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Deloitte
Touche
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TO THE BOARD OF DIRECTORS OF
GOLDEN DRAGON GROUP (HOLDINGS) LIMITED
金龍集團(控股)有限公司
(incorporated in the Cayman Islands with limited liability)

We have been instructed by Golden Dragon Group (Holdings) Limited (the "Company") to review the interim financial report set out on pages 2 to 13.

Directors' Responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors of the Company.

Review Work Performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

Deloitte Touche Tohmatsu
26 September 2002

Interim Results

The Board of Directors (the "Directors") of Golden Dragon Group (Holdings) Limited (the "Company") 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 2002, 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 2002

		Six months ended	
	NOTES	**30.6.2002** ***HK$'000*** **(unaudited)**	30.6.2001 *HK$'000* (unaudited)
Turnover		**92,595**	122,684
Cost of goods sold		**(31,265)**	(43,648)
Gross profit		**61,330**	79,036
Other revenue		**427**	579
Distribution costs		**(28,882)**	(30,186)
Administrative expenses		**(14,588)**	(8,168)
Profit from operations	*5*	**18,287**	41,261
Finance charges		**(1,921)**	(1,442)
Profit before taxation		**16,366**	39,819
Taxation	*6*	**(3,377)**	(4,460)
Profit before minority interests		**12,989**	35,359
Minority interests		**(2,602)**	(4,204)
Net profit for the period		**10,387**	31,155
Dividend	*7*	**8,760**	21,500
Basic earnings per share	*8*	**HK1.78 cents**	HK6.11 cents

Condensed Consolidated Balance Sheet

At 30 June 2002

	NOTES	30.6.2002 HK$'000 (unaudited)	31.12.2001 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	9	39,592	37,210
Investment deposit	10	9,434	–
		49,026	37,210
Current assets			
Inventories		38,782	36,116
Trade receivables	11	208,202	198,175
Deposits and other receivables		28,757	34,886
Pledged bank deposits		20,031	11,981
Bank balances and cash		30,869	51,310
		326,641	332,468
Current liabilities			
Trade payables	12	23,494	55,560
Accruals and other payables		45,482	45,131
Taxation		10,548	8,643
Bank borrowings	13	77,917	47,170
Obligations under a finance lease – due within one year		190	–
		157,631	156,504
Net current assets		169,010	175,964
Total assets less current liabilities		218,036	213,174
Minority interests		19,471	16,869
Non-current liability			
Obligations under a finance lease – due after one year		633	–
		197,932	196,305
Capital and reserves			
Share capital	14	58,400	58,400
Reserves	15	139,532	137,905
		197,932	196,305

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2002

	Total equity *HK$'000* (unaudited)
At 1 January 2001	75,960
Exchange differences arising on translation of overseas operations and net loss not recognised in the income statement	(1,439)
Shares allotted and issued on the date of incorporation	100
Issue of shares on Group Reorganisation	100
Issue of shares by capitalisation of share premium account	47,740
Net profit for the period	31,155
Shares issued at premium	83,680
Shares issue expenses	(12,701)
Dividend paid	(21,500)
At 30 June 2001	203,095
Exchange differences arising on translation of overseas operations and net gain not recognised in the income statement	5,677
Net loss for the period	(12,467)
At 31 December 2001	196,305
Net profit for the period	10,387
Dividend paid	(8,760)
At 30 June 2002	197,932

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2002

	Six months ended	
	30.6.2002	30.6.2001
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	**(22,357)**	42,970
Net cash (used in) from investing activities	**(19,944)**	1,277
Net cash from financing activities	**13,943**	35,262
(Decrease) increase in cash and cash equivalents	**(28,358)**	79,509
Cash and cash equivalents at 1 January	**51,310**	28,695
Cash and cash equivalents at 30 June	**22,952**	108,204
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**30,869**	108,204
Bank overdraft	**(7,917)**	–
	22,952	108,204

