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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)

PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION FOR NEW SHARES AND PLACING OF CONVERTIBLE NOTES AND RESUMPTION OF TRADING

(A) **PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION FOR NEW SHARES**

On 3 July 2007, the Company, the Vendor and the Placing Agent entered into the Placing and Subscription Agreement pursuant to which (i) the Placing Agent has agreed on a best efforts basis to procure purchasers to acquire and the Vendor has agreed to sell up to 105,000,000 Placing Shares held by it at a price of HK\$1.38 per Placing Share; and (ii) the Vendor has conditionally agreed to subscribe for Top-Up Subscription Shares equivalent to the number of Placing Shares actually sold by the Vendor under the Placing at a price of HK\$1.38 per Top-Up Subscription Share.

The Placing Shares and the Top-Up Subscription Shares respectively represents (i) approximately 8.4% of the entire issued share capital of the Company as at the date of this announcement; and (ii) approximately 7.75% of the entire issued share capital of the Company as enlarged by the Top-Up Subscription.

The Placing Agent expects that there will be not less than six Share Placees who will be professional, institutional and other investors whose ultimate beneficial owners are Independent Third Parties and not acting in concert with (for the purpose of the Takeovers Code) (i) the Vendor; (ii) the Company or any of its subsidiaries; or (iii) any connected person of the Company.

The Placing Price represents (i) a discount of approximately 6.76% to the closing price of HK\$1.48 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 5.48% to the average closing price of HK\$1.46 per Share as quoted on the Stock Exchange for the five (5) consecutive Trading Days up to and including the Last Trading Day; and (iii) a discount of approximately 2.82% to the average closing price of HK\$1.42 per Share as quoted on the Stock Exchange for the ten (10) consecutive Trading Days up to and including the Last Trading Day.

The completion of the Placing is not subject to any condition precedent while the Top-Up Subscription is conditional upon the conditions precedent as described under the paragraph headed “Conditions of the Top-Up Subscription”.

The terms of the Placing and Subscription Agreement have been arrived at after arm’s length negotiations between the parties. The Directors consider those terms to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(B) **PLACING OF CONVERTIBLE NOTES**

On 3 July 2007, the Company entered into the Note 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. Assuming all the Convertible Notes are successfully placed by the Placing Agent, upon full conversion of HK\$151,000,000 principal amount of the Convertible Notes at the Conversion Price, a total of 94,968,553 Conversion Shares will be issued, representing (i) approximately 7.6% of the entire issued share capital of the Company as at the date of this announcement; (ii) approximately 7.01% of the entire issued share capital of the Company as enlarged by the Top-Up Subscription; and (iii) approximately 6.55% of the issued share capital of the Company as enlarged by the Top-Up Subscription and the issue of the Conversion Shares.

The Convertible Notes will be offered and sold to persons whose ordinary business involves buying, selling or investing in securities outside the United States in reliance upon Regulation S of the US Securities Act. To the best of the knowledge, information and belief of the Directors having made all reasonable enquires as at the date of this announcement, each of the Noteholders and their respective ultimate beneficial owners are Independent Third Parties.

Completion of the Note Placing Agreement is subject to the satisfaction and/or waiver of certain conditions precedent as described under the paragraph headed “Conditions Precedent of the Note Placing Agreement”. In addition, the Note Placing Agreement may be terminated in certain circumstances. See the paragraph headed “Termination of the Note Placing Agreement” below for further information.

The terms of the Note Placing Agreement have been arrived at after arm’s length negotiations. The Directors consider those terms to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The total net proceeds from the Top-Up Subscription and the issue of the Convertible Notes are estimated to be approximately HK\$284 million after expenses which will be used as to (i) approximately HK\$85 million for the expansion of the production facilities of the Company; (ii) approximately HK\$110 million for market research and development of new markets for healthcare products, including electronic cigarettes, and pharmaceutical products; (iii) approximately HK\$30 million for the research and development of healthcare products, including electronic cigarettes, and pharmaceutical products; and (iv) approximately HK\$59 million as the Group’s general working capital.

