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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)

ANNOUNCEMENT **VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION** **AND** **RESUMPTION OF TRADING**

On 13 February 2007, the Purchaser (a wholly-owned subsidiary of the Company) entered into the Agreement with the Vendor and the Guarantors pursuant to which the Purchaser conditionally agreed to acquire from the Vendor the Sale Shares at the total consideration of RMB1,120,000,000 (subject to Adjustment) to be paid to the Vendor by the issue of the Convertible Note.

The Purchaser, the Vendor and the Guarantors undertake to the other party that in the event that the 2006 Net Profit of the BP Group is less than (or more than) RMB80,000,000, the total consideration of RMB1,120,000,000 shall be reduced (or increased) by an amount equal to the shortfall (or excess) of net profit multiplied by a price-to-earning ratio of 14, provided always that the aggregate consideration payable by the Purchaser for the Acquisition after adjustment (if any) shall not exceed RMB1,500,000,000.

Mr. Wong and Mr. Hon are interested in (i) 46.25% and 42.50% of the issued share capital of Absolute Target which is a controlling shareholder holding approximately 55.36% of the total issued share capital of the Company, and (ii) 52.11% and 47.89% of Dragon Concept, a company beneficially interested in approximately 60.50% of the issued share capital of the Vendor. In view of such interest, the Vendor is an associate of Mr. Wong and Mr. Hon and, therefore, the Vendor is a connected person of the Company under the Listing Rules.

Given that the Percentage Ratios exceed 100%, the entering into of the Agreement constitutes a very substantial acquisition and connected transaction for the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders at the EGM under Chapters 14 and 14A of the Listing Rules.

No application will be made for listing of the Convertible Note. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

In the event of full conversion of the Convertible Note by the Vendor after completion of the Acquisition, the shareholding interest of the Vendor in the Company will exceed 30%.

The Company has been notified by the Vendor that a waiver has been granted by the Executive waiving the obligation of the Vendor and its concert parties to make a mandatory offer for all the Shares not already owned by them under Rule 26 of the Takeovers Code pursuant to Note 6 to Rule 26.1 of the Takeovers Code as a result of the full conversion of the Convertible Note by the Vendor on the basis of the existing shareholding structure of the Vendor and that there is no change in the ultimate control of the Company.

A circular containing, among other things, further details of the Acquisition and the issue of the Convertible Note and a notice of the EGM for the purpose of approving the Agreement and the transactions contemplated thereunder including, inter alia, the Acquisition and the issue of the Convertible Note will be dispatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

By virtue of the interest of Mr. Wong and Mr. Hon in the Vendor, Mr. Wong, Mr. Hon and their respective associates will abstain from voting at the EGM to approve the Agreement and the transactions contemplated thereunder.

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 12 February 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:30 a.m. on 20 March 2007 following the publication of this announcement.

INTRODUCTION

Reference is made to the announcement of the Company dated 7 December 2006 in respect of the entering into of the MOU by the Company and Dragon Concept dated 6 December 2006, pursuant to which, the Company shall acquire or procure to acquire not less than 30% interest in a company which shall be a direct or an indirectly subsidiary of Dragon Concept. Dragon Concept directly holds 60.5% of the issued share capital of the Vendor which holds the entire issued share capital of Best Partners. The operating subsidiaries of the BP Group are engaged in the business of research and development production and sale of “Ruyan” (如烟) electronic cigarette.

The Board is pleased to announce that the Agreement has been entered into on 13 February 2007 between the Vendor, the Purchaser and the Guarantors. Pursuant to the Agreement, subject to fulfillment of the conditions precedent therein, the Vendor shall sell and the Purchaser shall purchase the entire issued share capital of Best Partners for a consideration of RMB1,120,000,000 (subject to Adjustment) which shall be satisfied by the issue of the Convertible Note by the Company to the Vendor on Completion.

THE AGREEMENT

Date: 13 February 2007

Parties:—

Vendor: Ability Act Investments Limited, the shareholding of which is held (i) as to approximately 60.50% by Dragon Concept Investments Limited, a company whose interest is beneficially owned as to 52.11% by Mr. Wong and 47.89% by Mr. Hon; (ii) as to approximately 4.75% by Success Glory Group Limited, a company whose interest is beneficially owned by Mr. Li Kim Hung, Isaacs, an executive Director; (iii) as to approximately 4.75% by Goldtools Investment Limited, a company whose interest is beneficially owned by Mr. Wong Hei Lin, an executive Directors; and (iv) as to 11.40%, 4% and 1% by three individuals respectively and 4.69%, 4.66% and 4.25% by three companies respectively (together, the “Six Other Individual Shareholders”). Other than they are members of concert parties of Mr. Wong, all of these Six Individual Shareholders and their ultimate beneficial owners (where applicable) are Independent Third Parties and are, to the best knowledge of the Directors, independent of each other.

