



Golden Dragon Group (Holdings) Limited

金龍集團(控股)有限公司

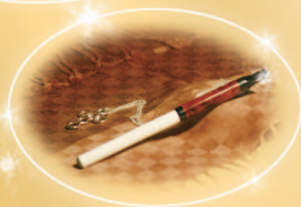
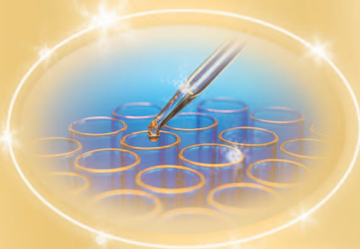
(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 329)



Interim Report

2007



Report on Review of Interim Financial Information



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 reviewed the interim financial information set out on pages 3 to 19 which comprises the condensed consolidated balance sheet of Golden Dragon Group (Holdings) Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility to express a conclusion on this interim financial information based on our review, 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.

Report on Review of Interim Financial Information

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw to your attention that the restated comparative condensed consolidated balance sheet as at 31 December 2006 and restated comparative condensed consolidated income statement for the six-month period ended 30 June 2006 and the restated comparative condensed consolidated statement of changes in equity and restated comparative condensed consolidated cash flow statement for the six-month period ended 30 June 2006 disclosed in the interim financial information have not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

24 September 2007

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	NOTES	Six months ended	
		30.6.2007 HK\$'000 (unaudited)	30.6.2006 HK\$'000 (unaudited) (restated)
Revenue		134,214	240,587
Cost of sales		(40,274)	(67,276)
Gross profit		93,940	173,311
Other income		808	278
Distribution and selling expenses		(44,165)	(72,119)
Administrative expenses		(25,441)	(23,438)
Finance costs		(3,009)	(2,788)
Profit before tax		22,133	75,244
Income tax expense	5	(2,869)	(1,835)
Profit for the period	6	19,264	73,409
Attributable to:			
Equity holders of the parent		11,141	44,412
Minority interests		8,123	28,997
		19,264	73,409
Dividends recognised as distribution	7	–	25,000
Earnings per share	8		
– Basic		HK0.79 cents	HK3.44 cents

Condensed Consolidated Balance Sheet

At 30 June 2007

	NOTES	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (unaudited) (restated)
Non-current assets			
Property, plant and equipment	9	59,337	58,205
Goodwill		3,935	3,934
Available-for-sale investments	10	–	–
Intangible assets		3,375	3,968
Prepaid lease payments		25,737	24,950
		92,384	91,057
Current assets			
Inventories		221,335	235,958
Trade receivables	11	144,606	122,308
Deposits and other receivables		61,741	78,533
Prepaid lease payments		550	527
Bank balances and cash		112,716	76,222
		540,948	513,548
Current liabilities			
Trade payables	12	18,825	25,811
Accruals and other payables		98,755	76,620
Borrowings	13	45,584	61,392
Taxation payable		2,602	1,262
Liability component of Convertible Notes	14	6,277	–
		172,043	165,085
Net current assets		368,905	348,463
Total assets less current liabilities		461,289	439,520
Non-current liabilities			
Borrowings due after one year	13	36,303	38,218
Liability component of Convertible Notes	14	13,219	–
		49,522	38,218
		411,767	401,302
Capital and reserves			
Share capital	15	125,030	70,080
Reserves		286,737	293,454
Equity attributable to equity holders of the parent		411,767	363,534
Minority interests		–	37,768
		411,767	401,302