The Top-Up Subscription Shares and the Conversion Shares will be allotted and issued pursuant to the existing general mandate granted to the Directors at the 2007 AGM.

Suspension and Resumption of Trading

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 10.10 a.m. on 3 July 2007 pending the publication of this announcement. The Company has applied for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 6 July 2007.

(A) **PLACING AND SUBSCRIPTION AGREEMENT**
PLACING

Parties Involved:

The Placing Agent, the Company and the Vendor

Placing Agent:

BOCI Asia Limited, which is an Independent Third Party.

Share Placees:

The Placing Agent expects that there will be not less than six Share Placees who will be professional, institutional and other investors whose ultimate beneficial owners are Independent Third Parties and not acting in concert with (for the purpose of the Takeovers Code) (i) the Vendor; (ii) the Company or any of its subsidiaries; or (iii) any connected person of the Company, and none of them will become substantial Shareholder immediately after the Placing.

Vendor:

Smart Huge Group Limited, being the controlling shareholder of the Company and wholly-owned by Ability Act Investments Limited, currently holds 549,500,000 Shares, representing approximately 43.95% of the entire issued share capital of the Company as at the date of this announcement. Ability Act Investments Limited is held as to approximately 60.50% by Dragon Concept, as to approximately 4.75% by Success Glory, as to approximately 4.75% by Goldtools Investment and as to the remaining approximately 30% by six individual shareholders who are Independent Third Parties.

Placing Shares:

Up to 105,000,000 Shares, which will be placed by the Placing Agent on a best efforts basis, representing approximately 8.4% of the entire issued share capital of the Company as at the date of this announcement and approximately 7.75% of the entire issued share capital of the Company as enlarged by the Top-Up Subscription.

Placing Price:

The Placing Price represents (i) a discount of approximately 6.76% to the closing price of HK\$1.48 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 5.48% to the average closing price of HK\$1.46 per Share as quoted on the Stock Exchange for the five (5) consecutive Trading Days up to and including the Last Trading Day; and (iii) a discount of approximately 2.82% to the average closing price of HK\$1.42 per Share as quoted on the Stock Exchange for the ten (10) consecutive Trading Days up to and including the Last Trading Day.

The Placing Price was negotiated on an arm’s length basis between the Vendor, the Company and the Placing Agent with reference to the recent market prices, the performance of the Shares and the current market conditions.

Rights to the Placing Shares:

The Placing Shares will be sold together with all rights attaching to them as at the date of the Placing and Subscription Agreement free of any third party rights and shall entitle the holders thereof to receive all dividends and distributions which may be declared, made or paid the record day for which shall fall on or after the date of the Placing and Subscription Agreement.

Placing commission payable to the Placing Agent:

The placing commission is calculated at 3% of the amount equal to the Placing Price multiplied by the number of Placing Shares actually placed by the Placing Agent under the Placing.

Condition and the completion of the Placing:

The completion of the Placing is not subject to any condition precedent and the completion of the Placing shall take place on the Placing Closing Date.

Termination:

Notwithstanding anything contained in the Placing and Subscription Agreement, if at any time on or prior to 10:00 a.m. on the Placing Closing Date:

- (a) there should occur (or comes to the knowledge of the Placing Agent) any breach of any of the representations, warranties and undertakings by the Company and/or the Vendor or any event occurs or any matter arises on or after the date of the Placing and Subscription Agreement and prior to the Placing Closing Date which if it had occurred or arisen before the said date would have rendered any of such representations and warranties and undertakings untrue or incorrect in any material respect or there has been a breach by the

Company or the Vendor and such breach, event or matter which, in the sole opinion of the Placing Agent, is considered to be material in the context of the Placing;

