



Golden Dragon Group (Holdings) Limited

金龍集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liabilities)
(Stock Code: 329)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

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 2004, together with the comparative figures for the previous year are set out below:

AUDITED CONSOLIDATED RESULTS

For the year ended 31 December 2004

		2004 HK\$'000	2003 HK\$'000
Turnover		173,089	156,263
Cost of goods sold		(72,318)	(54,176)
Gross profit		100,771	102,087
Other operating income		571	938
Distribution costs		(62,667)	(58,547)
Administrative expenses		(19,617)	(24,820)
Profit from operations	3	19,058	19,658
Finance charges	4	(6,049)	(6,359)
Profit before taxation		13,009	13,299
Taxation	5	(3,519)	(2,738)
Profit before minority interests		9,490	10,561
Minority interests		(1,188)	(2,345)
Net profit for the year		8,302	8,216
Basic earnings per share	6	HK1.42 cents	HK1.41 cents

NOTES:

1. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment turnover	136,591	138,820	20,168	17,443	16,330	–	173,089	156,263
Segment result	19,776	24,048	6,275	10,052	3,202	–	29,253	34,100
Other operating income							571	938
Unallocated corporate expenses							(10,766)	(15,380)
Profit from operations							19,058	19,658
Finance charges							(6,049)	(6,359)
Profit before taxation							13,009	13,299
Taxation							(3,519)	(2,738)
Profit before minority interests							9,490	10,561
Minority interests							(1,188)	(2,345)
Net profit for the year							8,302	8,216

Geographical segments

The Group's operations and sales 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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments	5,059	5,154
Other staff costs		
– salaries and allowances	7,747	9,038
– retirement benefits scheme contributions	361	758
	13,167	14,950
Amortisation of intangible assets (included in administrative expenses)	1,484	508
Allowance for obsolete stocks	2,595	–
Cost of inventories recognised as expense	62,839	49,273
Auditors' remuneration	750	600
Loss on disposal of property, plant and equipment	–	101
Depreciation and amortisation		
– owned assets	2,864	3,005
– asset held under a finance lease	188	188
	3,052	3,193
Operating lease rentals in respect of land and buildings	6,118	5,879
Interest income	(85)	(341)

4. FINANCE CHARGES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The finance charges represent interests on:		
– bank borrowings wholly repayable within five years	4,331	6,331
– a finance lease	28	28
– preferred shares issued by a subsidiary	1,690	–
	6,049	6,359

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	13,009	13,299
Tax at PRC income tax rate of 33% (2003: 33%)	4,293	4,389
Tax effect of expenses not deductible for tax purpose	2,707	1,635
Tax effect of tax losses not recognised	–	1,371
Effect of tax relief entitled by the Company's subsidiaries	(3,481)	(4,657)
Taxation for the year	3,519	2,738

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

6. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of approximately HK\$8,302,000 (2003: HK\$8,216,000) and on 584,000,000 (2003: 584,000,000) shares in issue during the year.

No diluted earnings per share has been presented because the condition attaching to the preferred shares of New Wellon Limited is not satisfied at the balance sheet date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE

Results for the year 2004

For the year ended 31 December 2004, the audited consolidated profit of the Group amounted to HK\$8,302,000, representing a marginal increase of 1.0% over HK\$8,216,000 in the year 2003.

Turnover for the year 2004 was HK\$173,089,000, representing an increase of 10.8% over HK\$156,263,000 in the year 2003.

Earnings per share for the year 2004 amounted to HK1.42 cents representing an increase of 0.7% over HK1.41 cents in the year 2003.

Business Review

The health care products market in PRC experienced a considerable recovery in 2004 in spite of increasing competition. The overall sales of the health care products in China increased by 13.3% over the previous year, among which the products for immunity system adjustment, detoxication and beautifying, blood-fat control and plant hormone and newly developed compound products with high technological content accounted for most of such increase, while the sales of existing products like traditional Chinese medicine retreated, reflecting the keen competition in the market. The management of the Group spent more on the marketing, especially in the smaller towns in Eastern China and the rural area so that sales could be maintained at basically same level as the previous year. “Azithromycin Granules”「阿奇霉素」began its sales in South Western and Southern regions of China, increasing its sales by nearly twofold the year-on-year; another new product “Electronic Cigarettes Component”「霧化電子煙彈」generated sales income of HK\$16,330,000. Thus, the Group sales turnover has an increase of 10.8% in comparison with the previous year.

Product Development

“Azithromycin Granules”「阿奇霉素微囊細粒劑」was launched in 2003 and generated sales income of approximately HK\$2,000,000. It was promoted to all over the country in the year 2004 with sales income increasing to about HK\$6,000,000, nearly two times the figure in the previous year.

The production approval of another new product “Piglyketone”「匹格列酮」was also granted in December 2003. This product was launched in December 2004 and has just begun to generate sales income due to the reasons like approvals for product and instruction on package, etc.

