



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)

**CONTINUING CONNECTED TRANSACTIONS –
THE NEW SUPPLY OF THE PRODUCTS AGREEMENT**

The Board is pleased to announce that on 16 November 2006 Jinlong Pharmaceutical, an indirect wholly-owned subsidiary of the Company and Beijing SBT have entered into the New Supply of the Products Agreement to renew and amend the terms and conditions of the Continuing Connected Transactions which have been entered into between Jinlong Pharmaceutical and Beijing SBT under the Supply of the Products Agreement, as the Continuing Connected Transactions will continue to be carried out in the ordinary course of business of the Group.

Beijing SBT is an indirect wholly owned subsidiary of Ability Act Investments Limited which in turn is beneficially owned as to 31.53%, 28.97%, 4.75% and 4.75% by Messrs. Wong Yin Sen, Hon Lik, Wong Hei Lin and Li Kim Hung, Isaacs, respectively and Cheng Kong Yin is the spouse of Mr. Wong Yin Sen, all of them being the Directors. The annual consideration of the transactions as contemplated by the New Supply of the Products Agreement are expected to exceed HK\$10 million and the applicable percentage ratios for the transactions contemplated by the New Supply of the Products Agreement are expected to exceed 25% on an annual basis for each of the three years ending 31 December 2009 and therefore they will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

An independent board committee of the Company comprising independent non-executive Directors will be formed to advise the Independent Shareholders in respect of the terms of the New Supply of the Products and the new annual caps in relation thereto. An independent financial adviser will be appointed to advise the independent board committee of the Company in respect thereof. Absolute Target Limited and its associates and Mr. Li Kim Hung, Isaacs will abstain from voting in relation to the resolutions for approving the transactions contemplated by the New Supply of the Products Agreement.

A circular containing, among others, further details of the New Supply of the Products Agreement, the advice from the independent board committee to the Independent Shareholders, the advice from the independent financial adviser to the independent board committee in respect thereof and a notice for convening the EGM to approve the terms of the New Supply of the Products Agreement and the new annual caps in relation thereto will be sent to the Shareholders as soon as possible.

Reference is made to the announcement of the Company and the circular of the Company dated 11 November 2004 and 2 December 2004, respectively in relation to the Continuing Connected Transactions which have been entered into between Jinlong Pharmaceutical and Beijing SBT under the Supply of the Products Agreement.

THE NEW SUPPLY OF PRODUCTS AGREEMENT

Date: 16 November 2006

Parties: Jinlong Pharmaceutical as supplier of the Products
Beijing SBT as purchaser of the Products

Subject: Pursuant to the New Supply of Products Agreement, Jinlong Pharmaceutical will sell the Products as component for the Electronic Cigarette to Beijing SBT.

Term: The New Supply of Products Agreement has a fixed term commencing on 1 January 2007 and ending on 31 December 2009 (both dates inclusive). Both parties may renew the New Supply of the Products Agreement in writing within 30 days before expiry on 31 December 2009 for another three years subject to compliance with the Listing Rules and either party will have the right to terminate the New Supply of the Products Agreement without cause by serving the other party with 30 days' prior written notice.

Price: Within a range of prices (to be determined by reference to a number of factors, including, among other things, market price of raw materials and accessories for the Products, the direct labour costs, the direct expenses and apportioned overheads for and the agreed profit margin and such profit margin is not less than those of the other major products of the Group).

Other than the duration, a range of prices of the Products and the estimated maximum aggregate annual value of the Products to be ordered by Beijing SBT, the remaining terms and conditions of the New Supply of the Products Agreement are similar to those of the Supply of Products Agreement.

Prior to the obtaining the Independent Shareholder's approval at EGM, the Board will ensure the Group's compliance with the requirements of Rule 14A.34 of the Listing Rules in respect of the sale of the Products by the Group to Beijing SBT.

Messrs. Wong Yin Sen, Hon Lik, Wong Hei Lin and Li Kim Hung, Isaacs and Ms. Cheng Kong Yin, being the Directors, did not vote in the meeting of the Board convened for the purpose of considering the terms of the New Supply of the Products Agreement and annual caps in relation thereto and only all the independent non-executive Directors voted in the said meeting.

HISTORICAL FIGURES FOR THE CONTINUING CONNECTED TRANSACTIONS UNDER THE SUPPLY OF PRODUCTS AGREEMENT

The amounts for the Supply of Products Agreement together with the comparison of the cap amount for the period from 15 September 2004 to 31 December 2004, the year ended 31 December 2005 and the year ending 31 December 2006 are set out below:

	Period from 15 September 2004 to 31 December 2004	Year ended 31 December 2005	Year ending 31 December 2006
	<i>RMB (million) (Audited)</i>	<i>RMB (million) (Audited)</i>	<i>RMB (million) (Unaudited)</i>
Actual/estimated amount of sale	17.3	47.9	120*
Cap amount	30	300	500

* extrapolated from the actual figures (unaudited) for nine months ended 30 September 2006 and having taken into account of seasonal effect of the purchase pattern of the Electronic Cigarettes.

NEW ANNUAL CAPS

The Board (consisting of all the independent non-executive Directors only) is of the view that as far as the Independent Shareholders are concerned, the Continuing Connected Transactions under the New Supply of the Products Agreement and the terms thereof are fair and reasonable and in the best interests of the Group and the Shareholders as a whole. The Company will therefore seek the approval by the Independent Shareholders of the Continuing Connected Transactions under the New Supply of the Products Agreement and the respective caps for each of the three financial years ending 31 December 2009 as contemplated by the New Supply of the Products Agreement.

The Board proposes that the cap amounts of the sale of the Products by the Group to Beijing SBT for each of the three financial years ending 31 December 2009 as contemplated by the New Supply of the Products Agreement will not exceed RMB180 million (approximately HK\$176.4 million) RMB250 million (approximately HK\$245 million) and RMB300 million (approximately HK\$294 million), respectively.

