



# 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 2006

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 2006, 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 2006

	Six months ended	
	30.6.2006	30.6.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Revenue	98,223	76,433
Cost of sales	(52,457)	(34,279)
Gross profit	45,766	42,154
Other income	275	3,331
Distribution costs	(23,930)	(25,734)
Administrative expenses	(11,982)	(10,398)
Finance costs	(1,944)	(4,292)
Profit before tax	8,185	5,061
Income tax expense	(1,835)	(1,051)
Profit for the period	6,350	4,010
Attributable to:		
Equity holders of the parent	6,350	4,010
Basic earnings per share	HK1.09 cents	HK0.69 cents

#### CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006

	30.6.2006	31.12.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Non-current assets		
Property, plant and equipment	28,979	29,512
Goodwill	3,934	3,934
Available-for-sales investments	–	–
Intangible assets	4,151	5,397
Prepaid lease payments	2,438	2,470
	39,502	41,313
Current assets		
Inventories	117,330	87,056
Trade receivables	93,186	110,929
Deposits and other receivables	24,968	38,474
Prepaid lease payments	64	64
Amounts due from related companies	1,326	2,029
Bank balances and cash	75,182	68,400
	312,056	306,952
Current liabilities		
Trade payables	10,256	4,355
Accruals and other payables	42,651	36,025
Amounts due to directors	–	3,020
Amounts due to related companies	6,495	3,902
Borrowings	43,028	36,493
Taxation payable	901	1,351
Obligations under a finance lease – due within one year	63	158
	103,394	85,304
Net current assets	208,662	221,648
Total assets less current liabilities	248,164	262,961
Capital and reserves		
Share capital	58,400	58,400
Reserves	177,804	168,768
Equity attributable to equity holders of the parent	236,204	227,168
Non-current liabilities		
Borrowing due after one year	11,960	–
Preferred shares issued by a subsidiary	–	35,793
	11,960	35,793
	248,164	262,961

NOTES:

#### 1. GENERAL AND BASIS OF PREPARATION

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 (“BVI”).

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

The condensed consolidated 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 Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

#### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statement for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the 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 periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

#### 3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29
	Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.
- <sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.
- <sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.
- <sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

#### 4. SEGMENTAL INFORMATION

##### Business segments

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

Segment information for the six months ended 30 June 2006 and 2005 about these businesses is presented below.

	Health care products		Pharmaceutical products		Electronic cigarettes components		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment turnover	34,802	39,634	16,272	14,127	47,149	22,672	98,223	76,433
Segment result	2,496	2,919	2,122	2,330	12,277	6,360	16,895	11,609
Unallocated other income							275	3,331
Unallocated corporate expenses							(7,041)	(5,587)
Finance costs							(1,944)	(4,292)
Profit before tax							8,185	5,061
Income tax expense							(1,835)	(1,051)
Profit for the period							6,350	4,010

#### 5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2006	30.6.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income tax in the People’s Republic of China (the “PRC”)	1,835	1,051

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

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 as set out below:

	2006	2005
Shenyang Jinlong Health Care Products Co., Ltd. (“Shenyang Jinlong”)	18%	18%
Shenyang Chenlong Longevity Ginseng Co., Ltd. (“Shenyang Chenlong”)	15%	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 subjected 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 subjected to PRC income tax of 15% tax and entitled to an exemption of local income tax of 3%.

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 both periods.

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

#### 6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2006	30.6.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,314	1,363
Amortisation of intangible assets (included in administrative expense)	1,298	1,186
Amortisation of prepaid lease payments	32	32
Impairment loss recognised in respect of available-for-sale investment	–	1,000
Interest income	(150)	(26)
Write-back of allowance for bad and doubtful debts	–	(2,629)

#### 7. DIVIDEND

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend (2005: Nil).