The new product “Mei Nuo Ping”「美諾平」is good for pimples treatment and composed of pills that can be taken orally together with ointment for external use, however, its sale was affected by the new stipulation that “External use medicine and orally-taken medicine shall not be packed in one single package” promulgated by the Food and Drug Administration of the PRC, and achieved sales income of only approximately HK\$11,000,000, a decrease of 20.5% year-on-year.

The Group spent approximately HK\$4,700,000 to buy a nicotia liquid formula during the year for improving the oral taste of the new product “Electronic Cigarettes Component”「霧化電子煙彈」developed by the Group on its own. The sale performance of this product was satisfactory during the year with sales income of HK\$16,330,000. The directors are optimistic for the potential of this product and believe it will contribute more to operating results.

Regional Development

Market shares of the health care products of the Group were basically maintained during the year 2004. The Group explored the potential in the traditional market in large and medium-sized cities and began to promote in smaller cities and towns around and the rural area. The strategy bore satisfactory result, e.g. “Azithromycin Granules” which was initially promoted in some parts of Northern, North Western and Southern regions of China, achieved sales income of approximately HK\$6,000,000, increasing by twofold from the previous year.

PROSPECTS FOR 2005 AND DEVELOPMENT PLAN

As the health care product market is recovering, new products are launched at a faster pace. The Group plans to launch more newly-developed products into the market in 2005. Besides the promotion in the medium and small-sized cities, town and rural areas, the Company plans to make use of direct distribution for our health care products in some selected regions, and will extend the mode to all over the country if it proves successful. It is estimated that the sales income of direct distribution will make up approximately 30% of the market shares in five years.

The Group will stress on the pharmaceutical product market. The marketing of “Azithromycin Granules” in 2004 has set a sound foundation for the coming year. Thanks to the existing sales network of “Azithromycin Granules”, “Piglyketone” has great potential. The pharmaceutical business may provide a more stable development to the Group.

“Electronic Cigarettes” will replace the traditional cigarettes gradually as more and more people become conscious about health. The directors are optimistic for the potential of its component and believe it will bring satisfactory return to the Group.

LIQUIDITY AND FINANCIAL ANALYSIS

The issue of 4,000,000 preference shares by a subsidiary of the Company in the first phase 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 2004, bank loans of the Group at fixed interest rate amounted to HK\$75.01 million, representing a decrease of HK\$6.72 million as compared to the total outstanding loans at 31 December 2003, 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\$4.36 million was paid as aggregate interest of bank loans (2003: HK\$6.36 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 39.1% at 31 December 2003 to approximately 34.5% at 31 December 2004. This calculation is based on net borrowings of approximately HK\$75.01 million (2003: HK\$81.73 million) and shareholders fund of approximately HK\$217.18 million (2003: HK\$208.88 million).

As at 31 December 2004, the balance of the inventories amounted to HK\$88.63 million, representing a decrease of HK\$19.43 million when compared with the corresponding period of the previous year, of which:

- (a) an amount of HK\$56.50 million was attributed to raw material, representing a decrease of HK\$0.19 million when compared with the corresponding period of the previous year; and
- (b) an amount of HK\$32.13 million was attributed to the work in progress and finished products, representing a decrease of HK\$19.24 million when compared with the corresponding period of the previous year. There was a higher inventory level in 2003 due to piling up of finished goods, however, the Group managed to reduce its inventory of finished goods in 2004.

ACQUISITION

During the year, the Group has entirely acquired the 20% of the equity interest in its subsidiary, Shenyang Jinlong Health Care Products Co., Ltd. 瀋陽金龍保健品有限公司, such interest is originally the minority interest, and accordingly, it became the wholly-owned subsidiary of the Group. The Group believes that the profitability of the Group would be effectively enhanced through such acquisition.

CHARGE OF ASSETS

As at 31 December 2004, the Group's bank deposits of approximately HK\$10.20 million (2003: HK\$20.63 million) were pledged to banks to secure general banking facilities granted to its subsidiaries.

CONTINGENT LIABILITIES

As at 31 December 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.

EMPLOYEE POLICY

In addition to maintaining a stable employee policy, the Group also set down minimum sales quotas for various pharmaceutical products for the sales staff working in pharmaceutical products sales division: those achieved only the minimum sales quota could just receive the basic salary, the portion exceeding the minimum sales quota will be taken in calculating bonus at different proportion corresponding to the extra sales amount achieved, the more the sales amount, the higher proportion of bonus will be rewarded. Such a performance-based salary system aims to encourage the employees to excel in their sales performance.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 May 2005 to 31 May 2005, 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 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00p.m. on 25 May 2005.

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 2004.

CORPORATE GOVERNANCE

In the opinion of the Directors, save that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's articles of association, 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 2004.

The Company has received from each of the independent non-executive director of the Company a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors of the Company to be independent.

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 in force prior to 31 March 2004, which remain applicable to results announcement relating to accounting period commencing before 1 July 2004, 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 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. Mo Kwan Nin and Mr. Cheung Kwan Hung, Anthony.

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

Hong Kong, 26 April 2005