Purchaser: Wealthy Well Investments Limited, a wholly-owned subsidiary of the Company

Guarantors: Mr. Wong and Mr. Hon, being the guarantors to guarantee the performance of the Vendor under the Agreement

Assets to be acquired

The Sale Shares, representing the entire existing issued share capital of Best Partners.

Consideration

Subject to adjustment as mentioned under the paragraph headed “Adjustment” below, the total consideration for the Sale Shares under the Acquisition is RMB1,120,000,000 which is to be satisfied by the issue of the Convertible Note by the Company to the Vendor on Completion. The consideration was agreed after arm’s length negotiations between the Vendor and the Purchaser and made with reference to the audited net profit of the BP Group for the nine months ended 30 September 2006 and the price-to-earning ratio of 14 for determining the consideration and the Adjustment. The price-to-earning ratio of 14 is determined after arm’s length negotiations by reference to a range of the market price-to-earnings ratio from 16.8 to 21.9 of a board range of Chinese companies and companies in the related field listed in Hong Kong. The Board has also taken into consideration of various factors which include, inter alia, the net asset value of the BP Group and the business prospect of the Ruyan Products to determine the consideration. The Directors confirm that the terms of the Acquisition are on normal commercial terms and arrived at after arm’s length negotiations, and adhere to the terms as agreed in the MOU.

All amount denominated under the Agreement and all claims arising out of or pursuant to the Agreement, in each case, in RMB shall be converted into a corresponding amount in HK\$ at the exchange rate of RMB1 for HK\$1 and (where applicable) shall be paid and settled in Hong Kong dollars (rather than RMB).

Adjustment

The Purchaser, the Vendor and the Guarantors undertake to each other that:—

- (a) in the event that the 2006 Net Profit of the BP Group is less than RMB80,000,000, the total consideration shall be reduced by an amount equal to the shortfall of net profit multiplied by a price-to-earning ratio of 14 (the “Shortfall”) and in such case, the Company shall have the right to demand the payment in cash by the Vendor of a sum equal to the Shortfall or request the Vendor to deliver the Convertible Note already issued for cancellation and reissue new convertible note in the amount representing the original principal amount of RMB1,120,000,000 less the Shortfall; and
- (b) in the event that the 2006 Net Profit of the BP Group exceeds RMB80,000,000, the total consideration shall be increased by an amount equal to the excess of net profit multiplied by a price-to-earning ratio of 14 (the “Excess”) and such Excess shall be satisfied by the issue of convertible note by the Company,

provided always that the aggregate consideration payable by the Purchaser for the Acquisition after Adjustment (if any) shall not exceed RMB1,500,000,000.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTE

The Convertible Note

The terms of the Convertible Note have been negotiated on arm’s length basis and the principal terms of which are summarized below:

Principal amount

An aggregate of RMB1,120,000,000.

Interest

The Convertible Note will bear interest at a rate of 2.5% per annum on the principal amount of the Convertible Note outstanding, payable semi-annually.

Maturity

Five years from the date of issue of the Convertible Note.

Denomination

RMB50,000 each.

Conversion price

The conversion price, subject to the usual adjustment, is HK\$1.20 per Share with a fixed exchange rate of HK\$1.00 to RMB1.00 from the date of issue of the Convertible Note to the Maturity Date. The initial conversion price of HK\$1.20 per Conversion Share represents:—

- (i) a discount of approximately 32.58% to the closing price of HK\$1.78 per Share as quoted on the Stock Exchange on the Last Trading Day;

- (ii) a discount of approximately 32.20% to the average closing price of approximately HK\$1.77 per Share for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 27.71% to the average closing price of approximately HK\$1.66 per Share for the last 10 trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 207.69% to the net asset value per Share of HK\$0.39 as at 31 December 2005 based on the latest published audited financial information of the Group as shown in the Company's 2005 annual report and the current issued Shares as at the date of this announcement.

The initial conversion price of HK\$1.20 per Share is determined with reference to the average closing prices as quoted on the Stock Exchange prior to the signing of the MOU (i.e. 6 December 2006) and represented (i) a discount of approximately 21.05% to the average closing price of HK\$1.52 per Share on 6 December 2006 (ii) a discount of approximately 13.29% to the average closing price of HK\$1.384 per Share for the last 5 trading days up to and including 6 December 2006; (iii) a discount of approximately 6.90% to the average closing price of HK\$1.289 per Share for the last 10 trading days up to and including 6 December 2006; (vi) a discount of approximately 8.26% to the average closing price of HK\$1.308 per Share for the last 15 trading days up to and including 6 December 2006; and (v) a discount of approximately 8.19% to the average closing price of HK\$1.307 per Share for the last 30 trading days up to and including 6 December 2006. The Directors noted that the Share price has increased significantly since the announcement of the MOU and the conversion price of HK\$1.20 represents an approximately 32.6% discount to the closing price on the Last Trading Day. Nevertheless, the Directors believe that the adherence to the terms as agreed in the MOU is crucial to the entering of the Agreement by the Vendor and the completion of the Acquisition. The Directors believe the Acquisition is in the interests of the Company and the Shareholders as a whole.

