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INDEPENDENT REVIEW REPORT

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)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 22.

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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public 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 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 September 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	NOTES	Six months ended 30.6.2005 HK$'000 (unaudited)	30.6.2004 HK$'000 (unaudited)
Turnover		**76,433**	62,342
Cost of sales		**(34,279)**	(23,698)
Gross profit		**42,154**	38,644
Other income		**3,331**	134
Distribution costs		**(25,734)**	(19,653)
Administrative expenses		**(10,398)**	(10,706)
Finance costs		**(4,292)**	(3,285)
Profit before tax	5	**5,061**	5,134
Income tax expense	6	**(1,051)**	(1,529)
Profit for the period		**4,010**	3,605
Attributable to:			
Equity holders of the parent		**4,010**	3,549
Minority interests		**–**	56
		4,010	3,605
Dividend	7	**–**	–
Basic earnings per share	8	**HK0.69 cents**	HK0.61 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2005

	NOTES	30.6.2005 HK$'000 (unaudited)	31.12.2004 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		29,863	31,245
Goodwill		3,934	3,934
Investment securities		–	1,000
Available-for-sales investments	9	–	–
Intangible assets		7,104	8,290
Prepaid lease payments		2,502	2,534
		43,403	47,003
Current assets			
Inventories		90,638	88,634
Trade receivables	10	126,334	137,608
Deposits and other receivables		25,716	41,003
Prepaid lease payments		64	64
Amounts due from fellow subsidiaries	11	4,340	1,463
Pledged bank deposits		10,207	10,198
Bank balances and cash		58,649	54,463
		315,948	333,433

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AT 30 JUNE 2005

	NOTES	30.6.2005 HK$'000 (unaudited)	31.12.2004 HK$'000 (audited)
Current liabilities			
Trade payables	12	5,634	10,465
Accruals and other payables		41,510	41,048
Amounts due to directors		–	3,831
Taxation payable		1,332	1,705
Bank borrowings		53,792	74,660
Obligations under a finance lease – due within one year		174	190
		102,442	131,899
Net current assets		213,506	201,534
Total assets less current liabilities		256,909	248,537
Capital and reserves			
Share capital		58,400	58,400
Reserves		158,996	158,779
Equity attributable to equity holders of the parent		217,396	217,179
Non-current liabilities			
Obligations under a finance lease – due after one year		79	158
Preferred shares issued by a subsidiary		39,434	31,200
		39,513	31,358
		256,909	248,537

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Attributable to equity holders of the parent									
	Share capital	Share premium account	Negative goodwill	Translation reserve	Non-distributable reserves	Special reserve	Accumulated profits	Total	Minority interest	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005, as originally stated	58,400	12,779	2,281	3,805	24,032	3,142	112,740	217,179	–	217,179
Effect of changes in accounting policies (Note 3A)	–	–	(2,281)	–	–	–	(1,512)	(3,793)	–	(3,793)
As restated	58,400	12,779	–	3,805	24,032	3,142	111,228	213,386	–	213,386
Net profit for the period	–	–	–	–	–	–	4,010	4,010	–	4,010
At 30 June 2005	58,400	12,779	–	3,805	24,032	3,142	115,238	217,396	–	217,396
At 1 January 2004	58,400	12,779	2,281	3,805	24,032	3,142	104,438	208,877	22,878	231,755
Net profit for the period	–	–	–	–	–	–	3,549	3,549	56	3,605
At 30 June 2004	58,400	12,779	2,281	3,805	24,032	3,142	107,987	212,426	22,934	235,360

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	**25,107**	(9,994)
Net cash from investing activities	**42**	7,575
Net cash (used in) from financing activities	**(20,963)**	6,248
Net increase in cash and cash equivalents	**4,186**	3,829
Cash and cash equivalents at beginning of the period	**54,463**	49,415
Cash and cash equivalents at end of the period	**58,649**	53,244
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**58,649**	53,244

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2005

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 ("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.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and 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").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statement for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Business combinations

In the current period, the Group has applied HKFRS 3, "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated. The profit of the Group for the current period has been increased by 197,000.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Business combinations (Continued)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 (of which negative goodwill of HK$2,281,000 was previously recorded in reserves), with a corresponding increase to accumulated profits.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Investment in equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as ''financial liabilities at fair value through profit or loss" or ''financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". ''Other financial liabilities" are carried at amortised cost using the effective interest method.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Preferred shares issued by a subsidiary

