



**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 Report

**2006**



## 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 15.

#### 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 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 2006.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

18 September 2006

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	NOTES	Six months ended	
		30.6.2006 HK\$'000 (unaudited)	30.6.2005 HK\$'000 (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	5	(1,835)	(1,051)
Profit for the period	6	6,350	4,010
Attributable to:			
Equity holders of the parent		6,350	4,010
Basic earnings per share	8	HK1.09 cents	HK0.69 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2006

	NOTES	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	28,979	29,512
Goodwill		3,934	3,934
Available-for-sales investments	10	–	–
Intangible assets		4,151	5,397
Prepaid lease payments		2,438	2,470
		<b>39,502</b>	<b>41,313</b>
Current assets			
Inventories		117,330	87,056
Trade receivables	11	93,186	110,929
Deposits and other receivables		24,968	38,474
Prepaid lease payments		64	64
Amounts due from related companies	13	1,326	2,029
Bank balances and cash		75,182	68,400
		<b>312,056</b>	<b>306,952</b>
Current liabilities			
Trade payables	12	10,256	4,355
Accruals and other payables		42,651	36,025
Amounts due to directors		–	3,020
Amounts due to related companies	13	6,495	3,902
Borrowings	15	43,028	36,493
Taxation payable		901	1,351
Obligations under a finance lease			
– due within one year		63	158
		<b>103,394</b>	<b>85,304</b>
Net current assets		<b>208,662</b>	<b>221,648</b>
Total assets less current liabilities		<b>248,164</b>	<b>262,961</b>

**CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)**

AT 30 JUNE 2006

	NOTES	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
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	15	11,960	–
Preferred shares issued by a subsidiary	14	–	35,793
		11,960	35,793
		248,164	262,961

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the parent							Total
	Share capital	Share premium	Negative goodwill	Translation reserve	Non-distributable reserves	Special reserve	Accumulated profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	58,400	12,779	–	3,805	24,032	3,142	111,228	213,386
Profit for the period	–	–	–	–	–	–	4,010	4,010
At 30 June 2005	58,400	12,779	–	3,805	24,032	3,142	115,238	217,396
At 1 January 2006	58,400	12,779	–	8,607	24,032	3,142	120,208	227,168
Exchange differences on translation of PRC operations and net income recognised directly in equity	–	–	–	2,686	–	–	–	2,686
Profit for the period	–	–	–	–	–	–	6,350	6,350
At 30 June 2006	58,400	12,779	–	11,293	24,032	3,142	126,558	236,204

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended	
	30.6.2006 HK\$'000 (unaudited)	30.6.2005 HK\$'000 (unaudited)
Net cash from operating activities	<b>23,987</b>	25,107
Net cash (used in) from investing activities	<b>(496)</b>	42
Financing activities		
Repayment of bank borrowings	<b>(5,338)</b>	(20,868)
Repayment of other loans	<b>(11,960)</b>	–
Repayment of obligations under a finance lease	<b>(95)</b>	(95)
Net cash used in financing activities	<b>(17,393)</b>	(20,963)
Net increase in cash and cash equivalents	<b>6,098</b>	4,186
Cash and cash equivalents at beginning of the period	<b>68,400</b>	54,463
Effect of foreign exchange rate changes	<b>684</b>	–
Cash and cash equivalents at end of the period	<b>75,182</b>	58,649
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>75,182</b>	58,649

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

### 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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
	HK\$'000	HK\$'000
Income tax in the People's Republic of China (the "PRC")	<b>1,835</b>	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")	<b>18%</b>	18%
Shenyang Chenlong Longevity Ginseng Co., Ltd. ("Shenyang Chenlong")	<b>15%</b>	15%
Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical")	<b>7.5%</b>	7.5%
Other PRC subsidiaries	<b>33%</b>	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%.

## 5. INCOME TAX EXPENSE (CONTINUED)

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
	HK\$'000	HK\$'000
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
	HK\$'000	HK\$'000
<b>Earnings</b>		
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
<b>Number of shares</b>		
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.

## 9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$496,000 (six months ended 30 June 2005: HK\$22,000).

## 10. AVAILABLE-FOR-SALES INVESTMENTS

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Available-for-sales investments	1,000	1,000
Less: Impairment loss recognised	(1,000)	(1,000)
	—	—

## 11. 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.

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Aged:		
Current	93,171	100,456
1 to 30 days overdue	15	4,126
31 to 60 days overdue	–	6,347
	<b>93,186</b>	<b>110,929</b>

## 12. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Aged:		
Current	9,614	3,815
1 to 30 days overdue	7	41
31 to 60 days overdue	12	4
61 days to 90 days overdue	77	38
More than 90 days overdue	546	457
	<b>10,256</b>	<b>4,355</b>

## 13. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts are operating and trading in nature and aged less than one year.