The conversion price of the Convertible Note is subject to adjustment provisions which as standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain change in the share capital of the Company including, inter alia, consolidation or sub-division of Shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company.

Conversion Rights

The conversion rights under the Convertible Note shall be exercisable from the date of issue of the 2006 Audited Accounts of the BP Group up to the maturity date of the Convertible Note. Conversion of the Convertible Note is subject to the compliance with the public float requirements under the Listing Rules and the Takeovers Code, if required. Under the terms of the Convertible Note, the Company shall not issue Conversion Shares to the Vendor upon exercise of the Convertible Note in the event that the public float requirements under the Listing Rules cannot be complied with as a result of such conversion.

Conversion

The holder may convert the whole or part of the principal amount of the relevant Convertible Note (in multiple of RMB50,000 at any one time of conversion) into new Conversion Shares unless the principal amount of the outstanding Convertible Note are less than RMB50,000 in which case the whole (but not part only) of such outstanding principal amount of the Convertible Note shall be converted.

Ranking

The Conversion Shares will rank pari passu in all respects with all existing Shares in issue at the date of the notice of conversion.

Redemption by the Company

The Company shall, at any time before the Maturity Date, have the option to redeem the Convertible Note in whole or in part. The amount payable for any redemption shall be the aggregate of (i) the relevant amount of the principal amount of the Convertible Note so redeemed; and (ii) interest at the rate equal to the highest inter bank offer rate for six months plus two percent. per annum on the redemption amount from the date of issue of the Convertible Note up to and including the date of redemption; less (iii) interest already paid on the redemption amount from the date of issue of the Convertible Note up to and including the date of redemption.

Status of the Convertible Note

The Convertible Note constitute a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other mandatory provisions of applicable law exceptions) equally with all other present and/or future unsecured and unsubordinated obligations of the Company. No application will be made for the listing of the Convertible Note.

Transferability

The Convertible Note may be assigned or transferred to any party but subject to, inter alia, that (i) notification to the Company, including identity of the assignee or transferee, (ii) the prior approval of the Stock Exchange, if required, (iii) the principal amount to be transferred or assigned must be at least RMB50,000 or integral multiples of RMB50,000. and (iv) compliance with the Takeovers Code, if required.

Voting Rights

The Convertible Note does not confer any voting rights at any meetings of the Company.

Listing

No application will be made for the listing of the Convertible Note. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

CONDITIONS PRECEDENT

Completion of the Agreement is subject to the fulfillment of, inter alia, the following conditions precedent:

- (i) the Listing Committee of the Stock Exchange shall have granted (either unconditionally or subject only to conditions to which neither the Vendor nor the Purchaser may reasonably object) or agreed to grant listing of and permission to deal in the Conversion Shares;
- (ii) approval by the Independent Shareholders of the Shareholders' resolution in relation to, inter alia, the Agreement and all transactions contemplated thereunder, the issue of the Convertible Note and the issue of the Conversion Shares at the EGM;

- (iii) the Purchaser is satisfied with the results of the due diligence review of BP Group, including but not limited to the satisfaction of the legal, financial and business position and prospects of the BP Group together with legal opinions from the legal advisers of the jurisdictions of the PRC, Australia, Austria, Israel and Turkey (all in forms and contents satisfactory to the Purchaser in its absolute discretion);
- (iv) the delivery of a legal opinion by the BVI legal advisers on the due and proper execution of the Agreement by the Vendor (in form and contents satisfactory to the Purchaser in its absolute discretion);
- (v) it has not come to the attention of the Purchaser that the representations and warranties and undertakings of Best Partners in the Agreement being inaccurate and incorrect on the date of the Agreement and on each date on which they are deemed repeated, and as if made on, the date of Completion; and
- (vi) it has not come to the attention of the Purchaser that any material adverse changes or effect has occurred prior to the date of Completion or are likely to occur whether before the date of Completion.

If any of the conditions precedent are not fulfilled on or before 1:00 pm on 31 May 2007 or such other date as the Purchaser and the Vendor may determine, the Agreement shall terminate and be of no further effect subject to the continuing obligations under the Agreement. In the case of any such termination, neither party shall have any liability to the other, save with respect to any antecedent breach thereof.

COMPLETION

Completion shall take place on a date falling within 5 business days after fulfillment of all the conditions precedent to the Agreement (or such other date as the parties thereto may agree before Completion).

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION

Mr. Wong and Mr. Hon are interested in 46.25% and 42.5% of the issued share capital of Absolute Target which is a substantial shareholder holding 388,000,000 Shares, representing approximately 55.36% of the issued share capital of the Company as at the date hereof.