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the preferred shares issued by a subsidiary (the "Preferred shares"). On 1 January 2005, the Group classified and measured the Preferred shares in accordance with the requirements of HKAS 39. In addition, HKAS 39 requires derivatives embedded in other financial instruments or other non-financial host contracts to be treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains or losses reported in profit or loss. The Preferred shares are measured at amortised cost using the effective interest method and the derivatives embedded in the Preferred shares are considered as to whether separate measurement are required in accordance with the requirements of HKAS 39. An adjustment of HK$3,793,000 to the previous carrying amounts of liabilities at 1 January 2005 has been made to the Group's accumulated profits. The directors consider that the fair value of the embedded derivatives which are required to be separately measured under the requirements of HKAS 39 is insignificant.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3A for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31.12.2004 *HK$'000* (originally stated)	Adjustment *HK$'000*	As at 31.12.2004 *HK$'000* (restated)	Adjustment *HK$'000*	**As at 1.1.2005 HK$'000 (restated)**
Property, plant and equipment	33,843	(2,598)	31,245	–	**31,245**
Prepaid lease payments	–	2,598	2,598	–	**2,598**
Investment securities	1,000	–	1,000	(1,000)	**–**
Available-for-sales investments	–	–	–	1,000	**1,000**
Preferred shares issued by a subsidiary	(31,200)	–	(31,200)	(3,793)	**(34,993)**
Other assets/liabilities	213,536	–	213,536	–	**213,536**
Total effects on assets and liabilities	217,179	–	217,179	(3,793)	**213,386**
Share capital	58,400	–	58,400	–	**58,400**
Accumulated profits	112,740	–	112,740	(1,512)	**111,228**
Negative goodwill	2,281	–	2,281	(2,281)	**–**
Other reserve	43,758	–	43,758	–	**43,758**
Total effects on equity	217,179	–	217,179	(3,793)	**213,386**

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 2005 and 2004 about these businesses is presented below.

	Health care products		Pharmaceutical products		Electronic cigarettes components		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Segment turnover	39,634	47,793	14,127	14,549	22,672	–	76,433	62,342
Segment result	2,919	7,761	2,330	6,751	6,360	–	11,609	14,512
Other operating income							3,331	134
Unallocated corporate expenses							(5,587)	(6,227)
Finance costs							(4,292)	(3,285)
Profit before tax							5,061	5,134
Income tax expenses							(1,051)	(1,529)
Profit for the period							4,010	3,605

4. SEGMENTAL INFORMATION (CONTINUED)

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 BEFORE TAX

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**1,363**	1,583
Amortisation of intangible assets	**1,186**	733
Allowance for bad and doubtful debts	**371**	350
Impairment loss recognised in respect of available-for-sales investment	**1,000**	1,000
Interest income	**(26)**	(71)
Write-back of allowance for bad and doubtful debts	**(3,000)**	–

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Income tax in the PRC (other than Hong Kong)	**1,051**	1,529

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

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

7. DIVIDEND

No dividends were paid for both periods. The directors do not recommend the payment of an interim dividend.

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	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	4,010	3,549
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	584,000	584,000

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 both periods.

9. AVAILABLE-FOR-SALES INVESTMENTS

	30.6.2005 HK$'000	31.12.2004 HK$'000
Available-for-sales investments	1,000	–
Less: Impairment loss recognised	(1,000)	–
	–	–

10. TRADE RECEIVABLES

The credit terms granted by the Group to its customers normally range from 90 days to 270 days. At the balance sheet date, the Group's net trade receivables were current within their respective terms of credit and there were no overdue amounts.

	30.6.2005 HK$'000	31.12.2004 HK$'000
Aged:		
Current	124,898	132,611
1 to 30 days overdue	1,436	4,997
	126,334	137,608

11. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand.

12. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	30.6.2005 HK$'000	31.12.2004 HK$'000
Aged:		
Current	4,930	5,155
1 to 30 days overdue	281	16
31 to 60 days overdue	–	2,619
61 days to 90 days overdue	–	38
More than 90 days overdue	423	2,637
	5,634	10,465

13. CAPITAL COMMITMENTS

	30.6.2005 HK$'000	31.12.2004 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	117	–

14. RELATED PARTY TRANSACTIONS

During the period, the Group supplied merchandise amounting to HK$22,672,000 (six months ended 30 June 2004: nil) to Beijing SBT Ruyan Technology Development Company Limited ("Beijing SBT"), in which certain directors of the Company are interested in by virtue of their shareholdings in the ultimate holding company of Beijing SBT and are directors of Beijing SBT. At 30 June 2005, the amount due from Beijing SBT amounted to approximately HK$4,010,000 (31 December 2004: HK$1,202,000) and was aged within 60 days.

The Group had rental income received and receivable of approximately HK$306,000 (six months ended 30 June 2004: nil) from Shenyang SBT Technology Development Company Limited ("Shenyang SBT"), in which certain directors of the Company are interested in by virtue of their shareholdings in the ultimate holding company of Shenyang SBT and are directors of Shenyang SBT.