The basis of the said cap amounts is determined with reference to: (i) historical figure for the Continuing Connected Transactions under the Supply of Products Agreement; (ii) the terms of the New Supply of the Products Agreement; (iii) the annual growth rate of the sale of the Products by Jinlong Pharmaceutical as exhibited by the historical figures for the Continuing Connected Transactions under the Supply of Products Agreement; (iv) the estimated amount of purchase orders expected to be placed by Beijing SBT with the Group; and (v) the Group expects Beijing SBT will purchase more Products from the Group to cater for the anticipated increasing demand for Electronic Cigarettes as a result of its anticipated business growth.

The said cap amounts are also determined by reference to a range of prices of the Products as stipulated in the New Supply of the Products Agreement.

Having regard to the terms of the New Supply of the Products Agreement and the said market research and the estimate by Beijing SBT, the Board (consisting of all the independent non-executive Directors only) is of the view that the said assumptions and bases are reasonable and fair.

The Continuing Connected Transactions under the New Supply of the Products Agreement constitute ongoing connected transactions for the Group under Rule 14A.35 of the Listing Rules

which will be subject to reporting, announcement and the approval of Independent Shareholders at the EGM.

REASON FOR ENTERING INTO THE NEW SUPPLY OF PRODUCTS AGREEMENT

The Board (consisting of all the independent non-executive Directors only) considers that the Continuing Connected Transactions under the New Supply of the Products Agreement will be entered into in the usual and ordinary course of businesses of the Group. The Board (consisting of all the independent non-executive Directors only) is of the view that the terms of the Continuing Connected Transactions under the New Supply of the Products Agreement have been negotiated and will be conducted on an arm's length basis and on normal commercial terms, between the Group and Beijing SBT and are fair and reasonable and in the best interest of the Group and the Shareholders as a whole.

The Board (consisting of all the independent non-executive Directors only) also considers that it is in the interest of the Group to be engaged in the Continuing Connected Transactions under the New Supply of the Products Agreement, as the engagement in the Continuing Connected Transactions enable the Group to utilize some of its spare production facilities and manpower to generate additional source of income. The engagement of Continuing Connected Transactions under the New Supply of the Products Agreement also represents a good opportunity for the Group to secure a source of income which may broaden the income base for the Group in the long run.

Beijing SBT is engaged in sale of the Electronic Cigarettes to customers in market, which is an indirect wholly owned subsidiary of Ability Act Investments Limited which in turn is beneficially owned as to 31.53%, 28.97%, 4.75% and 4.75% by Messrs. Wong Yin Sen, Hon Lik, Wong Hei Lin and Li Kim Hung, Isaacs, respectively and Cheng Kong Yin is the spouse of Mr. Wong Yin Sen, all of them being the Directors. The annual consideration of the transactions as contemplated by the New Supply of the Products Agreement are expected to exceed HK\$10 million and the applicable percentage ratios for the transactions contemplated by the New Supply of the Products Agreement are expected to exceed 25% on an annual basis for each of the three years ending 31 December 2009 and therefore they will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

GENERAL

The Group is principally engaged in processing and sale of health care products, ginseng and related products, pharmaceutical products and electronic cigarette components.

An independent board committee of the Company comprising independent non-executive Directors will be formed to advise the Independent Shareholders in respect of the terms of the Continuing Connected Transactions under the New Supply of the Products Agreement and the annual caps in relation thereto. An independent financial adviser will be appointed to advise the independent board committee of the Company in respect thereof. Absolute Target Limited and its associates and Mr. Li Kim Hung, Isaacs will abstain from voting in relation to the resolutions for approving the Continuing Connected Transactions under the New Supply of the Products Agreement.

A circular containing, among others, further details of the Continuing Connected Transactions under the New Supply of the Products Agreement, the advice from the independent board committee to the Independent Shareholders, the advice from the independent financial adviser to the independent board committee of the Company in respect thereof and a notice for convening the EGM to approve the respective caps in relation to the Continuing Connected Transactions under the New Supply of the Products Agreement will be sent to the Shareholders as soon as possible.

DEFINITIONS

In this announcement, unless the context otherwise requires otherwise, terms defined in the announcement of the Company dated 11 November 2004 shall have the same meaning when used in this announcement and the following terms shall have the following meanings:

“Beijing SBT”	北京賽波特如煙科技發展有限公司 (Beijing SBT Ruyan Technology Development Company Limited), a wholly foreign-owned enterprise established under the laws of the PRC and is an indirect wholly owned subsidiary of Ability Act Investments Limited which is in turn beneficially owned as to 31.53%, 28.97%, 4.75% and 4.75% by Messrs. Wong Yin Sen, Hon Lik, Wong Hei Lin and Li Kim Hung, Isaacs, respectively and Cheng Kong Yin is the spouse of Mr. Wong Yin Sen, all of them being the Directors;
“Continuing Connected Transactions”	continuing connected transactions which have been, and will continue to be, entered into between Jinlong Pharmaceutical and Beijing SBT under the Supply of the Products Agreement (as the case may be);
“New Supply of the Products Agreement”	the agreement dated 16 November 2006 entered into between Jinlong Pharmaceutical as supplier and Beijing SBT as purchaser for the sale of the Products; and
“%”	per cent.

For the purpose of this announcement, the translations of RMB into HK\$ are made for illustration purposes only at the exchange rate of RMB 1.00 to HK\$0.98.

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. Ding Xun and Mr. Cheung Kwan Hung, Anthony.

By Order of the Board
Golden Dragon Group (Holdings) Limited
Wong Yin Sen
Chairman

Hong Kong, 16 November 2006