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Share capital HK\$'000	Share premium account HK\$'000	Shareholders' contribution HK\$'000 (note a)	Issuable shares HK\$'000 (note c)	Translation reserve HK\$'000	Non-distributable reserves HK\$'000 (note b)	Merger reserves HK\$'000 (note d)	Special reserves HK\$'000	Accumulated profits HK\$'000	Attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006, as originally stated	58,400	12,779	-	-	8,607	24,032	-	3,142	120,208	227,168	-	227,168
Effect of the Acquisition (note 2)	-	-	21,780	-	(10)	696	47	-	2,639	25,152	16,421	41,573
At 1 January 2006, as restated	58,400	12,779	21,780	-	8,597	24,728	47	3,142	122,847	252,320	16,421	268,741
Exchange differences on translation of functional to presentation currency and net income recognised directly in equity	-	-	-	-	1,764	10	-	-	(10)	1,764	-	1,764
Profit for the period	-	-	-	-	-	-	-	-	44,412	44,412	28,997	73,409
Total recognised income for the period	-	-	-	-	1,764	10	-	-	44,402	46,176	28,997	75,173
Dividend paid	-	-	-	-	-	-	-	-	(15,125)	(15,125)	(9,875)	(25,000)
At 30 June 2006	58,400	12,779	21,780	-	10,361	24,738	47	3,142	152,124	283,371	35,543	318,914
At 1 January 2007, as originally stated	70,080	65,339	-	-	17,519	24,032	-	3,142	125,574	305,686	-	305,686
Effect of the Acquisition (note 2)	-	-	21,780	-	1,274	705	47	-	34,042	57,848	37,768	95,616
At 1 January 2007, as restated	70,080	65,339	21,780	-	18,793	24,737	47	3,142	159,616	363,534	37,768	401,302
Exchange differences on translation of functional to presentation currency and net income recognised directly in equity	-	-	-	-	10,466	-	-	-	-	10,466	-	10,466
Profit for the period	-	-	-	-	-	-	-	-	11,141	11,141	8,123	19,264
Total recognised income for the period	-	-	-	-	10,466	-	-	-	11,141	21,607	8,123	29,730
Acquired from minority interests upon the completion of the Acquisition	-	-	-	-	-	-	45,891	-	-	45,891	(45,891)	-
Issue of Convertible Notes	-	-	-	976,433	-	-	(1,062,676)	-	-	(86,243)	-	(86,243)
Issue of new shares upon the conversion of Convertible Notes	54,950	770,338	-	(758,310)	-	-	-	-	-	66,978	-	66,978
At 30 June 2007	125,030	835,677	21,780	218,123	29,259	24,737	(1,016,738)	3,142	170,757	411,767	-	411,767

Notes:

- Shareholders' contribution represents the amounts contributed by shareholders of SBT Investment (Holdings) Limited.
- The non-distributable reserve represents statutory reserves appropriated from profit after tax of the Company's PRC subsidiary under the PRC laws and regulations.
- Details of issuable shares are set out in note 16.
- The merger reserve represents (i) the share capital of SBT (see Note 1 to the condensed consolidated financial statements) beneficially owned by Mr. Wong Yin Sen and Mr. Hon Lik, (ii) the carrying amount of equity interest in SBT held by the non-controlling parties and (iii) the fair value of the consideration paid to AAI for the Acquisition.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
Net cash from operating activities	56,348	48,984
Cash used in investing activities		
Additions of property, plant and equipment	(2,960)	(7,676)
Financing activities		
Repayment of bank borrowings	(6,238)	(4,597)
Repayment of other borrowings	(3,112)	–
Repayment of other loans	(11,960)	(11,960)
Dividend paid	–	(25,000)
Repayment of obligations under a finance lease	–	(95)
Cash used in financing activities	(21,310)	(41,652)
Net increase (decrease) in cash and cash equivalents	32,078	(344)
Cash and cash equivalents at beginning of the period	76,222	123,745
Effect of foreign exchange rate changes	4,416	1,309
Cash and cash equivalents at end of the period	112,716	124,710
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	112,716	124,710

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

1. GENERAL INFORMATION

Golden Dragon Group (Holdings) Limited (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”).

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 RUYAN atomizing cigarettes.

Pursuant to the sale and purchase agreement dated 13 February 2007, supplemental agreement dated 30 March 2007 and second supplementary agreement dated 3 May 2007, Wealthy Well Investments Limited (“Wealthy Well”), a wholly-owned subsidiary of the Company, agreed, by the issue of convertible notes (the “Convertible Notes”), to acquire from Ability Act Investments Limited (“AAI”) the entire issued shares of SBT Investment (Holdings) Limited (“SBT”, previously known as Best Partners Worldwide Limited) at a total consideration with fair value of HK\$1,062,676,000 (the “Acquisition”).

Mr. Wong Yin Sen and Mr. Hon Lik were interested in 52.11% and 47.89% of the issued share capital of Dragon Concept Investments Limited (“Dragon Concept”), which held 60.5% of the issued share capital of AAI.