#### 8. BASIC EARNINGS PER SHARE

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

	Six months ended	
	30.6.2006	30.6.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	6,350	4,010
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	584,000	584,000

Diluted earning per share is not presented because the Group has no dilutive potential ordinary shares outstanding during both periods.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Business Review and Market conditions

The following is the six-month business review ended 30 June 2006 (the “period under review”) presented by the board of directors (the “Director(s)”) of the Group.

During the period under review, the Group recorded an unaudited consolidated aggregate turnover of approximately HK\$98,223,000, representing an increase of approximately 28.51% when compared with approximately HK\$76,433,000 in the corresponding period in 2005. The unaudited consolidated profits attributable to shareholders was approximately HK\$6,350,000 in the period under review, representing an increase of approximately 58.35% from approximately HK\$4,010,000 in the corresponding period in 2005. On these bases, the earnings per share for the period under review was approximately HK1.09 cents (corresponding period in 2005: approximately HK 0.69 cents).

The Group’s overall performance for the period under review was better than that for the corresponding period in 2005. However, due to intense competitions in the PRC’s health care products and pharmaceuticals products market and amount of distribution cost, advertising and selling expenses remain to be substantial, and the health care enterprise and industry have not come out of its development trough in spite of the fact that health care products’ consumption habits have been established in the market, the traditional business like health care products was unable to generate satisfactory revenue for the Group. Therefore, the Group has been actively developing the market for our new products with health concept such as Electronic Cigarettes Component, being a component used in electronic cigarette as a tobacco substitute health care product. The result achieved in this area was satisfactory. For the period under review, the Group achieved sales income of HK\$98,223,000, an increase of 28.51% from the corresponding period in 2005. Of which, the sales income of health care products, pharmaceuticals products and electronic cigarette components was approximately HK\$34,802,000, HK\$16,272,000 and HK\$47,149,000 respectively.

In early 2006, the Group restructured the convertible preferred shares of a subsidiary within the Group and completed the repurchase of such convertible preferred shares. The Group’s shareholding structure was not affected by the issuance of such convertible preferred shares.

#### NEW PRODUCT DEVELOPMENT

The products under the stage of research and development include Amlodipine Besylate which is used for the treatment of hypertension and patients with stabilised angina pectoris, and Pidotimid capsule which has the therapeutic effect of an immunostimulant and is suitable for patients with weak cellular immunity function and as a supplementary drug for anti-bacteria treatment in acute infections. These products are expected to have good prospects. The application for clinical testing of these products has been just completed. The application for production is under way, and they will be launched in the market once the application is approved. Approval is also actively sought for other Chinese traditional medicines under development.

The Group increased its investment in the development of pharmaceutical products. A number of new products developed on its own and other new products acquired with potential will commence production and sales after 2007, which will serve as new sources of growth for the Group. Two production lines have been established for the Electronic Cigarettes Component, our new product, achieving a production capacity of 500,000 pieces per day, which will generate stable earnings for the Group.

### REGIONAL DEVELOPMENT

Since the advertising cost for promoting health care products in the market is increasing and the Group is attempting to sell its health care products by adopting the marketing approach of franchise in the larger cities of the PRC, the Group has no plans to aggressively expand beyond its existing market to other regions and cities of the PRC where the consumption power is lower, mainly taking into account the reason that the investment in advertising may not be offset by the sales revenues generated from these regions. For pharmaceutical products, the Group shall develop its market at a steady pace, only taking gradual steps to develop other potential markets after these products consolidate their positions in the existing market.

### LIQUIDITY AND FINANCIAL ANALYSIS

As at 30 June 2006, bank loans of the Group amounted to HK\$31,068,000, representing a decrease of HK\$5,425,000 as compared to the total outstanding loans at 31 December 2005, all of which were short-term loans due within one year and partial in Renminbi loans. Although Renminbi is under the pressure of potential revaluation, movements of Renminbi were comparatively stable and the Directors do not anticipate to face any major currency exposures, therefore the Group has not arranged any currency hedge. The Group’s aggregate finance cost was approximately HK\$1,944,000 (corresponding period in 2005: HK\$4,292,000). 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 increased from approximately 16.13% at 31 December 2005 to approximately 23.31% at 30 June 2006. This calculation is based on net borrowings of approximately HK\$55,051,000 (31 December 2005: HK\$36,651,000) and shareholders fund of approximately HK\$236,204,000 (31 December 2005: HK\$227,168,000).