- (b) there is any adverse change in the financial position, condition, business or prospects of the Group which in the sole opinion of the Placing Agent is material in the context of the Placing;
- (c) there is any material breach on the part of either the Vendor or the Company of any provision of the Placing and Subscription Agreement;
- (d) except for the announcement(s) solely pertaining to (and addressing no other matters other than) the Placing, Top-Up Subscription and the placing of the Convertible Notes to be issued by the Company pursuant to the Listing Rules and approved by the Placing Agent in writing (such approval not to be unreasonably withheld), any announcement or document to be issued by the Company from the date of the Placing and Subscription Agreement to and include the Placing Closing Date which, in the sole opinion of the Placing Agent, contains information which has not been made publicly available and is considered by the Placing Agent to be material in the context of the Placing; or
- (e)
 - (1) If:
 - (a) trading generally shall have been suspended or materially limited on or by the Stock Exchange or a material disruption in securities settlement, payment or clearance services in Hong Kong shall have occurred;
 - (b) trading of any securities of the Company shall have been suspended on the Stock Exchange other than in connection with the Placing, the Top-Up Subscription and the placing of the Convertible Notes;
 - (c) a general moratorium on commercial banking activities in Hong Kong shall have been declared by the Hong Kong Monetary Authority;
 - (d) there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets or currency exchange rates or controls or any calamity or crisis that, in the Placing Agent’s sole opinion, is material and adverse; or
 - (e) there shall have occurred a change or development involving a prospective change in the existing, financial, political, economic or regulatory conditions in Hong Kong or the PRC (including, without limitation, a change in exchange controls, currency exchange rates or taxation); and
 - (2) any such event, singly or together with any other such event makes it, in the Placing Agent’s sole opinion, impracticable or inadvisable to proceed with the Placing or the marketing and delivery of the Placing Shares on the terms and in the manner contemplated in the Placing and Subscription Agreement;

then and in any such case, the Placing Agent may, in its sole discretion, terminate the Placing and Subscription Agreement without liability to the Company or the Vendor by giving notice in writing to the Vendor and the Company.

Lock up Undertaking:

The Vendor has undertaken and will procure that each of the major shareholders of the Company to undertake to the Placing Agent that, for the period of three months from the date of the Placing and Subscription Agreement, it will not and will procure that its associates or parties acting in concert (as defined in the Takeovers Code) will not sell, transfer, encumber or grant any option or warrant over or otherwise dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any of their Shares (excluding the Placing Shares but including the Top-Up Subscription Shares which are allotted and issued to the Vendor) or any other securities which are of the same class as, or convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire, any Shares or enter into or dispose of any other instrument representing interest in Shares or any other such securities, or engage in any short selling, stock borrowing or lending arrangement of or in relation to any Shares or any other such securities, or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any Shares or any other such securities or publicly announce an intention to do any of the foregoing unless the prior written consent of the Placing Agent to any disposal or grant shall have been obtained, except for the sale of the Placing Shares pursuant to the Placing and Subscription Agreement and the transactions contemplated under the Exchangeable Bonds or the Convertible Notes. For the purpose of this undertaking, “major shareholders” means any person who holds or is entitled to exercise or control the exercise of 10% or more of the voting power at the general meeting of the Company.

The Company has undertaken to the Placing Agent and the Vendor has undertaken to the Placing Agent to procure that from the date of the Placing and Subscription Agreement and for a period of three months, it will not directly or indirectly, conditionally or unconditionally, issue or agree to allot or issue any Shares other than:

(1) pursuant to any exercise of any share options granted or which may be granted pursuant to the existing share option scheme of the Company or any other conversion or subscription rights existing at the date of the Placing and Subscription Agreement;

(2) pursuant to any scrip dividend scheme or other securities or grant or agree to grant any options (other than options granted pursuant to an existing share option scheme), warrants or other rights to subscribe for shares or other securities which are of the same class as, or convertible into or exchange for, any Shares or to repurchase any securities of the Company, without first having obtained the prior written consent of the Placing Agent; or

(3) pursuant to the transactions contemplated for the Exchangeable Bonds or Convertible Notes, whereby Shares of the Company will be exchanged or converted.

TOP-UP SUBSCRIPTION FOR NEW SHARES

Parties Involved:

The Company and the Vendor

Top-Up Subscription Price:

The Top-Up Subscription Price, being HK\$1.38 per Share and which is the same as the Placing Price, was determined after arm’s length negotiations between the Company and the Vendor with reference to the Placing Price of the Placing Shares.