Upon Completion and assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Note in aggregate of RMB1,120,000,000 at the conversion price of HK\$1.20 with a fixed exchange rate of HK\$1.00 to RMB1.00 by the holders thereof, the Company will issue an aggregate of 933,333,333 Conversion Shares, representing approximately 133.18% of the existing, and approximately 57.11% of the enlarged issued share capital of the Company. In the event that there is an Excess and the Convertible Note is issued in the maximum amount of RMB1,500,000,000 and such Convertible Note is converted at the conversion price of HK\$1.20 with a fixed exchange rate of HK\$1.00 to RMB1.00 by the holders thereof, the Company will issue an aggregate of 1,250,000,000 Conversion Shares, representing approximately 178.37% of the existing, and approximately 64.08% of the enlarged issued share capital of the Company. The Conversion Shares will be issued pursuant to the passing of the relevant resolution at the EGM.

Details of the shareholding structure of the Company (i) as at the date of this announcement, (ii) after Completion and full conversion of the Convertible Note by the Vendor in the amount of RMB1,120,000,000 and assuming that there is no further issue of Shares and (iii) after Completion and in the event that there is an Excess, full conversion of the Convertible Note in the amount of RMB1,500,000,000 which is the maximum amount of the Convertible Note that may be issued by the Company under the Agreement and assuming that there is no further issue of Shares are set out below:—

Name	Number of Shares held directly or indirectly as at the date of this announcement	Approximate percentage of the total issued share capital of the Company	Number of Shares held directly or indirectly immediately after Completion and full conversion of the Convertible Note in the amount of RMB1,120,000,000	Approximate percentage of the enlarged total issued share capital of the Company	Number of Shares held directly or indirectly immediately after Completion and in the event that there is an Excess, full conversion of the Convertible Note in the amount of RMB1,500,000,000	Approximate percentage of the enlarged total issued share capital of the Company
Absolute Target (<i>note 1</i>)	388,000,000	55.36%	388,000,000	23.74%	388,000,000	19.89%
The Vendor (<i>note 2</i>)	—	—	933,333,333	57.11%	1,250,000,000	64.08%
Sub-total of interest of Absolute Target and the Vendor and their respective concert parties	—	—	1,321,333,333	80.86%	1,638,000,000	83.97%
Public	<u>312,800,000</u>	<u>44.64%</u>	<u>312,800,000</u>	<u>19.15%</u>	<u>312,800,000</u>	<u>16.03%</u>
Total	<u><u>700,800,000</u></u>	<u><u>100.00%</u></u>	<u><u>1,634,133,333</u></u>	<u><u>100.00%</u></u>	<u><u>1,950,800,000</u></u>	<u><u>100.00%</u></u>

Notes

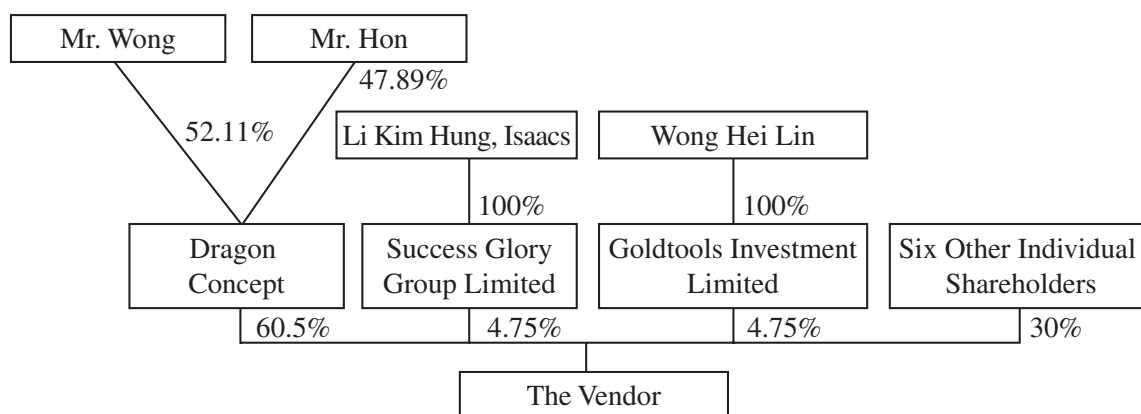
- As at the date hereof, Absolute Target is owned as to 46.25% by Mr. Wong, 42.50% by Mr. Hon and 11.25% by Mr. Wong Hei Lin. As disclosed in the announcement of the Company dated 17 January 2007, Absolute Target has issued Exchangeable Bonds exchangeable for an aggregate of 65,000,000 Shares held by Absolute Target to two investors. It is also disclosed in such announcement that Absolute Target agreed to mortgage (i) 175,600,000 Shares in favour of one investor and (ii) 175,600,000 Shares in favour of the remaining investor.
- As at the date hereof, the shareholding of the Vendor is held (i) as to approximately 60.50% by Dragon Concept Investments Limited, a company whose interest is beneficially owned as to 52.11% by Mr. Wong and 47.89% by Mr. Hon; (ii) as to approximately 4.75% by Success Glory Group Limited, a company whose interest is beneficially owned by Mr. Li Kim Hung, Isaacs, an executive Director; (iii) as to approximately 4.75% by Goldtools Investment Limited, a company whose interest is beneficially owned by Mr. Wong Hei Lin, an executive Directors; and (iv) as to 30% by the Six Other Individual Shareholders.
- As at the date of this announcement, there are no other outstanding convertible note, share option, warrant, derivative or other securities convertible into or exchangeable for the Shares.

