the management of the Group drastically reduced the costs of sales and temporarily suspended the exploration of the market for new health care products while at the same time strengthened the sales effort on pharmaceuticals. On the other hand, the Group had successfully opened up the markets in northern and eastern China in the second half of 2003, and as such the sales volume of pharmaceutical products recorded a satisfactory growth of 100% over that of 2002.

In October 2003, the Group entered into an agreement with an international investor for the acquisition and development of a nasal spray insulin project. A subsidiary of our Group agreed to issue a total of 7,000,000 preference shares to the investor and raise an aggregate of US\$7 million for the acquisition and development of the nasal spray insulin project. The first stage of 4,000,000 preference shares were issued and the funds raised were received in November 2003, which is currently placed as reserve fund pending approval of new medicine certificate by the State Pharmaceutical Supervision and Administration Bureau of the People’s Republic of China (the “PRC”), and thereafter production activity and sales campaign will be launched.

In view of the unstable conditions of the property market, the Group decided in 2003 to pull out from its real estate development project in Guangzhou. The Group withdrew all its investments from the said project and there was no profit or loss incurred therefrom.

###### Product Development

Our “Azithromycin Granules”「阿奇霉素微囊細粒劑」was granted the production approval in September 2003 and launched in the market in October 2003. The product contributed to the Group’s sales income of approximately HK\$2,000,000. In addition, the production approval of another new product “Piglyketone”「匹格列酮」was also granted in December 2003. The product is scheduled to put into production and market in 2004.

In January 2003, the Group signed a technology transfer contract with Shenyang Zhonghai Sheng Wu Ji Shu Kai Fu You Xian Gong Si (瀋陽中海生物技術開發有限公司) (“Shenyang Zhonghai”) in respect of the new State Category 2 virus-resistant medicine “Yan Shuan a Bi Duo er”「鹽酸阿比朵爾」. As Shenyang Zhonghai could not obtain the approval of clinical test, the contract was subsequently terminated.

The new product “Mei Nuo Ping”「美諾平」, which is good for pimples treatment and can be taken orally together with ointment for external use, achieved a sales income of approximately HK\$14 million, representing a 45% increase over that of the previous year. It is expected that there will be ample room for the development of this product.

Production approval of the new product “Xiang Fei Jiao Nang Pill”「香妃膠囊」, developed by the Group itself, was granted in March 2002. The product is treated as a reserved product which has not yet been put into production. The approval of “Nuclein”「核能元」is still being under processed.

Taking an advantage of the satisfactory sales performance of traditional health care products, a member of the Group for pharmaceutical products invested approximately HK\$2.8 million in the acquisition of the production technology of “Korean Ginseng”「高麗蔘」together with the production approval. The product was launched into market in August 2003 and recorded a sales income of approximately HK\$1.7 million.

After improvement of the production technology of the Longevity Ginseng of the Group, its registration reference Liao Wei Jian Zi (1996) No. 0136, 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 treated as a reserved product and expected to be launched into the market in the second half of 2004.

Moreover, the Group is now developing its own health care products such as “Zhuang Gu Fan”「壯骨粉」, “Bing Tong Yan Wo Kou Fu Yie”「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 other products are still under applications.

The application of another new product of the Group “Luo Hong Mei Su”「羅紅霉素」for approval has been accepted by the State Pharmaceutical Supervision and Administration Bureau of the PRC. The product is now undergoing clinical test.

###### Regional Development

The sales of the health care products of the Group were basically maintained at their original markets in 2003. Our new product “Mei Nuo Ping”「美諾平」expanded its sales coverage from the original north-eastern part of China to eastern China, and by capitalizing on its original sales network, the sales expenses of the new product was effectively reduced. On the other hand, the new antibiotic product “Azithromycin”「阿奇霉素」was launched for sale in October 2003, and at present its market coverage is confined to the north-eastern part of China, bringing a turnover of approximately HK\$2 million to the Group. The Group plans to expand into the market in eastern China in the second half of 2004.

##### PROSPECTS FOR THE YEAR 2004

The government of the PRC aims to introduce reform measures in the near future to regulate the management system on all pharmaceuticals and health care products in the country, including the Good Manufacturing Practice (“GMP”) accreditation towards the manufacturers and the Good Service Practice (“GSP”) requirements towards the sales channels. The ultimate objective of the reform is to ensure a healthy development of the health care industry.

Through the reform measures, it is expected that all the poor-quality or faked products will be expelled from the market whilst those quality health care products can be protected and supported for development. On the other hand, in the wake

of the outbreak of the SARS epidemic, consumer's demand towards disease-immune medicines has been enhanced. The sales for health care products is optimistic. With the steady growth of the national economy and the betterment of national income of the working population, people would pay more attention to health and improve their quality of life, all of which are attributable to healthy development for the market of health care products.

The Group believes that, amid the recovery of the market for health care products and supported by all the positive factors in 2004, it could capitalize on the market opportunities and reap a stable return for the year.

The robust sales network of the health care products in the PRC developed by the Group had laid a strong foundation for its further exploration of the pharmaceuticals market. Under the circumstances, the management of the Group believes that the Group will experience further development in 2004 and beyond, its pharmaceuticals business will bring fruitful returns and provide room for revenue growth.