The gross proceeds from the Placing and Top-Up Subscription is HK\$144.9 million. After deducting expenses of approximately HK\$5.9 million, the net proceeds upon completion of the Placing and the Top-Up Subscription is estimated to be approximately HK\$139 million. The net Top-Up Subscription Price is approximately HK\$1.32 per Share.

Top-Up Subscription Shares:

The number of Top-Up Subscription Shares is equivalent to the number of Placing Shares actually sold by the Vendor under the Placing and Subscription Agreement. They represent approximately 8.4% of the entire issued share capital of the Company as at the date of this announcement and approximately 7.75% of the entire issued share capital of the Company as enlarged by the Top-Up Subscription.

Ranking of Top-Up Subscription Shares:

The Top-Up Subscription Shares, when issued and fully paid, will rank pari passu in all respects with the other Shares then in issue or to be issued by the Company on or prior to the Placing Closing Date, including the rights to dividends and other distributions which may be declared, made or paid, the record date for which shall fall at any time on or after the date of allotment.

Conditions of the Top-Up Subscription:

The completion of the Top-Up Subscription is conditional upon:

(a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all of the Top-Up Subscription Shares (and such permission and listing not subsequently being revoked prior to the delivery of the definitive Share certificate(s) representing the Top-Up Subscription Shares);

(b) completion of the Placing; and

(c) to the extent applicable, the relevant government authority of the Company’s country of incorporation (if any) approving or agreeing to approve the allotment, issue and subsequent transfer of the Top-Up Subscription Shares.

Application for listing:

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Top-Up Subscription Shares.

Completion of the Top-Up Subscription

Completion of the Top-Up Subscription shall take place on the second Business Day after the date upon which the last of the conditions of the Top-Up Subscription has been satisfied (or waived, as the case may be), or such other time and/or date as the Vendor and the Company may agree in writing, provided that it shall take place on a date no later than fourteen days after the date of the Placing and Subscription Agreement.

If the Top-Up Subscription is not completed on or before 17 July 2007, the Top-Up Subscription will be subject to compliance with the applicable requirements in relation to connected transactions under Chapter 14A of the Listing Rules, and independent shareholders’ approval if necessary.

EFFECT ON THE SHAREHOLDING STRUCTURE AFTER COMPLETION OF THE PLACING AND THE TOP-UP SUBSCRIPTION

The shareholdings in the Company before and after the completion of the Placing and Top-Up Subscription (without taking into account the Shares which may be issued pursuant to the exercise of any conversion rights under the Convertible Notes) is as follows:

	Immediately before the completion of the Placing and Top-Up Subscription		Immediately after the completion of the Placing but before the completion of the Top-Up Subscription		Immediately after the completion of the Placing and the Top-Up Subscription	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Vendor	549,500,000	43.95	444,500,000	35.55	549,500,000	40.54
Absolute Target Limited ("Absolute Target") (Note)	388,000,000	31.03	388,000,000	31.03	388,000,000	28.63
Sub-total of interest of the Vendor and its concert parties	937,500,000	74.98	832,255,000	66.58	937,500,000	69.17
Share Places (public)	–	–	105,000,000	8.40	105,000,000	7.75
Other public Shareholders	312,800,000	25.02	312,800,000	25.02	312,800,000	23.08
	<u>1,250,300,000</u>	<u>100.00</u>	<u>1,250,300,000</u>	<u>100.00</u>	<u>1,355,300,000</u>	<u>100.00</u>

Note: As at the date of this announcement, 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 the Exchangeable Bonds exchangeable for an aggregate of 65,000,000 Shares held by Absolute Target to two investors. It was 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.

(B) PLACING OF CONVERTIBLE NOTES

NOTE PLACING AGREEMENT

Parties Involved:

The Company, being the issuer and BOCI Asia Limited, being the placing agent.

To the best of the Director’s knowledge, information and belief after having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties.