The Acquisition constituted a very substantial acquisition pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), details of which were set out in the circular dated 21 May 2007 (the “Circular”) issued by the Company. The Acquisition was completed on 14 June 2007.

SBT is a company incorporated in the British Virgin Islands as an exempted company with limited liability on 1 July 2003. SBT and its subsidiaries (hereinafter collectively referred to as the “SBT Group”) mainly engage in the business of research and development, production and sales of RUYAN atomizing cigarettes.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

2. BASIS OF PREPARATION

Immediately before the Acquisition, Mr. Wong Yin Sen and Mr. Hon Lik were interested in 46.25% and 42.50%, respectively, of the issued share capital of Absolute Target Limited ("Absolute Target"), the immediate holding company which held 388,000,000 shares, representing approximately 55.36% of the issued share capital of the Company.

Upon the completion of the Acquisition and the full conversion of the Convertible Notes, Absolute Target and AAI will be interested in 27.55% and 50.24% of the issue share capital of the Company respectively.

Since the Company and SBT were both collectively controlled by Mr. Wong Yin Sen and Mr. Hon Lik before and after the completion of the Acquisition, the Acquisition was accounted for as a combination of entities under common control.

The Company has accounted for the Acquisition in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to prepare the condensed consolidated financial statements, assuming that the current group structure had been in existence throughout the periods presented.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

The condensed consolidated financial statements is presented in Hong Kong dollars, and the functional currency of the Company is in Renminbi. As the Company is listed in Hong Kong, the directors consider that it is appropriate to present the interim financial information in Hong Kong dollars.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

3. 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 2006 except as described below.

Merger accounting for business combination under common control

The consolidated financial statements incorporate the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Merger accounting for business combination under common control (continued)

In the current interim period, the Group has applied, for the first time, a number of new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007.

The adoption of these new HKFRSs had no material effect on the results on financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ³
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

⁴ Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

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 RUYAN atomizing cigarettes. These businesses are the basis on which the Group reports its primary segment information.

Segment information for the six months ended 30 June 2007 and 2006 about these businesses is presented below.

	Health care products		Pharmaceutical products		RUYAN atomizing cigarettes		Total	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Segment turnover	39,807	34,802	19,669	16,272	74,738	189,513	134,214	240,587
Segment result	3,033	2,496	6,262	2,122	32,100	83,870	41,395	88,488
Unallocated other income							808	278
Unallocated corporate expenses							(17,061)	(10,734)
Finance costs							(3,009)	(2,788)
Profit before tax							22,133	75,244
Income tax expense							(2,869)	(1,835)
Profit for the period							19,264	73,409

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2007 HK\$'000	30.6.2006 HK\$'000
Income Tax in the People's Republic of China (the "PRC")	2,869	1,835

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.

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Jinlong Health Care Products Co., Ltd. is subjected to PRC Income Tax of 15% and local Income Tax of 3% and Shenyang Chenlong Longevity Ginseng Co., Ltd. is subjected to PRC Income Tax of 15% tax and local Income Tax of 1.5%.

Pursuant to relevant laws and regulations in the PRC, Beijing SBT Ruyan Technology & Development Co., Ltd. ("Beijing SBT") is subject to PRC income tax of 15% and entitled to an exemption from PRC income tax for the two years ended 31 December 2006, followed by a 50% tax relief for the next three years. Therefore, Beijing SBT was subject to 0% and 7.5% PRC income tax for the six months period ended 30 June 2006 and six months period ended 30 June 2007 respectively.

Pursuant to relevant tax rules and regulations in the PRC, certain other 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 reduced tax rate for the relief period is ranging from 0% to 7.5%. The charge of PRC Income Tax for the year has been provided for after taking these tax incentives into account.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

5. INCOME TAX EXPENSE (CONTINUED)

Pursuant to the PRC Enterprise Income Tax Law (the “New Law”) passed by the Tenth National People’s Congress on 16 March 2007, the new PRC income tax rates for domestic and foreign enterprises are unified at 25% effective from 1 January 2008. Under the New Law, entities that are currently entitled to preferential tax rates may continue to enjoy the tax benefits.

