



# 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 NON-LEGALLY BINDING MEMORANDUM OF UNDERSTANDING AND RESUMPTION OF TRADING

The Board is pleased to announce that on 6 December 2006, the Company and the Vendor entered into a non-legally binding Memorandum of Understanding in respect of the Acquisition.

At the request of the Company, the shares of the Company have been suspended from trading on the Stock Exchange from 9:30 a.m. on 7 December 2006 pending release of this announcement. Application has been made to the Stock Exchange for resumption of trading from 9:30 a.m. on 8 December 2006.

This announcement is made pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The board of directors (the “**Board**”) of Golden Dragon Group (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce that on 6 December 2006, the Company entered into a non-legally binding memorandum of understanding (the “**Memorandum of Understanding**”) with Dragon Concept Investments Limited (the “**Vendor**”), the shares of which are owned as to 52.11% by Mr. Wong Yin Sen (“**Mr Wong**”) and as to 47.89% by Mr. Hon Lik (“**Mr. Hon**”), both are executive directors of the Company. Mr. Wong and Mr. Hon are interested in 46.25% and 42.5% of the issued share capital of Absolute Target Limited (“**Absolute Target**”) which is a controlling shareholder of the Company holding approximately 55.36% of the issued share capital of the Company.

### MEMORANDUM OF UNDERSTANDING

#### Acquisition

Pursuant to the Memorandum of Understanding, the Company shall acquire or procure to acquire not less than 30% interest (the “**Acquisition**”) in a company (the “**Target Company**”, together with its subsidiaries, the “**Target Group**”), which shall be a direct or an indirectly subsidiary of the Vendor. The Vendor currently directly holds 60.5% of the issued share capital of Ability Act Investments Limited which indirectly owns the entire issued share capital of SBT (Holding) Company Limited (“**SBT**”). The operating subsidiaries of the Target Group, all of which are wholly foreign owned enterprises established by SBT in the People’s Republic of China (the “**PRC**”), are engaged in the business of manufacturing and sale of “Ruyan” (如煙) brand electronic cigarette (the “**Ruyan Products**”).

#### Consideration

The consideration payable by the Company to the Vendor for the Acquisition (the “**Consideration**”) shall be determined in accordance with the following formula:

Consideration = (B x C) x D

B = the audited consolidated net profit of the Target Group prepared in accordance with Hong Kong or International accounting standards for the year ending 31 December 2006

C = the percentage interest to be acquired by the Company from the Vendor in the Target Company

D = price-to-earning ratio at the range from 11 to 15

The Consideration shall be satisfied by cash or the issue of a convertible note in the principal amount equivalent to the amount of the Consideration by the Company to the Vendor (the “**Convertible Note**”) or by a combination of cash and Convertible Note. The Convertible Note shall be issued for a term of five years with interest at the rate of 2.5%. The conversion price for the shares to be issued upon the exercise of the conversion rights attaching to the Convertible Note shall be ranging from HK\$1 to HK\$1.20. The Company will seek further advice and such conversion price shall be subject to further negotiation between the parties.

The basis for calculation of the Consideration was arrived at after arm’s length negotiations between the Vendor and the Company.

#### Conditions Precedent to completion of the Acquisition

There are no conditions precedent stipulated in the Memorandum of Understanding which have to be satisfied prior to signing of the formal sale and purchase agreement, however, pursuant to the Memorandum of Understanding, completion of the Acquisition shall be conditional upon and subject to the fulfillment of, inter alia, the following conditions precedent on or before 6 March 2007 or such date as the Vendor and the Company may determine (the “**Long Stop Date**”):

(1) the Company undertaking and completing a due diligence review in respect of the Target Group in relation to financial, legal, business, operations and any other matters of the Target Group being satisfied in its absolute discretion with the results of such due diligence review in all respects, there are no material adverse changes to financial, legal, business, operations and any other matters of the Target Group that come to the attention of the Company;

(2) approval by the independent shareholders of the Company in relation to, inter alia, the Acquisition and all transactions contemplated under the Acquisition and the issue of the Convertible Note at the extraordinary general meeting; and

(3) the Stock Exchange granting or agreeing to grant the listing approval in respect of the shares to be issued upon exercise of the Convertible Note.

If any of the conditions precedent is not fulfilled before the Long Stop Date, unless the Vendor obtained written waiver of all or part of the conditions precedent from the Company, the agreement in respect of the Acquisition shall terminate and be of no further effect immediately after the Long Stop Date.

The Memorandum of Understanding is non-legally binding and the Acquisition is still subject to the signing of a formal sale and purchase agreement by the Company and the Vendor.

### INFORMATION RELATING TO RUYAN PRODUCTS AND THE TARGET GROUP

Ruyan Product is an electronic 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.

The Company has appointed Nomura International (Hong Kong) Limited and Guotai Junan Capital Limited as joint financial advisers to advise the Company in relation to the Acquisition. The Company has also appointed CB Richard Ellis Limited to conduct properties valuation on the Target Group. Deloitte Touche Tohmatsu has been engaged to conduct audit on the Target Group.

### GENERAL

Based on the management accounts of the Target Group as at 30 September 2006 (which is the latest available financial information to the Company as at the date of this announcement) and subject to the signing of a formal sale and purchase agreement, the Acquisition is likely to constitute a very substantial acquisition and connected transaction of the Company under the Listing Rules, therefore, the Acquisition may be subject to announcement and independent shareholders’ approval requirement under Chapters 14 and 14A of the Listing Rules. In view of the interest of Mr. Wong and Mr. Hon in Absolute Target, a controlling shareholder of the Company, Mr. Wong and Mr. Hon together with their respective associates (as defined under the Listing Rules) shall abstain from voting on the resolutions approving, inter alia, the Acquisition and the issue of the Convertible Note. However, this is subject to further calculations to be made upon receipt by the Group of the audited accounts and/or management accounts of the Target Group for the year ending 31 December 2006. Further announcement will be made upon the signing of the formal sale and purchase agreement in accordance with the Listing Rules.

**The Acquisition is still subject to the signing of a formal sale and purchase agreement. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in shares of the Company.**

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

Hong Kong, 7 December, 2006

*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.*