The amounts due to directors were unsecured, interest free and have no fixed repayment term.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Market conditions

The following is the six-month business review ended 30 June 2005 (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$76,433,000, representing an increase of approximately 22.6% when compared with approximately HK$62,342,000 in the corresponding period in 2004. The unaudited consolidated profits attributable to shareholders was approximately HK$4,010,000 in the period under review, representing an increase of approximately 13.0% from approximately HK$3,549,000 in the corresponding period in 2004. On these bases, the earnings per share for the period under review was approximately HK0.69 cents (corresponding period in 2004: approximately HK 0.61 cents).

The Group's overall performance for the period under review was better than the corresponding period in 2004. 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, the business of these 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, 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$76,433,000, an increase of 22.6% from the corresponding period in 2004. Of which, the sales income of health care products, pharmaceuticals products and electronic cigarette components was approximately HK$39,634,000, HK$14,127,000 and HK$22,672,000 respectively.

Currently, there are over 6,000 types of health care products in China, but their health care functions are restricted within 27 areas. This has created an immense barrier for the health care industry's development and resulted in a concentration of production in the same type of health care products which require only low level of technology. Thus, the Group is seeking to explore the market of non-traditional health care products for diversification, and hopes that this will enhance our business performance and strengthen the foundation for the Group's further development.

NEW PRODUCT DEVELOPMENT

Piglyketone was launched in December 2004. We have been marketing the product nationwide during the first half of 2005. The market for the product is now in its incubation stage.

The Group has been engaging in the research and development of 15 pharmaceuticals products, 2 of which belong to category 5 of PRC chemicals, including Amlodipine Besylate which is used for the treatment of hypertension and patients with stabilised angina pectoris, and Pidotimod capsule which has the therapeutic effect of an immunostimulant and is suitable for patients with weak cellular immunity function, it may also be used as a supplementary drug for anti-bacteria treatment in acute infections. These products have a wide prospect, the application for clinical testing is expected to be in the end of October 2005 and to be launched after application for their production is made in the beginning of 2006. The other 4 pharmaceutical products belong to new Chinese traditional medicine category 8, while the remaining 9 pharmaceutical products belong to new Chinese traditional medicine category 9 pharmaceutical products and the applications for their approval are actively under way. We expect commercial launch for all of them after 2006.

REGIONAL DEVELOPMENT

Since the advertising cost for promotion in the health care products market is increasing, thus besides the original markets, the Group does not plan to explore into other PRC markets in regions and cities with lower spending power, the main consideration for this is that sales revenues generated from these markets may not be enough to cover the advertising cost incurred. For pharmaceuticals products, we shall develop its market at a stable pace, with emphasis on the strengthening of existing markets and the subsequently exploring other potential markets gradually.

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 and the project development is expected to be carried out after the Group has obtained the new medicine certificate for insulin. As at 30 June 2005, bank loans of the Group at fixed rate amounted to approximately HK$53,792,000, representing a decrease of 28.0% when compared with the total outstanding loans as at 31 December 2004. They were short-term loans due within one year, some of which are in Renminbi loans. Since movements of Renminbi against other currencies, in particular Hong Kong dollar were stable. Although there was a slight appreciation of Renminbi in July 2005, but as our business are mainly transacted in Reminbi, its appreciation is fact beneficial to us. Therefore, 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 approximately HK$4,292,000 was the aggregate finance costs of the Group (corresponding period in 2004: HK$3,285,000). 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 decreases from approximately 34.5% as at 31 December 2004 to approximately 24.9% as at 30 June 2005. This calculation is based on total borrowings of approximately HK$54,045,000 (31 December 2004: HK$75,008,000) and shareholders' fund of approximately HK$217,396,000 (31 December 2004: HK$217,179,000).

As at 30 June 2005, the balance of the inventories amounted to HK$90,638,000, representing a slight increase of 2.3% when compared with the 31 December 2004.

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 2005.

SIGNIFICANT INVESTMENTS HELD

There was no material change in the significant investments held by the Group during the six months ended 30 June 2005.

CHARGE OF ASSETS

As at 30 June 2005, the Group's bank deposits of approximately HK$10,207,000 (31 December 2004: HK$10,198,000) were pledged to banks to secure general banking facilities granted to its subsidiaries.

CONTINGENT LIABILITIES

As at 30 June 2005, 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 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.

Meanwhile, the Group actively expands the pharmaceuticals products market. During 2004, the expansion in the market for pharmaceuticals product "Azithromycin" has laid a solid foundation for development in the following year. As the sales network for "Azithromycin" can be employed by the new product Piglyketone, there is a vast potential for its development. The gradual launching of our 15 newly developed products will surely provide the Group with more stable revenues.

As for the new product Electronic Cigarettes Component, with demand resulting from health awareness, "electronic cigarette" will replace traditional tobacco over time. The prospect of this product is promising and will generate high return for the Group.