As the conversion of the Convertible Note may result in the Company failing to meet the minimum public float requirement as prescribed under Rule 8.08 of the Listing Rules, each of Absolute Target, the Vendor, Mr. Wong and Mr. Hon has undertaken to the Company that it/he (and its and his associates) will and will procure the holders of the Convertible Note only exercise the conversion rights as to such amount of the Convertible Note if upon conversion thereof, the percentage of the Shares held by the public still meets the minimum public float requirement under Rule 8.08 of the Listing Rules.

IMPLICATIONS UNDER THE TAKEOVERS CODE

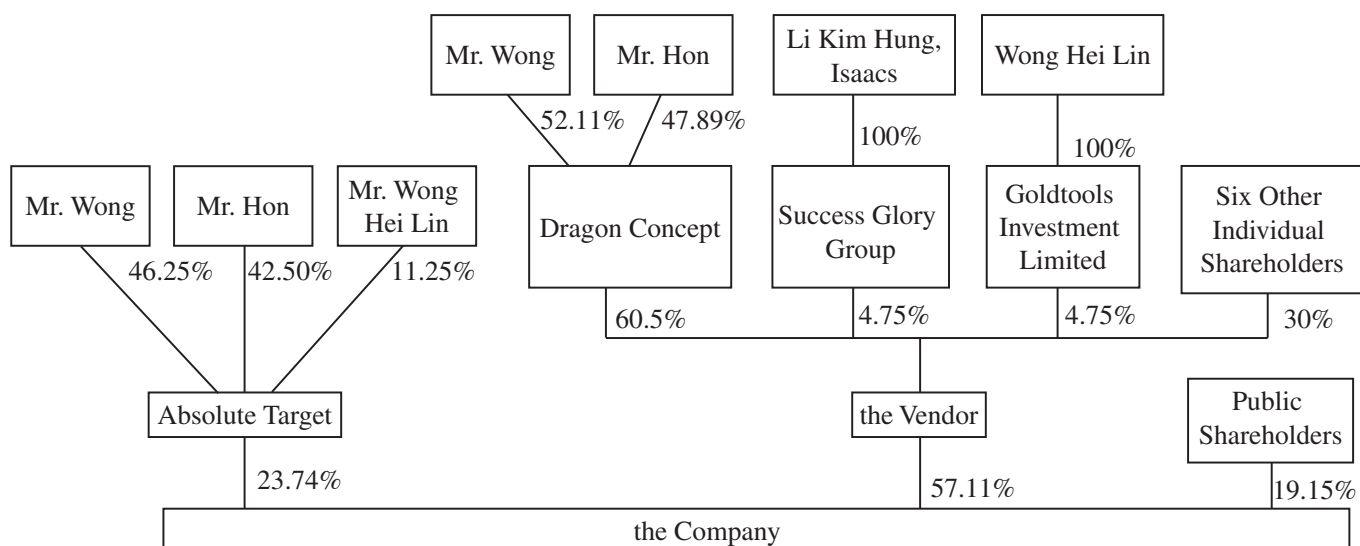
As at the date hereof, the shareholding interest of Absolute Target, a controlling shareholder of the Company, is owned as to 46.25% by Mr. Wong, 42.50% by Mr. Hon and 11.25% by Mr. Wong Hei Lin. Absolute Target, Mr. Wong, Mr. Hon and Mr. Wong Hei Lin are concert parties by virtue of their shareholding in the Company through Absolute Target.