The Convertible Notes will be offered and sold to persons outside the United States in reliance upon Regulation S of the US Securities Act. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries as at the date of this announcement, each of the Noteholders and their respective ultimate beneficial owners are Independent Third Parties.

Conditions Precedent of the Note Placing Agreement:

Completion of the Note Placing Agreement is conditional upon, among other things:

(a) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the Shares to be issued upon the exercise of Conversion Rights attaching to the Convertible Notes;

(b) the execution and delivery of the Contract (as defined in the Note Placing Agreement including among others, a trust deed and paying and conversion agency agreement) by the respective parties;

(c) the representations and warranties given by the Company in the Note Placing Agreement being true and correct in all material respects when made and as at the Convertible Notes Closing Date as if made then; and

(d) the issuance of certain Hong Kong, PRC and Cayman Islands legal opinions.

Listing:

No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued as a result of the exercise of the Conversion Rights attached to the Convertible Notes.

Ranking:

The Convertible Notes constitute direct, general, unsubordinated, unconditional and unsecured obligations of the Company and rank pari passu without any preference among themselves and will at all times rank prior to all outstanding unsecured and unsubordinated obligations of the Company.

Lock-up Undertaking:

Neither the Company nor any of its major shareholders (including, but not limited to, the Vendor, Ability Act

Investments Limited and Absolute Target Limited) or any person acting on its or their behalf will, for a period of three months from the date of the Note Placing Agreement, without the prior written consent of the Placing Agent, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise) save for Shares issued pursuant to (a) the Convertible Notes; (b) the Placing and Subscription Agreement; and (c) the conversion provisions of the Exchangeable Bond. For the purpose of this lock-up undertaking, “major shareholders” means any person who holds or is entitled to exercise or control the exercise of 10% or more of the voting power at the general meeting of the Company.

Completion of the Note Placing Agreement:

Not later than 10:00 a.m. (Hong Kong time) on the Convertible Notes Closing Date.

Termination of the Note Placing Agreement:

Notwithstanding anything contained in the Note Placing Agreement, the Placing Agent may, by giving notice to the Company at any time prior to payment of the net subscription moneys for the Convertible Notes to the Company on the Convertible Note Closing Date, terminate the Note Placing Agreement in any of the following circumstances:

(a) if there shall have come to the notice of the Placing Agent any breach by the Company of, or any event rendering untrue or incorrect (as the case may be), any of the warranties and representations (assuming and deeming them to have been repeated at the time of the occurrence) contained in the Note Placing Agreement or any failure to perform any of the Company’s undertakings or agreements in the Note Placing Agreement (to the extent required to be performed by it on or before the Convertible Note Closing Date);

(b) if any of the conditions precedent specified in Note Placing Agreement has not been satisfied or waived by the Placing Agent by the Convertible Note Closing Date; or

(c) (i) if, in the opinion of the Placing Agent, since the date of the Note Placing Agreement, there shall have been such a change (whether or not foreseeable at the date of the Note Placing Agreement) in national or international financial, political or economic conditions or currency exchange rates or exchange controls as would in its view be likely to prejudice materially the success of the offering and distribution of the Convertible Notes or dealings in the Convertible Notes in the secondary market or (ii) if there occurs any disruption to trading generally on the New York Stock Exchange, the Nasdaq Stock Market, the London Stock Exchange or the Stock Exchange;

(d) if, in the opinion of the Placing Agent, there occurs any attack on, outbreak or escalation of hostilities, act of terrorism, disease or social instability involving the United States, the United Kingdom, the PRC or Hong Kong; or

(e) a banking moratorium has been declared by any authorities in the United States, the United Kingdom, the PRC or Hong Kong.

Principal terms of the Convertible Notes:

The principal terms of the Convertible Notes were determined after arm’s length negotiations between the Issuer and the Placing Agent and are summarised as follows:

Principal amount : Up to HK\$151,000,000 Convertible Notes due 2012

Interest : 2.5% per annum payable semi-annually in arrear

Maturity Date : five years from the Convertible Note Closing Date which is expected to be on or about 31 July 2012

Conversion Period : The Convertible Notes are convertible in whole or in part into new Shares at any time from the issuance of the Convertible Notes until 10 Business Days prior to the Maturity Date (as defined above) at the Conversion Price, subject to adjustment.