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

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2007	30.6.2006
	HK\$’000	HK\$’000
		(restated)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in administrative expense)	720	1,298
Amortisation of prepaid lease payments	271	32
Depreciation of property, plant and equipment	3,838	2,081
Interest income	(876)	(270)

7. DIVIDEND

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

For the six-months period ended 30 June 2006, the directors of SBT declared and approved dividend of RMB25,000,000 to shareholders of SBT on 20 April 2006.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

8. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated based on earnings attributable to equity holders of the parent during the period divided by the weighted average number of ordinary shares in issue. The weighted average number of ordinary shares have been adjusted for ordinary shares which the Convertible Notes are mandatorily convertible into.

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Profit attributable to equity holders of the parent	11,141	44,412
Weighted average number of ordinary shares in issue ('000)	1,408,360	1,291,560
Basic earnings per share (HK cents per share)	0.79	3.44

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$2,894,000 (six months ended 30 June 2006: HK\$7,676,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

10. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2007	31.12.2006
	HK\$'000	HK\$'000
Available-for-sales investments	1,000	1,000
Less: Impairment loss recognised	(1,000)	(1,000)
	–	–

11. TRADE RECEIVABLES

The Group allows an average credit period from 0 days to 270 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2007	31.12.2006
	HK\$'000	HK\$'000
		(restated)
0 – 60 days	40,417	53,635
61 – 90 days	19,992	22,966
91 – 180 days	46,340	36,527
181 – 270 days	37,857	9,180
	144,606	122,308

12. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2007	31.12.2006
	HK\$'000	HK\$'000
		(restated)
0 – 30 days	1,067	6,837
31 – 60 days	476	4,903
61 – 90 days	839	6,640
Over 90 days but less than 1 year	16,443	7,431
	18,825	25,811

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

13. BORROWINGS

	30.6.2007 HK\$'000	31.12.2006 HK\$'000 (restated)
Bank borrowings – unsecured (Note a)	41,237	45,825
Other borrowings – secured (Note b)	28,690	29,923
Other loans – unsecured (Note c)	11,960	23,862
	81,887	99,610
Carrying amounts repayable:		
On demand or within one year	45,584	61,392
More than one year but not exceeding two years	22,507	21,124
More than two years but not exceeding three years	6,613	5,835
More than three years but not exceeding four years	6,211	5,480
More than four years but not exceeding five years	972	5,779
	81,887	99,610
Less: Amounts due within one year shown under current liabilities	(45,584)	(61,392)
	36,303	38,218

Notes:

- Bank borrowings of HK\$25,773,000 was arranged at floating commercial rate and bank borrowings of HK\$15,464,000 was arranged at fixed interest rate.
- Other borrowings are repayable by instalments until 28 August 2011 and are secured by legal charges over the certain of building and leasehold land of the Group. No interest has been charged for the other borrowings. The imputed interest rate of the other borrowings for the six months ended 30 June 2007 was 6.5%.
- Other loans represented last instalment of the borrowings of US\$4,600,000 (equivalent to approximate HK\$35,800,000) from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. The loans are interest bearing at Inter-bank Offered Rate plus 2.5% per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

14. LIABILITY COMPONENT OF CONVERTIBLE NOTES

The amount represents the present value of the coupon interest payable of 2.5% on the principle amount of the Convertible Notes and the effective interest rate is 2.26% per annum.

15. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2007	1,000,000	100,000
Increase in authorised share capital (<i>note</i>)	1,000,000	100,000
At 30 June 2007	2,000,000	200,000
Issued:		
At 1 January 2007	700,800	70,080
Conversion of Convertible Notes (<i>note 16</i>)	549,500	54,950
At 30 June 2007	1,250,300	125,030

Note: On 12 June 2007, a resolution for the increase of authorised share capital of HK\$100,000,000 was duly passed during the special general meeting of shareholders of the Company. The total authorised share capital was increased to HK\$200,000,000.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

16. ISSUABLE SHARES

	Number of shares	
	'000	HK\$'000
Issue of Convertible Notes on the Acquisition	707,560	976,433
Conversion of Convertible Notes	(549,500)	(758,310)
At 30 June 2007	158,060	218,123

Notes:

- (a) Pursuant to the Agreement dated 13 February 2007, the Company will issue convertible notes which can be converted to 707,560,000 shares at HK\$1.80 per share as consideration to acquire SBT. On 14 June 2007, AAI had directed the Company to issue the Convertible Notes to its wholly owned subsidiary, Smart Huge Group Limited ("Smart Huge"). On 18 June 2007, Smart Huge exercised the convention right to convert part of the Convertible Notes into 549,500,000 ordinary shares of HK\$0.10 per share.
- (b) The principal amount of the Convertible Notes is RMB1,273,608,000. The Convertible Notes are mandatorily convertible to 707,560,000 shares in three years and the conversion price will be HK\$1.8 per share with a fixed exchange rate of HK\$1.00 to RMB1.00. The Convertible Notes bears interest at a rate of 2.5% per annum on the principal amount of the Convertible Notes outstanding, and the interest is payable semi-annually. The fair value of the issuable shares is calculated by reference to the number of the Company's shares to be issued upon full conversion of the Convertible Notes (i.e. 707,560,000 shares) and the market price of the Company's shares on the date of the completion of the Acquisition (i.e. HK\$1.38).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

17. RELATED PARTY TRANSACTIONS

The remuneration of key management during the period was HK\$3,050,000 (six months ended 30 June 2006: HK\$2,400,000).

18. POST BALANCE SHEET EVENTS

On 3 July 2007, the Company, Smart Huge and BOCI Asia Limited (the "Placing Agent") entered into a placing and subscription agreement pursuant to which (i) the Placing Agent has agreed to procure purchasers to acquire up to 105,000,000 shares (the "Placing Shares") held by Smart Huge at a price of HK\$1.38 per share; and (ii) Smart Huge has conditionally agreed to subscribe from the Company for a number of shares equivalent to the number of Placing Shares actually sold by Smart Huge at a price of HK\$1.38 per share (the "Placing"). The Placing was completed on 13 July 2007.

On 3 July 2007, the Company entered into a convertible notes placing agreement with the Placing Agent pursuant to which the Placing Agent agreed to place or procure to place, on a best efforts basis, convertible notes up to an aggregate principal amount of HK\$151,000,000 (the "Convertible Notes Placing"). The Convertible Notes Placing was completed on 31 July 2007.

Management Discussion and Analysis

BUSINESS REVIEW AND MARKET CONDITIONS

The following is the six-month business review ended 30 June 2007 (the “period under review”) presented by the Board.

During the period under review, the Group recorded an unaudited consolidated turnover of approximately HK\$134,214,000, representing a decrease of approximately 44.21% when compared with approximately HK\$240,587,000 in the corresponding period in 2006. The unaudited consolidated profits attributable to shareholders was approximately HK\$11,141,000 in the period under review, representing a decrease of approximately HK\$33,271,000 when compared with that of the corresponding period in 2006. On these bases, the earnings per share for the period under review was approximately HK0.79 cents (corresponding period in 2006: approximately HK3.44 cents).

As a result of the direct sales channels on TV in Guangdong and Henan launched from the end of last year in addition to the traditional sales mode carried out by the Company and the introduction of three new packaging specifications, being the 6-year, 8-year and 10-year small package products of 10 gram, the sales of health care products have turned the declining sales trend and realized a sales of HK\$39,807,000, representing an increase of approximately 14.38% from the corresponding period in last year.

With the marketing and investment in pharmaceutical products over the past few years, the sales of the same have been on the uprise and have realized a sales of HK\$19,669,000, slightly increase from the last year.

For the period under review, the Group achieved sales income of approximately HK\$134,214,000, a decrease of approximately 44.21% from the corresponding period in 2006. Of which, the sales income of health care products, pharmaceutical products and Ruyan atomizing cigarettes was approximately HK\$39,807,000, HK\$19,669,000 and HK\$74,738,000 respectively.

Management Discussion and Analysis

NEW PRODUCT DEVELOPMENT

In 2006, the Group completed the development and application of a total of 15 new pharmaceutical products. In the first half of 2007, the review and approval procedures for ten pharmaceutical products have already been passed, while “Hai Te Ling” (咳特靈) which has completed the review and approval procedures and obtained the production approval and has commenced production in the first half of the year. As the function departments of the PRC State Food and Drug Administration have undergone realignment, the granting of the production approvals for all approved pharmaceutical products has been delayed. It is expected that the approvals will be granted in 2008, which will serve as new sources of growth for the Company.