As at the date hereof, the shareholding interest of the Vendor and Dragon Concept, a shareholder holding 60.5% shareholding interest of the Vendor, are as follows:

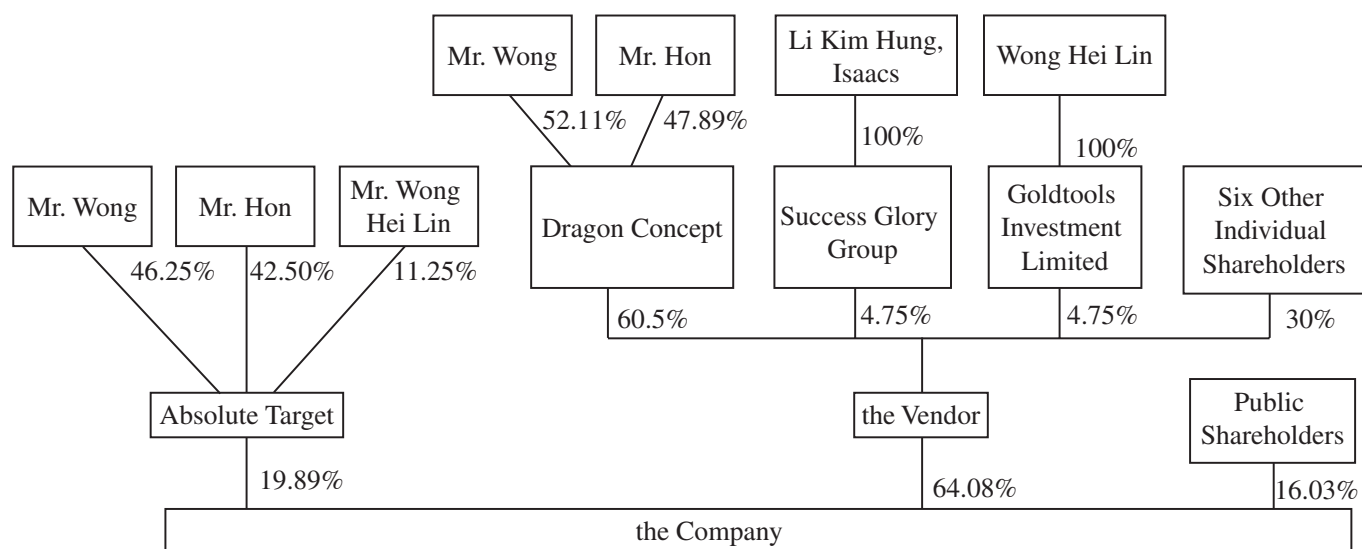


After Completion and full conversion of the Convertible Note by the Vendor in the amount of (i) RMB1,120,000,000 and (ii) RMB1,500,000,000 which is the maximum amount of the Convertible Note that may be issued by the Company under the Agreement, and assuming that there is no further issue of Shares, the shareholding structure of the Company will be as follows:—

(i) Full conversion of the Convertible Note in the amount of RMB1,120,000,000



(ii) full conversion of the Convertible Note in the amount of RMB1,500,000,000



As shown in the charts (i) and (ii) above, in the event of full conversion of the Convertible Note by the Vendor after completion of the Acquisition, the shareholding interest of the Vendor in the Company will exceed 30%.

The Company has been notified by the Vendor that a waiver has been granted by the Executive waiving the obligation of the Vendor and its concert parties to make a mandatory offer for all the Shares not already owned by them under Rule 26 of the Takeovers Code pursuant to Note 6 to Rule 26.1 of the Takeovers Code as a result of the full conversion of the Convertible Note by the Vendor on the basis of the existing shareholding structure of the Vendor and that there is no change in the ultimate control of the Company.

INFORMATION RELATING TO BP GROUP

Best Partners is a company incorporated in the British Virgin Islands on 1 July 2003, the principal business of which is investment holding. Investment in the BP Group commenced from July 2003. The total investment costs in the Vendor and BP Group amounted to approximately HK\$36,000,000. The consideration of RMB1,120,000,000 (subject to Adjustment) represented a significant premium over the total investment cost of approximately HK\$36,000,000 by the Vendor since 2003. Having considered various factors, including but not limited to, the investment cost of HK\$36,000,000, the current profitability of the BP Group and, most important, the future prospect of the business of the BP Group, the Company considers such premium acceptable. Best Partners holds the entire issued share capital of SBT, the holding company of three wholly foreign owned enterprises, Beijing SBT, Shenyang SBT and Tianjin SBT.

The principal activities of Beijing SBT, Shenyang SBT and Tianjin SBT are research and development, production and sales of Ruyan electronic cigarette.

The following table shows the audited consolidated net profit of BP Group for the two years ended 31 December 2005 and for the nine months ended 30 September 2006 (prepared in accordance with HKFRS):

	Year ended 31 December 2004 <i>HK\$'000</i>	Year ended 31 December 2005 <i>HK\$'000</i>	Nine months ended 30 September 2006 <i>HK\$'000</i>
Net profit/(loss) before taxation and extraordinary items	(25,799)	34,275	80,493
Net profit/(loss) after taxation and extraordinary items	(25,799)	34,275	80,493

The audited consolidated net asset value of the BP Group as at 30 September 2006 was HK\$100,113,000.

INFORMATION RELATING TO RUYAN PRODUCT

Ruyan Products are electronic atomizing cigarette consisting of three models, including V8 cigarette, cigar and pipe and it adopted micro-electronic control technology and supercritical atomizing technology instead of ignition of tobacco, which may reduce the production of harmful substance as tar, carbon monoxide, etc. There is nicotine inside the electronic cigarette which may be adopted as a nicotine replacement therapy and a substitute of traditional cigarette. The Ruyan Products are now being sold in the People's Republic of China and certain countries in Europe, including but not limited to Austria and Australia.