Notes to the Condensed Financial Statements

For the six months ended 30 June 2002

1. General

Golden Dragon Group (Holdings) Limited was incorporated as an exempted company with limited liability in the Cayman Islands on 15 September 2000 under the Companies Law of the Cayman Islands.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are the production and sales of a series of health care 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 of Hong Kong Limited (the "Listing Rules") and with SSAP 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 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the financial statements, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating or investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

4. Segmental Information

The Group is primarily engaged in production and sale of a series of health care products and operates only in the People's Republic of China (the "PRC"). All significant identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

5. Profit from Operations

	Six months ended	
	30.6.2002	30.6.2001
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	**1,238**	985
Interest income	**(210)**	(578)

6. Taxation

No Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiary 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.

The Group did not have any significant unprovided deferred taxation for the period or unprovided deferred tax asset or liability at the balance sheet date.

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

The effective income tax of the Group for the current period is 21% (six months ended 30 June 2001: 11%). For the current period, the major reconciling item is the losses incurred by certain members of the Group for which no deferred taxation is recognised as it is uncertain whether the potential tax benefits will be recognised in the foreseeable future. For the six months ended 30 June 2001, the major reconciling item is the profit made by a member of the Group which was within the PRC income tax exemption period.

7. Dividend

During the period, a dividend of HK1.50 cents per share was paid to shareholders as the final dividend for 2001. The directors do not recommend the payment of any interim dividend.

The dividend of HK$21,500,000 for the six months ended 30 June 2001 represents the dividend declared by a subsidiary of the Group to the then shareholders prior to the Group Reorganisation.

8. Basic Earnings Per Share

The calculation of basic earnings per share for the six months ended 30 June 2002 is based on the net profit for the period of HK$10,387,000 and on 584,000,000 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2001 is based on the net profit for that period of HK$31,155,000 and on the weighted average of 510,028,729 shares that would have been in issue during that period as if the Group Reorganisation had been completed on 1 January 2001.

No diluted earnings per share is presented, as the Company did not have any dilutive potential ordinary shares in issue.

9. Property, Plant and Equipment

During the period, the Group incurred costs for construction in progress of HK$2,267,000 and acquired other items of property, plant and equipment at a cost of HK$1,341,000.

10. Investment Deposit

The amount represents a deposit made for the acquisition of a 48.78% interest in a company established in the PRC. As of 30 June 2002, the verification of the capital injected has not yet been completed.

11. Trade Receivables

According to the credit rating of different customers, the Group grants a range of credit periods to its trade customers normally from 90 days to 270 days. The aged analysis of trade receivables is as follows:

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
Aged:		
Current	**204,469**	190,064
1 to 30 days overdue	**3,733**	5,614
31 to 60 days overdue	**–**	2,497
	208,202	198,175

12. Trade Payables

The aged analysis of trade payables is as follows:

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
Aged:		
Current to 30 days overdue	**14,574**	50,252
31 to 60 days overdue	**6,144**	438
61 to 90 days overdue	**49**	639
More than 90 days overdue	**2,727**	4,231
	23,494	55,560

13. Bank Borrowings

During the period, the Group obtained new bank borrowings in the amount of HK$30,747,000 and renewed bank borrowings in the amount of HK$18,868,000. The loans bear interest at prevailing market rates and are repayable within one year. The proceeds were used for general working capital purpose.

14. Share Capital

	Number of shares *'000*	Amount *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
On the date of incorporation	1,000	100
Increase during the period	999,000	99,900
At 30 June 2001, 31 December 2001 and 30 June 2002	1,000,000	100,000
Issued and fully paid:		
Allotted and issued on the date of incorporation	1,000	100
Issue of shares on group reorganisation	1,000	100
Issue of shares by capitalisation of share premium account	477,400	47,740
Issue of shares to the public	104,600	10,460
At 30 June 2001, 31 December 2001 and 30 June 2002	584,000	58,400

There were no movements in the share capital of the Company for the six months ended 30 June 2002.