**LIQUIDITY AND FINANCIAL ANALYSIS**

The issue of the first stage of 4,000,000 preference shares by a subsidiary of the Company raised US\$4 million which was placed as reserve fund, and will be used for investment once the new medicine certificate for nasal spray insulin is obtained. As at 31 December 2003, bank loans of the Group at fixed rate amounted to HK\$81.2 million, representing a decrease of HK\$20.8 million as compared to the total outstanding loans at 31 December 2002, all of which were short-term loans due within one year and partial in Renminbi loans. 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\$6.4 million was paid as aggregate interest of bank loans (2002: HK\$5.2 million). The Group did not use property as securities for such bank facilities, nor was there the use of any financial instruments for hedging purposes.

Gearing ratio of the Group reduced from approximately 50.8% at 31 December 2002 to approximately 38.9% at 31 December 2003. This calculation is based on net borrowings of approximately HK\$81.2 million (2002: HK\$102.0 million) and shareholders fund of approximately HK\$208.9 million (2002: HK\$200.7 million).

As at 31 December 2003, the balance of the inventories amounted to HK\$108.0 million, representing a decrease of HK\$9.7 million when compared with the corresponding period of the previous year, of which:

- (a) an amount of HK\$56.7 million was attributed to raw material, representing a decrease of HK\$0.6 million when compared with the corresponding period of the previous year; and
- (b) an amount of HK\$51.4 million was attributed to the work in progress and finished products, representing a decrease of HK\$9.1 million when compared with the corresponding period of the previous year. There was a higher inventory level in 2002 due to piling up of finished goods, however, the Group managed to reduce its inventory of finished goods in 2003.

**CHARGE OF ASSETS**

As at 31 December 2003, the Group's bank deposits of approximately HK\$20.6 million (2002: HK\$27.4 million) were pledged to banks to secure general banking facilities granted to its subsidiaries.

**CONTINGENT LIABILITIES**

As at 31 December 2003, 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**

To capture the arising opportunities from the traditional health care products' market, the Group has successfully launched the product "Korean Ginseng"「高麗蔘」in the market in the second half of 2003. The sales coverage for the product is merely confined to the eastern China region, and sales in 2003 reached HK\$1.7 million. In 2004, the product will also be sold to other potential and valuable markets such as Beijing and Wuhan, and it is expected to bring promising sales revenue to the Group.

The Group will step up promotion and sales of the product "Mei Nuo Ping"「美諾平」and the antibiotic "Azithromycin"「阿奇霉素」, and further develop new markets in addition to the existing markets in northern and eastern China.

In order to cope with its marketing strategy of producing a great variety of pharmaceutical products and enhancing their therapeutic effects, the Group will promote the production of the new medicine for curing diabetes – "Piglyketone"「匹格列酮」. With the increases in the sales of new products, it is expected that the Group will ride on the steady growth track.

In view of the keen competition in the market for health care products, the Group has significantly reduced sales expenses and retained the existing mode of sales by increasing the utilization rate of the "specialty outlets". It is anticipated that 1,000 shops will be opened within the nation to expand its profit base.

**EMPLOYEE POLICY, PERFORMANCE AND SALARY PROCEDURES**

The Group has a total of over one thousand employees in the PRC and the Hong Kong (remains at the same level of last year).

The Group has implemented a comprehensive staff policy together with the reward/penalty system so as to enhance the overall operational efficiency. The Group put much emphasis on staff's performance and their contribution to the Company. The production division implements performance appraisal standards for all employees of various levels and department. Those who fail to meet the appraisal standards are subject to dismissal. On the other hand, the Group conducts regular monthly and annual appraisal systems on employees, and those with remarkable performance upon appraisal are rewarded whereas those who fail are dismissed.

For employees engaged in production, output targets for various products are formulated for various postings. The Company offers 20% of the savings to award those staff (or job postings) who have exceeded the output target. On the other hand, a quota system is implemented by the Group in respect of the production task of various job postings. According to the 100 Points Appraisal System Implemented by the Group, those who fail to achieve their production quota are subjects to salary reduction in proportion to the quantity of work not being completed, however, those who have work exceeded the production quota are awarded.

In respect of the marketing division, the Group adopts a performance-based salary system which links the salary of the marketing officers with the selling expenses and the sales income, in order to encourage the officers to excel in their sales performance. The marketing officers only receive a monthly basic salary, and by the end of the year, bonus will be granted to those who are able to achieve their sales target, which based on the calculation with regards to the selling expense as a percentage to the sales income.

**CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 20 May 2004 to 25 May 2004 both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00p.m. on 19 May 2004.

**PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION OF THE COMPANY**

Certain amendments to the Listing Rules relating to corporate governance issues became effective on 31 March 2004. In order to bring the existing articles of association of the Company (the "Existing Articles") in line with the changes brought upon by the amendments to the Listing Rules, the Directors propose to amend the Existing Articles. Details of the proposed amendments to the Existing Articles will be set out in a circular to be despatched to shareholders of the Company together with the 2003 annual report.

**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 related to auditing, financial reporting procedures and internal control, including the review of the final results of the Group for the year ended 31 December 2003.

**THE CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2003.

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

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

**PUBLICATION OF RESULTS ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE**

A detailed results announcement containing 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 in due course.

**DIRECTORS**

As at the date of this announcement, the executive Directors are Messrs. Wong Yin Sen, Hon Lik, Wong Hei Lin, Li Kim Hung. The non-executive Director is Ms. Cheng Kong Yin. The independent non-executive Directors are Messrs. Pang Hong and Mo Kwan Nin.

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