Further information about the BP Group and the Ruyan Products will be provided in the circular of the Company to be issued in relation to the Acquisition.

REASONS FOR THE ACQUISITION

As disclosed in the interim report of the Company for the six months ended 30 June 2006, the Group has been actively developing the market for its new products with health concept such as electronic cigarettes component, namely alkaloid liquid containers together with inhaler installed for one-off consumption purpose as refills used in electronics cigarette as a tobacco substitute health care product. In addition, the Group has been supplying such alkaloid liquid containers to Shenyang SBT. The Acquisition will enable the Group to consolidate the production of the Ruyan Products by the Group; and the supply of such alkaloid liquid containers to Shenyang SBT will cease to be connected transactions for the Company.

The Directors further believe that the Ruyan Products belong to tobacco substitute health care product and that there is a big potential market in the PRC as well as overseas. Accordingly, the Directors consider that the Acquisition represents a good investment opportunity for the Company.

Following completion of the Acquisition, the Group will continue to engage in its existing business in processing and sale of health care products, ginseng and related products, pharmaceutical products and electronic cigarette components and the newly acquired business in research and development, production and sales of Ruyan electronic cigarette.

The Directors are of the view that the terms of the Acquisition are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The Company has no present intention to change the composition of the Board or the name of the Company after completion of the Acquisition.

DILUTION EFFECT ON SHAREHOLDERS

In view of the potential dilution effect on existing Shareholders on exercise of conversion rights attaching to the Convertible Note, for so long as any the Convertible Note is outstanding, the Company will keep Shareholders informed of the level of dilution and details of conversion after issue of the Convertible Note as follows:—

- (i) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
 - (a) whether there is any conversion of the Convertible Note during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
 - (b) the outstanding principal amount of the Convertible Note after the conversion, if any;
 - (c) the total number of Shares issued pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company;
 - (d) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and
- (ii) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Note reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will as soon as practicable but in any event no later than the fifth business day thereafter make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be), up to the date on which the total amount of Shares issued pursuant to the conversion amounts to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be).

GENERAL

The Group is principally engaged in processing and sale of health care products, ginseng and related products, pharmaceutical products and electronic cigarette components. The Vendor is an investment holding company holding the interest in Best Partners.

As certain of the Percentage Ratios calculated under the Listing Rules in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules.

In addition, Mr. Wong and Mr. Hon are interested in (i) in 46.25% and 42.50% of the issued share capital of Absolute Target, which is a substantial shareholder holding approximately 55.36% of the total issued share capital of the Company, and (ii) 52.11% and 47.89% of Dragon Concept, a company beneficially interested in approximately 60.50% of the issued share capital of the Vendor, the Vendor is an associate of Mr. Wong and Mr. Hon. Therefore, the Vendor is a connected person of the Company under the Listing Rules and the transactions between the Vendor and the Purchaser constitute connected transaction of the Company under the Listing Rules.

In view of the above, the entering into of the Agreement constitutes a very substantial acquisition and connected transaction for the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders at the EGM under Chapters 14 and 14A of the Listing Rules. Absolute Target, Mr. Wong and Mr. Hon shall abstain from voting on the resolutions approving the Agreement and the issue of Convertible Note and all transactions contemplated thereunder. An independent financial adviser will be appointed to advise the independent board committee of the Company and the Independent Shareholders in relation to the terms of the Agreement.

A circular containing, among others, further details of the Acquisition and the Convertible Note and a notice of the EGM for the purpose of approving the Agreement and the transactions contemplated thereunder including, inter alia, the Acquisition and the Convertible Note will be dispatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 12 February 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:30 a.m. on 20 March 2007 following the publication of this announcement.

DEFINITIONS

“2006 Net Profit”	the audited consolidated net profit after tax before extraordinary items of the BP Group as appeared in the 2006 Audited Accounts
“2006 Audited Accounts”	the consolidated audited accounts of the BP Group for the financial year ended 31 December 2006
“Absolute Target”	Absolute Target Limited which is a controlling shareholder holding approximately 55.36% of the issued share capital of the Company
“Acquisition”	the sale and purchase of the Sale Shares contemplated under the Agreement
“Adjustment”	the adjustment to the consideration for the Acquisition, details of which are set out in the paragraph headed “Adjustment” in this announcement
“Agreement”	the sale and purchase agreement dated 13 February 2007 entered into between the Vendor and the Purchaser for the acquisition of the Sale Shares by the Purchaser at the total consideration of RMB1,120,000,000 to be satisfied by the issue of the Convertible Note by the Company to the Vendor
“associates”	has the meaning given to that term in the Listing Rules