15. Reserves

	Share premium account	Negative goodwill	Translation reserve	Non-distributable reserves	Special reserve	Accumulated profits (loss)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2001	–	2,281	(433)	21,768	(44,598)	96,942	75,960
Premium arising on issue of shares	73,220	–	–	–	–	–	73,220
Expenses incurred in connection with the issue of shares	(12,701)	–	–	–	–	–	(12,701)
Transfer upon the Capitalisation Issue	(47,740)	–	–	–	47,740	–	–
Exchange differences arising on translation of overseas operations	–	–	(1,439)	–	–	–	(1,439)
Net profit for the period	–	–	–	–	–	31,155	31,155
Dividend paid	–	–	–	–	–	(21,500)	(21,500)
At 30 June 2001	12,779	2,281	(1,872)	21,768	3,142	106,597	144,695
Net loss for the period	–	–	–	–	–	(12,467)	(12,467)
Exchange differences arising on translation of overseas operations	–	–	5,677	–	–	–	5,677
At 31 December 2001	12,779	2,281	3,805	21,768	3,142	94,130	137,905
Net profit for the period	–	–	–	–	–	10,387	10,387
Transfer	–	–	–	2,264	–	(2,264)	–
Dividend paid	–	–	–	–	–	(8,760)	(8,760)
At 30 June 2002	12,779	2,281	3,805	24,032	3,142	93,493	139,532

The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's PRC subsidiaries under the PRC laws and regulations.

16. Capital Commitments

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**2,045**	2,172

17. Other Commitments

At the balance sheet date, the Group had committed under various technology transfer and cooperative agreements with independent third parties to acquire certain technologies and rights for the production of new products at an aggregate consideration of approximately HK$4 million (31.12.2001: HK$26 million).

Management Report, Discussion and Analysis

Review of Market Conditions and Business Operation

The Directors present the following business review of the Group for the six months ended 30 June 2002.

The Group recorded an unaudited consolidated turnover of approximately HK$92,595,000 in the period under review, representing a decrease of approximately 24.5% when compared with approximately HK$122,684,000 in the corresponding period in 2001. Unaudited consolidated profit attributable to shareholders amounted to approximately HK$10,387,000 in the period under review, representing a decline of 66.7% from approximately HK$31,155,000 in the corresponding period in 2001. The Directors consider that the decrease in profit was mainly attributable to reduced turnover and a rise in distribution cost. Please refer to the relevant paragraphs below for details. Accordingly, earnings per share for the period under review was approximately 1.78 HK cents per share (Corresponding period in 2001: approximately 6.11 HK cents per share).

According to information released by the Society of Health Food of the PRC, turnover of health food in 2001 declined by 43% from the previous year. The health food market remained depressed in 2002. Amid such unfavourable market conditions, the Company maintained the existing sales strategy while adopting a series of contingency measures. The Company organized sales activities at selected supermarkets and designated booths in department stores in the eastern region of the PRC, and other products of the Group were given as complimentary gifts in order to stimulate sales which also served as part of its promotional campaign. These efforts also helped in strengthening and adjusting the products' leading edge of display in the end market. The Company also emphasized on showcase promotion of its products.

As the market became more mature and recognition having been given to the Company's brandname, the Company was able to spend less in advertising in the market in eastern region of the PRC. The Company also continued to expand its points of sale in new markets such as Beijing, Wuhan and Chongqing, and maintain its product image. Based on the advertising budget of the previous year, the Company expended further on TV commercials to consolidate its brand image and strengthen the positioning of its products in the new markets. Despite of the above measures, the Group could only managed to minimize the impact of a general shrinkage in sales of the health food market.

New Product Development

1. The new product "Yan Ling Shu Ke"（延齡舒可）(originally named "Pill for Reducing Blood Sugar"（降糖丹）) launched to the market in December 2001 generated a turnover of HK$5,800,000. Sales of the product reached HK$8,900,000 in the first half of the year.