The amounts are unsecured, interest free and repayable on demand.

## 14. PREFERRED SHARES ISSUED BY A SUBSIDIARY

At 24 December 2005, an indirectly wholly owned subsidiary of the Company, entered into a repurchase agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (the "Investor"), the investor of the Preferred shares to refinance the Preferred shares by a USD loan of US\$4,600,000 at Inter Bank Offered Rate plus 2.5%. The transaction was completed at 15 February 2006. Accordingly, the carrying amount of the Preferred shares amounted to HK\$35,793,000 on 15 February 2006 was transferred to other loans (see note 15).

## 15. BORROWINGS

	30.6.2006 HK\$	31.12.2005 HK\$
Bank borrowings – unsecured	31,068	36,493
Other loans – unsecured (Note)	23,920	–
	<b>54,988</b>	<b>36,493</b>
Carry amount repayable:		
On demand or within one year	43,028	36,493
More than one year but not exceeding two years	11,960	–
	<b>54,988</b>	<b>36,493</b>
Less: Amounts due within one year shown under current liabilities	<b>(43,028)</b>	<b>(36,493)</b>
	<b>11,960</b>	<b>–</b>

Note: Other loans represented borrowings of US\$4,600,000 (equivalent to approximate HK\$35,800,000) from the Investor (see note 14 for details). The loans are interest bearing at Inter Bank Offered Rate plus 2.5% per annum.

During the period, US\$1,533,333 (equivalent to approximate HK\$11,960,000) had been settled. Instalments of US\$1,533,333 (equivalent to approximate HK\$11,960,000) and US\$1,533,333 (equivalent to approximate HK\$11,960,000) will be repaid on 31 December 2006 and 31 December 2007 respectively.

## 16. CAPITAL COMMITMENTS

The Group had no capital commitment at the balance sheet dates.

## 17. RELATED PARTY TRANSACTIONS

During the period, the Group supplied merchandise amounting to HK\$47,149,000 (six months ended 30 June 2005: HK\$22,672,000) to Beijing SBT Ruyan Technology Development Company Limited ("Beijing SBT"), in which certain directors of the Company are interested in by virtue of their shareholding in the ultimate holding company of Beijing SBT and are directors of Beijing SBT.

The Group had rental income received and receivable of approximately HK\$117,000 (six months ended 30 June 2005: HK\$306,000) from Shenyang SBT Technology Development Company Limited ("Shenyang SBT"), in which certain directors of the Company are interested in by virtue of their shareholding in the ultimate holding company of Shenyang SBT and are directors of Shenyang SBT.

The remuneration of key management during the period was HK\$2,130,000 (six months ended 30 June 2005: HK\$2,130,000).



## 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 Pidotimod 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

There 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 more and more people become conscious of the importance of health, the Electronic Cigarettes will be able to gradually replace traditional cigarettes. The Electronic Cigarette is the product developed by SBT (Holdings) Company Limited (“SBT Group”) and its market has been expanding. The prospects of development for the Group’s Electronic Cigarettes Components used in the Electronic Cigarettes are particularly promising in line with the expansion of the Electronic Cigarettes market. Two production lines for this product have been set up, and the product is expected to bring about a satisfactory revenue growth for the Group.

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 World Trade Organization 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 benefit from the development of the national medical and pharmaceuticals production industry, and it plans to strengthen and explore its cost advantage in terms of production to be in line with this goal.

## **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, each sales department has set up minimum sales amount for various pharmaceuticals products. Sales staff achieving the minimum sales amount is entitled to a minimum wage. Salary payments will be rewarded at different levels on sales exceeding the minimum sales in brackets. Thus a scheme is set up as incentive to staff with higher pay in proportion with higher sales.

## **DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2006, 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, 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 2006, 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, the board of directors of the Company is authorized, 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 at any time during the five-year period commencing on the date on which the option is accepted and expiring on the last day of the five-year period.

As at the date of the report, there is no option granted to any participants or outstanding under the Company's share option scheme.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the company 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 2006, 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%

## **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 2006.

## **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 having been 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.

## REMUNERATION COMMITTEE

The remuneration committee of the board (comprising three independent non-executive directors of the Company) was established in September 2005.

Its duties include making recommendations on the Group's policy and structure for remuneration package of the directors and senior management, evaluation and making recommendations on other employees' benefit arrangements.

## MEMBERS OF THE BOARD

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

<i><b>Executive Directors</b></i>	<i><b>Non-executive Director</b></i>	<i><b>Independent Non-executive Directors</b></i>
Wong Yin Sen Hon Lik Wong Hei Lin Li Kim Hung, Isaacs	Cheng Kong Yin	Pang Hong Cheung Kwan Hung, Anthony Ding Xun

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

Hong Kong, 18 September 2006