“Beijing SBT”	Beijing SBT RUYAN Technology & Development Co., Ltd., a wholly foreign owned enterprise established in the PRC, the registered capital of which is owned by SBT
“Best Partners”	Best Partners Worldwide Limited, a company incorporated in the British Virgin Islands with limited liability, the issued shares of which are owned by the Vendor
“Board”	the board of Directors
“BP Group”	Best Partners and its subsidiaries, including SBT, Beijing SBT, Shenyang SBT and Tianjin SBT
“BVI”	the British Virgin Islands
“Company”	Golden Dragon Group (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	actual completion of the sale and purchase of the Sale Shares in accordance with the Agreement
“concert parties”	means parties acting in concert (as defined in the Takeovers Code)
“connected person(s)”	has the meaning given to that term in the Listing Rules
“Conversion Shares”	those shares to be converted upon conversion of the conversion rights attached to the Convertible Note at the conversion price of HK\$1.20 per Share (subject to Adjustment)
“Convertible Note”	the RMB denominated HK\$ settled convertible note to be issued by the Company to the Vendor in the aggregate principal amount of RMB1,120,000,000
“Director(s)”	director(s) of the Company
“Dragon Concept”	Dragon Concept Investments Limited, a company incorporated in the British Virgin Islands, the shareholding of which is owned as to 52.11% by Mr. Wong and 47.89% by Mr. Hon
“EGM”	extraordinary general meeting of the Company to be convened to approve, inter alia, the Agreement and the transactions contemplated thereunder and the issue of the Convertible Note
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission and any delegate of the Executive Director
“Group”	the Company and its subsidiaries

“Guarantors”	Mr. Wong and Mr. Hon
“Independent Third Parties”	third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Company
“Independent Shareholders”	Shareholders other than Absolute Target, Mr. Wong, Mr. Hon, Mr. Wong Hei Lin, Mr. Li Kim Hung, Isaacs and other shareholders of the Vendor and their respective concert parties and associates
“Last Trading Day”	9 February 2007, being the last trading day of the Shares on the Stock Exchange immediately prior to this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the day preceding the fifth anniversary of the date of issue of the Convertible Note
“MOU”	the non-legally binding memorandum of understanding dated 6 December 2006, pursuant to which, the Company shall acquire or procure to acquire not less than 30% interest in a company which shall be a direct or an indirectly subsidiary of the Dragon Concept
“Mr. Hon”	Mr. Hon Lik, an executive Director. Mr. Hon is interested in 47.89% of the total issued share capital of Dragon Concept and 42.50% of the issued share capital of Absolute Target
“Mr. Wong”	Mr. Wong Yin Sen, the Chairman and an executive Director. Mr. Wong is interested in 52.11% of the total issued share capital of Dragon Concept and 46.25% of the total issued share capital of Absolute Target
“Percentage Ratios”	the “percentage ratios” as defined in rule 14.04(9) of the Listing Rules
“Purchaser”	Wealthy Well Investments Limited (盛佳投資有限公司), a wholly owned subsidiary of the Company
“PRC”	The People’s Republic of China
“Ruyan Products”	“Ruyan” (如烟) electronic cigarette
“Sale Shares”	10,000 ordinary shares of US\$1.00 each in the capital of Best Partners representing its entire issued share capital to be sold by the Vendor to the Purchaser pursuant to the Agreement
“SBT”	SBT (Holding) Company Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are owned by Best Partners
“Share(s)”	ordinary share(s) of HK\$0.01 each in the existing issued share capital of the Company

“Shareholder(s)”	holder(s) of the Shares
“Shenyang SBT”	Shenyang SBT Technology Development Co., Ltd., a wholly foreign owned enterprise established in the PRC, the registered capital of which is owned by SBT
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Tianjin SBT”	Tianjin SBT Technology Development Corporation, a wholly foreign owned enterprise established in the PRC, the registered capital of which is owned by SBT
“Vendor”	Ability Act Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is the beneficial owner of the Sale Shares as at the date of the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars
“%”	Percentage

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

Hong Kong, 19 March 2007

As at the date of this announcement, the executive Directors are Mr. Wong Yin Sen, Mr. Hon Lik, Mr. Wong Hei Lin, Mr. Li Kim Hung, Isaacs; the non-executive Director is Ms. Cheng Kong Yin; and the independent non-executive Directors are Mr. Pang Hong, Mr. Cheung Kwan Hung, Anthony and Mr. Ding Xun.

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than that in respect of the Vendor) in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.

The director of the Vendor, namely Mr. Wong Yin Sen and Mr. Hon Lik jointly and severally accept full responsibility for the accuracy of the information (other than that in respect of Group) in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.

Translation of Renminbi into Hong Kong dollars in this announcement is based on the exchange rate of HK\$1.00 = RMB1.00.

Please also refer to the published version of this announcement in The Standard.