Conversion Price : The initial price at which each Share shall be issued upon exercise of the Conversion Right is HK\$1.59 per Share. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues, rights issues and other events which have diluting effects on the issued share capital of the Company.

Conversion Shares : The Conversion Shares will be issued free from any encumbrances or third party rights of any kind and will rank pari passu in all respects with the existing issued Shares together with all rights to dividends and other distributions declared, made or paid after the relevant registration date of the Conversion Shares concerned.

Redemption at Maturity Date : Unless previously redeemed or converted in the circumstances set out in the Terms and Conditions, the Issuer may redeem the Convertible Notes at 162.6088% of the principal amount of the Convertible Notes on the Maturity Date (as defined above).

Redemption at the option of the Issuer : (a) The Company may redeem the Convertible Notes, (i) in whole or in part, at any time after the second anniversary of the issue of the Convertible Notes and prior to Maturity Date, subject to satisfaction of certain conditions, at the Early Redemption Price (plus any accrued and unpaid interest and additional interest, if any) in the event that the volume weighted average price of the Shares on the Stock Exchange (or the alternative stock exchange as the case may be) exceeds 135% of the Conversion Price for at least 30 consecutive Trading Days prior to the date upon which notice of such redemption is given and (ii) in whole but not in part, at a price equal to the Early Redemption Price (plus accrued and unpaid interest and additional interest, if any) in the event at least 90% of the Convertible Notes issued and outstanding has been redeemed or converted. For the purpose of the Note Placing Agreement, “Early Redemption Price” means a price at which the Convertible Notes will be redeemed which will provide a Noteholder a yield of 12% per annum calculated on a semi-annual basis from the date of the issue of the Convertible Notes up to the relevant redemption date.

(b) The Company may elect to redeem the Convertible Notes, in whole but not in part, at the Early Redemption Amount (as defined in the Terms and Conditions) (plus any accrued and unpaid interest and additional interest, if any) for certain taxation reasons, subject to the satisfaction of the Trustee. If the Company elects to redeem the Convertible Notes in such manner, the Noteholder(s) will have the right to elect that its Convertible Notes not be redeemed.

Redemption at the option of the Noteholder(s) : (i) On a certain date of 2009, 2010 and 2011, each Noteholder will have the right to give notice to the Issuer requesting it to redeem all or some of the Convertible Notes of such Noteholder at the Early Redemption Price (as defined above) (plus any accrued and unpaid interest and additional interest, if any).

(ii) In the event of a Delisting (as defined in the Terms and Conditions), and subject to certain conditions being satisfied, the Noteholders will have the right to require the Issuer to redeem, in whole but not in part, the Convertible Notes of such Noteholder at the Delisting Put Price (as defined in the Terms and Conditions) on the 12th Business Day after the notice has been given to the Noteholders or the 12th Business Day after the Delisting (as the case may be).

Redemption upon change of control : In the event of a change of control of the Company, the Noteholders may require the Company to redeem, in whole but not in part, the Convertible Notes at the Early Redemption Price (as defined above) (plus any accrued and unpaid interest and additional interest, if any). For the purpose of the Note Placing Agreement, “Change of Control” occurs when:

(A) any person (other than the Vendor, Ability Act Investments Limited and Absolute Target Limited or their affiliates or successors), acting individually or together, acquires control of the Company; or

(B) the Company consolidates with or merges into or sells or transfers all or substantially all of its Shares or assets to any other person, unless the consolidation, merger, sale or transfer will not result in such person acquiring control over the Company or the successor entity.