2. Progress of the acquisition and co-operative development of the new products, namely "Piglyketone"（匹格列酮）and "Azithromycin Granules"（阿奇霉素微囊細粒劑）were well underway according to schedule. It is expected that "Azithromycin"（阿奇霉素）will obtain approval for production in December 2002, and probably also for "Piglyketone"（匹格列酮）although it was somewhat delayed as compared with the original plan. Production of both new products is anticipated to commence in early 2003.

3. The new product funded and developed by the Company for pimple treatment, "Mei Nuo Ping"（美諾平）, will have a postponement of one month in obtaining production approval. It is expected to obtain production approval at the end of September and commence production in October.

4. In early 2002, the Company signed a contract for technology transfer with瀋陽中海生物技術開發有限公司for the acquisition of "Yan Suan A Bi Duo Er"（鹽酸阿比朵爾）. The product is a State first class new medicine of antibiotics for curing influenza. The total amount of transfer fee under the said contract is HK$3,600,000, of which HK$470,000 has been paid. Further research and development and clinical testing will take approximately one year whereas production approval is expected to be obtained in 2004.

5. The original application for "Nuclein"（核能元）was still under review, and the granting of production approval is expected within the year.

Development of New Markets

The Group had not developed any new market in the first half of the year, and focus was mainly placed on further promotion of the Beijing, Wuhan and Chongqing markets so as to explore and develop further their potentials. The Group plans to expand into such new markets as Shenzhen and Quanzhou, Fujian Province in the second half of the year.

Employees, Training and Performance Review

The Group has a total of approximately 1,000 employees both in the PRC and Hong Kong (roughly the same for the corresponding period last year). Meanwhile, the Group took advantage of the low sales season in the first half of the year to conduct a one-week intensive training to the salespersons. The training is aimed at team building, staff cooperation, professionalism training, management of staff attitude, development of work values, scientific evaluation of working capability, education for the requisite qualities of staff, sales techniques, consumer psychology, etc. The objectives are to develop professionalism of the salespersons, and fully exploit the potentials of its business staff.

Liquidity and Financial Resources

As at 30 June 2002, use of proceeds from the listing was as follows:

– For plant renovation and replacement of equipment to meet the high standard of GMP, a total amount of HK$5.5 million was spent, exceeding the planned expenditure of HK$2.5 million by more than HK$3.0 million. The project has completed.

– An amount of more than HK$1.30 million was paid as new technology transfer fee for the acquisition of the new medicine "Piglyketone"（匹格列酮）. A further HK$0.80 million shall be paid under the contract which is in line with HK$2.10 million as planned in the Prospectus.

– An amount of more than HK$0.60 million was paid for the acquisition of "Azithromycin Granules"（阿奇霉素微囊細粒劑）. A further amount of approximately HK$0.10 million shall be paid under the contract. This is largely in line with HK$0.70 million as planned in the Prospectus.

– An amount of HK$0.31 million was paid on projects of installing additional production facilities and raising production volume.

– An amount of HK$23.0 million, exceeding the planned expenditure by HK$5.0 million, was spent for new market expansion and market promotion for existing products of the Group in order to develop new markets more effectively.

– An amount of more than HK$0.47 million was paid as new technology transfer fee for the acquisition of "Yan Suan A Bi Duo Er" (鹽酸阿比朵爾).

As at 30 June 2002, bank loans of the Group at fixed rate in the PRC amounted to approximately RMB53,000,000 (equivalent to HK$50,000,000), representing an increase of approximately RMB3,000,000 (equivalent to HK$2,800,000) as compared to the outstanding loans at 31 December 2001. Since movements of Renminbi against other currencies, in particular the Hong Kong dollar were more stable, the Directors do not anticipate any major foreign exchange risks, therefore the Group has not arranged for any currency hedge. The Group has secured short-term floating rate loan of HK$27,000,000 for working capital. An amount of approximately HK$1,900,000 was paid as aggregate interest of bank loans, and no property of the Group was pledged to banks to secure banking facilities, nor was there the use of any financial instruments for hedging purposes.