The Group has been strived to the development of Ruyan products and has changed the appearance of its existing products and enhanced the added-value of its products to satisfy the needs of different consumers.

REGIONAL DEVELOPMENT

The sales of the electronic cigarettes products declined as a result of the unfair publicity from the PRC media. Therefore, the Company is increasing its efforts to expand into overseas markets, which currently include countries such as Austria and Turkey. The exports have been steadily growing since February of the year. We have been in discussion with agencies of almost ten countries for the cooperation. It is expected that the exports growth will be substantially increased in future.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL ANALYSIS

As at 30 June 2007, bank loans of the Group amounted to HK\$41,237,000, representing a decrease of HK\$4,588,000 as compared to the total outstanding loans at 31 December 2006, 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\$3,009,000 (corresponding period in 2006: HK\$2,788,000). Other borrowings in the sum of HK\$28,690,000 (2006: HK\$29,923,000) are secured by legal charges over the certain of building and leasehold land of the Group.

Gearing ratio of the Group decreased from approximately 27.40% at 31 December 2006 to approximately 19.89% at 30 June 2007. This calculation is based on net borrowings of approximately HK\$81,887,000 (31 December 2006: HK\$99,610,000) and shareholders fund of approximately HK\$411,767,000 (31 December 2006: HK\$363,534,000).

As at 30 June 2007, the balance of the inventories amounted to HK\$221,335,000, representing a decrease of HK\$14,623,000 when compared with the balance of that as at 31 December 2006.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 13 February 2007, a sale and purchase agreement was entered into between AAI, the shareholding of which is owned as to 60.50% by Dragon Concept and Wealthy Well, a wholly owned subsidiary of the Company, for the acquisition of the entire issued share capital of Best Partners Worldwide Limited (currently known as SBT) for a consideration of RMB1,273,608,000 (the "Acquisition") and settled by the issue of a convertible note convertible into shares of the Company (the "Shares") at the conversion price of HK\$1.80 per Share (subject to adjustment). The completion of the Acquisition took place on 14 June 2007. Details of the Acquisition are set out in the announcements of the Company dated 19 March 2007, 3 April 2007, 3 May 2007, 18 May 2007 and 18 June 2007 and the circular of the Company dated 21 May 2007.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS HELD

As stated above, the Company has acquired the entire operation of Ruyan Electronic Cigarette during the six months ended 30 June 2007, Ruyan Electronic Cigarette has generated HK\$11,687,000, HK\$135,597,000 and HK\$286,097,000 sales turnover in the financial year ended 31 December 2004, 2005 and 2006.

CHARGE OF ASSETS

As at 30 June 2007, the Group had no bank deposits pledged to banks (2006: Nil).

CONTINGENT LIABILITIES

As at 30 June 2007, 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

The Company has been expanding into the domestic markets of electronic cigarettes which have not been developed, such as the cities in Shanghai Municipality, Henan province and Shandong province. The Company will establish branch office in Shanghai, an outside market in the PRC, in which two of our managers with substantial experiences in marketing will be responsible for the operation. Furthermore, the Group will commence the "Smokeless Olympics" activities by leveraging on the opportunities brought by the Olympic Game with a view to making all guests, both domestic and international, to know more about "Ruyan" (如烟) through appropriate promotion. It is believed that the above measures will result in enormous growth of the sales of "Ruyan" products which will bring further solid growth to the Group.

Meanwhile, the Company will strive to maintain a balanced development and market share in the business of health care products and pharmaceutical products so that the Group will be able to capture larger market share and rooms for development soon after the current recession of the health care products market has been passed.

Management Discussion and Analysis

EMPLOYEE POLICY, PERFORMANCE AND SALARY PROCEDURES

After completion of the Acquisition, the Group employs a total of about one thousand five hundred employees in the PRC and Hong Kong (around 50% higher than 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 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 to higher sales.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, 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	Nature of Interest	Number of Shares or underlying Shares	Approximate Percentage of Shareholding as at 30 June 2007
Mr. Wong Yin Sen	Interest of controlled corporations	1,095,560,000(L) (including interest in 937,500,000 Shares and 158,060,000 underlying Shares) (Note)	87.62%
		175,600,000(S)	14.04%