For the purpose of the Note Placing Agreement, “control” means the acquisition or control of more than 30% of the voting rights of the issued share capital of the Company acting individually or together (provided that such holder of more than 30% of the voting rights of the issued share capital of the Company (individually or together with another person(s)) is the Company’s largest shareholder) or the right to appoint and/or remove majority of the members of the Company’s Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

Form and Denomination	:	The Convertible Notes will be in registered form and in denominations of HK\$100,000.
		The Convertible Notes will be represented on issue by a global certificate, which will be registered in the name of a nominee of, and will be deposited with a common depositary for, Euroclear Bank S.A/N.V and Clearstream Banking, société anonyme S.A, Luxembourg. Definitive certificates will only be issued in limited circumstances.
Negative Pledge	:	The Company shall not create or permit to subsist, and will procure that no subsidiary creates or permits to subsist, any encumbrance upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any investment securities, unless, at the same time or prior thereto, the Company's obligations under the Convertible Notes (A) are secured equally or rateably therewith or (B) have the benefit of such other security, guarantee, indemnity or other arrangement.
Voting	:	The Noteholder shall not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of it being a Noteholder.
Transferability	:	The Convertible Notes may be freely transferred.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY AS A RESULT OF CONVERSION OF THE CONVERTIBLE NOTES

The shareholdings of the Company before and after the issue of the Conversion Shares assuming full conversion of all of the Convertible Notes at the Conversion Price (taking into account the effect after the completion of the Placing and Top-Up Subscription) are summarised as follows:

	Immediately before the completion of the Placing, Top-Up Subscription and the issue of Conversion Share	%	Immediately after the completion of the Placing and Top-Up Subscription but before the issue of any Conversion Shares	%	Immediately after the completion of the Placing, Top-Up Subscription and the issue of all Conversion Shares at the Conversion Price of HK\$1.59	%
	<i>No. of Shares</i>		<i>No. of Shares</i>		<i>No. of Shares</i>	
Vendor	549,500,000	43.95	549,500,000	40.54	549,500,000	37.89
Absolute Target <i>(Note)</i>	388,000,000	31.03	388,000,000	28.63	388,000,000	26.75
Sub-total of interest of the Vendor and its concert parties	937,500,000	74.98	937,500,000	69.17	937,500,000	64.64
Share Places (public)	–	–	105,000,000	7.75	105,000,000	7.24
Convertible Notes Placees	–	–	–	–	94,968,553	6.55
Other public Shareholders	312,800,000	25.02	312,800,000	23.08	312,800,000	21.57
	<u>1,250,300,000</u>	<u>100.00</u>	<u>1,355,300,000</u>	<u>100.00</u>	<u>1,450,268,553</u>	<u>100.00</u>
Total						

Note: As at the date of this announcement, 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 the Exchangeable Bonds exchangeable for an aggregate of 65,000,000 Shares held by Absolute Target to two investors. It was 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.

REASONS FOR THE PLACING, THE TOP-UP SUBSCRIPTION AND THE ISSUE OF THE CONVERTIBLE NOTES

Taking into account the Group's current working capital requirement and considering the lower costs and shorter time involved in the Placing and the Top-Up Subscription when compared with other means of fund raising exercises such as rights issue or open offer, the Directors believe the Placing and Top-Up Subscription is the most appropriate method as it can strengthen the capital base of the Company.

The Directors also consider that the issue of the Convertible Notes is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders and the interest payable under the Convertible Notes is more stable and predictable than bank borrowing.

The Directors consider that the terms of both the Placing and Subscription Agreement and the Note Placing Agreement, which were arrived at after arm's length negotiations between the Company, the Vendor and the Placing Agent, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The net proceeds from the Top-Up Subscription and the issue of the Convertible Notes are estimated to be approximately (after expenses) HK\$284 million. The Company intends to apply the proceeds as to (i) approximately HK\$85 million for the expansion of the production facilities of the Company; (ii) approximately HK\$110 million for market research and development of new markets for healthcare products, including electronic cigarettes, and pharmaceutical products; (iii) approximately HK\$30 million for the research and development of healthcare products, including electronic cigarette, and pharmaceutical products; and (iv) approximately HK\$59 million as the Group's general working capital.

It is the intention of the Company and the Vendor that in the event that the Placing is completed but the Top-Up Subscription is not completed, the Vendor will bear all its expenses incurred in connection with the Placing and no reimbursement will be made by the Company.