Gearing ratio of the Group increased from approximately 24% as at 31 December 2001 to approximately 39% as at 30 June 2002. The calculation of which is based on net borrowings of approximately HK$77,917,000 (31 December 2001: HK$47,170,000) and shareholders' fund of approximately HK$197,932,000 (31 December 2001: HK$196,305,000).

Contingent Liabilities

As at 30 June 2002, no assets of the Group were pledged or involved in any litigation. Accordingly, the Group had no significant contingent liabilities.

Short and Long Term Business Development Plans

1. The Group will continue to develop the new markets as explored last year, namely Beijing, Chengdu, Chongqing and Wuhan, and increase its penetration into these markets to seek for opportunities in expanding the neighbouring regional markets. It is anticipated that sales in these markets have potentials of further growth.

2. The Group will continue to develop new markets, such as Shenzhen and Quanzhou, Fujian Province in the second half of the year, in achieving steady business growth for the Group.

3. The GMP improvement for the Group's medicine production plants has been inspected and certified by the Ministry of National Medicine Supervision in May 2002. Production commenced in July 2002, and existing products include "Kang Gu Zeng Sheng Pian" (抗骨增生片) and "Tong Mai Ke Li" (通脈夥粒). Production of "Mei Nuo Ping" (美諾平) will commence in October this year whereas "Azithromycin" (阿奇霉素) and "Piglyketone" (匹格列酮) will be key products for production in 2003. Production of "Yan Suan A Bi Duo Er" (鹽酸阿比朵爾) are expected to be launched in 2004. The Group will focus on the production of medicines and health food as its key development strategies in the future.

4. The Group also has proactively diversified its businesses. Other than production of health food and medicines, the Group has participated in a property investment project jointly with an experienced developer in Guangzhou. The project will commence in the second half of the year, and the Group's investment amounted to approximately HK$20.0 million.

Director's Interests in Share Capital

As at 30 June, 2002, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Number of ordinary shares			
Name	Personal interest	Family interest	Corporate interest	Other interest
Mr. Wong Yin Sen	–	–	438,000,000 *(Note)*	–
Mr. Hon Lik	–	–	438,000,000 *(Note)*	–
Mr. Wong Hei Lin	–	–	–	438,000,000 *(Note)*

Note: Messrs. Wong Yin Sen, Hon Lik and Wong Hei Lin are beneficially interested in 46.25%, 42.50% and 11.25% of the entire issued share capital of the major shareholder, Absolute Target Limited, which holds 438,000,000 shares in the Company, representing 75% of the entire issued shares in the Company.

Save as disclosed above, as at 30 June, 2002, none of the directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Substantial Shareholder

Save as the 438,000,000 shares held by Absolute Target Limited as disclosed in the section "Directors' Interests in Share Capital" above, no person in the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance (other than the directors or chief executive of the Company) has any other interests in the Company's equities representing 10% or more of the Company's issued share capital.

Share Option Scheme

In accordance with the terms of the share option scheme (the "Scheme") adopted by the Company on 6 April, 2001, the board of directors is authorized, at its absolute discretion, to grant options to employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares. The Scheme became effective upon the listing of the shares on the main board of the Stock Exchange on 9 May, 2001. As at the date of this report, no options have been granted to any directors or employees of the Company under the Scheme.

Directors' Rights to Acquire Shares or Debentures

At no time during the period from 9 May, 2001 to the date of this report was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouses or children under the age of 18 to acquire shares or debentures of the Company.

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, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Audit Committee

The audit committee, the management and the auditors of the Company have reviewed the accounting principles adopted by the Group and the interim financial report for the six months ended 30 June 2002.

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

Hong Kong, 26 September 2002