Management Discussion and Analysis

Name of Director	Nature of Interest	Number of Shares or underlying Shares	Approximate Percentage of Shareholding as at 30 June 2007
Mr. Hon Lik	Interest of controlled corporations	1,095,560,000(L) (including interest in 937,500,000 Shares and 158,060,000 underlying Shares) (Note)	87.62%
		175,600,000(S)	14.04%
Mr. Wong Hei Lin	Interest of controlled corporations	1,095,560,000(L) (including interest in 937,500,000 Shares and 158,060,000 underlying Shares) (Note)	87.62%
		175,600,000(S)	14.04%
Mr. Li Kim Hung, Isaacs	Beneficial owner	220,000(L)	0.02%

"L" denotes long position and "S" denotes short position

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 Absolute Target Limited which is interested in long position of 388,000,000 Shares and short position of 175,600,000 Shares. Mr. Wong Yin Sen and Mr. Hon Lik are interested in 52.11% and 47.89% of the issued share capital of Dragon Concept Investments Limited, a company beneficially interested in 60.50% of the issued share capital of Ability Act Investments Limited ("Ability Act") which is interested in 549,500,000 Shares and 158,060,000 underlying Shares. Mr. Wong Hei Lin is, through his interest in Goldtools Investment Limited, also interested in 4.75% of the issued share capital of Ability Act. The interests of Absolute Target Limited and Ability Act in the Company are also disclosed in the section headed "Substantial Shareholders" of this report.

Management Discussion and Analysis

Long positions in the shares of associated corporation of the Company

Name of director	Name of associated corporation	Number of shares held	Approximately
			percentage of shareholding
Mr.Wong Yin Sen	Dragon Concept Investments Limited	5,211	52.11%
Mr. Hon Lik	Dragon Concept Investments Limited	4,789	47.89%
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 2007, 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 period under review was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Management Discussion and Analysis

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 30 June 2007, 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 of Shareholder	Nature of Interest	Number of Shares or underlying Shares	Approximate Percentage of Shareholding as at 30 June 2007
Absolute Target Limited (Note 1)	Beneficial owner	388,000,000(L) 175,600,000(S)	31.03% 14.04%
Ability Act Investments Limited (Note 2)	Beneficial owner	707,560,000(L) (including interest in 549,500,000 Shares and 158,060,000 underlying Shares)	56.59%
Central SAFE Investments Limited (Note 3)	Person having a security interest in shares	175,600,000(L)	14.04%
Evolution Capital Management, LLC (as Investment Manager of Evolution Master Fund Ltd SPC)	Investment Manager	175,600,000(L)	14.04%

Management Discussion and Analysis

Name of Shareholder	Nature of Interest	Number of Shares or underlying Shares	Approximate Percentage of Shareholding as at 30 June 2007
Evolution Master Fund, Ltd. SPC, Segregated Portfolio M	Person having a security interest in shares	175,600,000(L)	14.04%

Note 1: Absolute Target Limited is owned as to 46.25%, 42.50% and 11.25% by Mr. Wong Yin Sen, Mr. Hon Lik and Mr. Wong Hei Lin respectively, all of them are executive Directors.

Note 2: Ability Act Investments Limited is owned as to 60.50% by Dragon Concept Investments Limited, 4.75% by Goldtools Investment Limited, a company beneficially owned by Mr. Wong Hei Lin, an executive Director and 4.75% by Success Glory Group Limited, a company beneficially owned by Mr. Li Kim Hung, an executive Director.

Note 3: Pursuant to the corporate substantial shareholder notice filed by Central SAFE Investments Limited on 30 January 2007, the interest in 175,600,000 Shares were directly interested by BOCI Financial Products Limited which was a wholly owned subsidiary of BOC International Holdings Limited, a wholly owned subsidiary of Bank of China Limited. Central SAFE Investments Limited was interested in 67.5% shareholding of Bank of China Limited.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, the Company had not redeemed any of its securities. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 2007.

Management Discussion and Analysis

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 2006 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 are not appointed for a specific term of office. However, the non-executive Directors 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) 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) 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.

Management Discussion and Analysis

MEMBERS OF THE BOARD

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

Executive Directors

Wong Yin Sen
Hon Lik
Wong Hei Lin
Li Kim Hung

Independent Non-executive Directors

Pang Hong
Cheung Kwan Hung, Anthony
Ding Xun

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

Hong Kong, 24 September 2007