EMPLOYEE POLICY, PERFORMANCE AND SALARY PROCEDURES

The Group employs a total of about one thousand employees in the PRC and Hong Kong (remains at the same level of the corresponding period last year).

In addition to continue with its employee retaining policy, our pharmaceuticals products sales department has set up minimum sales amount for various pharmaceuticals products. Sales staff achieving the minimum sales amount is entitled to a minimum wages. Salary payments will be rewarded at different percentages on sales exceeding the minimum sales in brackets. Thus a scheme is set up as a incentive to staffs with higher pay in proportion with higher sales.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2005, the interests and short positions of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in the ordinary shares of HK$0.10 each in the Company

Name of director	Capacity	Number of shares held	Percentage of shareholding
Mr. Wong Yin Sen	Interest of a controlled corporation (Note 1)	388,000,000	66.44%
Mr. Hon Lik	Interest of a controlled corporation (Note 1)	388,000,000	66.44%
Mr. Wong Hei Lin	Other (Note 1)	388,000,000	66.44%
Ms. Cheng Kong Yin	Interest of spouse (Note 2)	388,000,000	66.44%
Mr. Li Kim Hung, Isaacs	Interest of Individual	220,000	0.04%

Notes:

(1) Messrs. Wong Yin Sen, Hon Lik and Wong Hei Lin are beneficially interested in 46.25%, 42.50% and 11.25% respectively of the entire issued share capital of the major shareholder, Absolute Target Limited, which holds 388,000,000 shares in the Company, representing 66.44% of the entire issued ordinary shares of HK$0.10 each in the Company.

(2) As Ms. Cheng Kong Yin is the spouse of Mr. Wong Yin Sen, she is deemed to be interested in these shares owned by her spouse.

Long positions in the shares of associated corporation of the Company

Name of director	Name of associated corporation	Number of shares held	Approximate percentage of shareholding
Mr. Wong Yin Sen	Absolute Target Limited	4,625	46.25%
Mr. Hon Lik	Absolute Target Limited	4,250	42.50%
Mr. Wong Hei Lin	Absolute Target Limited	1,125	11.25%

Save as disclosed above, as at 30 June 2005, none of the Directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

In accordance with the terms of the share option scheme adopted by the Company on 30 May 2003, the Board is authorised, at its absolute discretion, to grant options to the participants, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Options granted may be exercised in accordance with the terms of the share option scheme at any time during the five-year period commencing on the date on which the option is accepted and expire on the last day of the five-year period.

As at the date of this report, no options have been granted to any eligible employees/participants under both the share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company, its ultimate holding company, or any subsidiaries of its ultimate holding company a party to any arrangements to enable the Directors or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

So far as is known to Directors, as at 30 June 2005, the persons or companies (other than directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the ordinary shares of HK$0.10 each in the Company

Name	Number of shares beneficially held	Percentage of holding
Absolute Target Limited	388,000,000	66.44%

Long positions in underlying shares of equity derivatives of the Company

Name	Number of underlying shares	Approximate percentage of holding
Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V. (note)	116,800,000	20.00%

Note: Pursuant to a deed of put option dated 5 November 2003 between the Company and Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V. ("the Investor"), a maximum of 116,800,000 shares of the Company, representing 20% the entire issued share capital of the Company, may be allotted and issued by the Company to the Investors in the event that the Investor exercises the put option and the Conversion Method (as defined therein) is selected by the Investor. The put option was granted as part of the consideration for the Investor's subscription of all the preference shares of New Wellon Limited, a wholly-owned subsidiary of the Company, which were issued to the Investor.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all directors, they all confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2005.

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 exceptions:

(a) 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.

Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All Directors, except the chairman of the Board and/or the managing director of the Company, are subject to retirement by rotation pursuant to the Company's Articles of Association. According to the Company's Articles of Association, one-third of the Directors for the time being, (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation. The relevant provisions of the Company's Articles of Association will be reviewed and amendment will be proposed, if necessary, to ensure full compliance with code provision A.4.2 of the Code.

(b) The Company does not at present have any officer with the title of "chief executive officer". Mr. Wong Yin Sen is the chairman and managing director of the Company. The Board will meet regularly to consider major matters affecting the operations of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and is conductive to strong and consistent leadership, enabling the Company to respond promptly and efficiently.

(c) Under the code provision of B.1, the Company should establish a remuneration committee for level and mark-up of remuneration and disclosure purposes. The remuneration committee was not put in place during the period under review but it was established on 26 September 2005 with terms of reference complying with code provision B.1.3.

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
Hon Lik		Song Xiao Hai
Wong Hei Lin		Cheung Kwan Hung, Anthony
Li Kim Hung, Isaacs		

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

Hong Kong, 26 September 2005