As at 30 June 2006, the balance of the inventories amounted to HK\$117,330,000, representing an increase of HK\$30,274,000 when compared with that of the corresponding period of the previous year, such increase was attributable to increase in the inventories for Electronic Cigarette Components, which was used as buffer for meeting the expected increase in demand for Electronic Cigarettes Component.

### DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

These was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2006.

### SIGNIFICANT INVESTMENTS HELD

There was no material change in the significant investments held by the Group during the six months ended 30 June 2006.

### CHARGE OF ASSETS

As at 30 June 2006, the Group had no bank deposits pledged to banks. (2005: Nil)

### CONTINGENT LIABILITIES

As at 30 June 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.

### SHORT AND LONG TERM BUSINESS PROSPECTS AND DEVELOPMENT PLANS

Health care products market is actually a special food market. Similar to pharmaceuticals products, they are used directly on human beings. Quality is therefore the most essential element to health care products, and the Group continuously places great emphasis on quality control and also plans to reinforce the maintenance of its production quality standards.

Amidst influence of “direct sales” model, the high marketing and advertising cost under our traditional sales model is no more suitable to the market developments. Currently, the Group proposes to cooperate with media firms for the direct sales of health care products on TV, as a mean to reverse the falling sales and reduce the proportion of the cost of sales. “Direct selling” is a new sales channel that the Group is planning to develop. It plans to create a new selling approach with this channel and expects to achieve a breakthrough in sales.

With the rapid development of the economy in China and the increase in the individual health care awareness, the Group continues to reverse the declining trend in the sales of its health care products, introduce new packaging specifications and develop new designs of packaging appearance to cater for the needs of different consumers.

As for our new product, the Electronic Cigarettes Component for the electronic cigarettes, the prospects of development are particularly promising. As more and more people become conscious of the importance of health, the electronic cigarette will be able to gradually replace traditional cigarettes. Two production lines for this product have been set up, as the product is expected to bring about a satisfactory revenue growth.

In early 2006, we established a new company, Shenyang Jinlong Health Tobacco Control Co., Ltd., in line with our plan to increase research and development for different health tobacco control products and with an aim to further expand the cigarette substitution market and create a healthier living environment for our customers.

China’s entry into the WTO has all-round impact on the medical and pharmaceuticals industry in respects ranging from research and development, production, circulation to the ultimate use of pharmaceuticals products and medical services. As for the production of pharmaceuticals products, the China chemical medicine industry is still full of potential to be explored. The Group strives to be benefited from the development of the national medical and pharmaceuticals production industry, and it is determined to strengthen and explore its cost advantage in terms of production to be in line with this goal.

### 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.

### COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules during the period under review, with the following exception as elaborated in our 2005 Annual Report:

Under code provision A.4.1 of the Code, non-executive directors should be appointed for specific term and subject to re-election. The non-executive Directors of the Company are not appointed for a specific term of office. However, the non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company’s Articles of Association.

### AUDIT COMMITTEE

The audit committee of the Board (comprising three independent non-executive directors 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 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 Touche Tohmatsu, the auditors of the Company, in accordance with the Statements of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA.

### MEMBERS OF THE BOARD

As at the date hereof, the members of the Board are as follows:

Executive Directors	Non-executive Director	Independent Non-executive Directors
Wong Yin Sen	Cheng Kong Yin	Pang Hong
Wong Hei Lin		Cheung Kwan Hung, Anthony
Li Kim Hung, Isaacs		Ding Xun
		On behalf of the Board
		Golden Dragon Group (Holdings) Limited
		Wong Yin Sen
		Chairman

Hong Kong, 18 September 2006

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 2006 interim report of the Company is expected to be despatched to shareholders of the Company in late September 2006.