GENERAL MANDATE

The Top-Up Subscription Shares and the Conversion Shares will be issued under the general mandate to allot, issue and deal with new Shares granted to the Directors at the 2007 AGM. No Share has been issued under the general mandate as at the date of this announcement.

Based on the initial Conversion Price of HK\$1.59 per Conversion Share, a total of 94,968,553 Conversion Shares will fall to be allotted and issued upon the exercise of the Conversion Rights attaching to the Convertible Notes in full. The aggregate of 105,000,000 Top-Up Subscription Shares and 94,968,553 Conversion Shares (assuming full conversion of the Convertible Notes at the Conversion Price) represent approximately 15.99% of the entire issued share capital of the Company as at the date of this announcement and approximately 13.79% of the entire issued share capital of the Company as enlarged by the Top-Up Subscription and the allotment and issue of the Conversion Shares.

FUND RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS

As disclosed in the announcement issued by the Company dated 20 September 2006, the Company had raised net proceeds of approximately HK\$63,240,000 by a top-up placing of existing shares and subscription of new shares. As at the date hereof, such proceeds were fully utilized in the manner as stated in the announcement by the Group.

Save as disclosed above, the Company has not raised any funds on any issue of equity securities in the 12 months immediately preceding the date of this announcement.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 10:10 a.m. on 3 July 2007 pending the publication of this announcement. The Company has applied for the resumption of trading in the Shares with effect from 9:30 a.m. on 6 July 2007.

DEFINITIONS

In the announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding a Saturday or a Sunday) on which licensed banks in Hong Kong are open for business
“Company”	Golden Dragon Group (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Convertible Notes”	the 2.5% unsecured and unsubordinated convertible notes in the aggregate principal sum of HK\$151,000,000 due 2012 to be issued by the Company under the Note Placing Agreement
“Convertible Notes Closing Date”	on or about 31 July 2007
“Convertible Notes Placee(s)”	placees for the Convertible Notes whose ordinary business involves buying, selling or investing in securities outside the United States in reliance upon Regulation S of the US Securities Act
“Conversion Price”	HK\$1.59, being the price payable by a Noteholder for the subscription of one Conversion

Shares upon the exercise of the Conversion Rights, subject to adjustments under the Terms and Conditions	
“Conversion Right”	the right of the Noteholder to convert the whole or part of the principal amount of the Convertible Notes into Shares subject to the Terms and Conditions
“Conversion Shares”	new Shares which may fall to be allotted and issued upon the exercise of the Conversion Rights
“Director(s)”	the 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 approximately 52.11% by Mr. Wong and as to approximately 47.89% by Mr. Hon
“Exchangeable Bonds”	means the exchangeable bonds in the aggregate principle amount of HK\$78,000,000 issued by Absolute Target Limited pursuant to the subscription agreement dated 16 January 2007, details of which is announced in the Company announcement dated 17 January 2007
“Goldtools Investment Limited”	Goldtools Investment Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Wong Hei Lin
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China
“Independent Third Party(ies)”	third party(ies) independent of the Company and connected persons of the Company
“Last Trading Day”	3 July 2007, being the date of the Placing and Subscription Agreement
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Hon”	Mr. Hon Lik, an executive Director who is interested in approximately 47.89% of the entire issued share capital of Dragon Concept which in turn holds approximately 60.5% of the entire issued share capital of Ability Act Investments Limited. Ability Act Investments Limited is the 100% holding company of the Vendor. The Vendor holds approximately 43.95% of the entire issued share capital of the Company. Mr. Hon also holds approximately 42.50% of the entire issued share capital of Absolute Target Limited, which in turn holds approximately 31.03% of the entire share capital of the Company
“Mr. Wong”	Mr. Wong Yin Sen, the Chairman and an executive Director who is interested in approximately 52.11% of the entire issued share capital of Dragon Concept which in turn holds approximately 60.5% of the entire issued share capital of Ability Act Investments Limited. Ability Act Investments Limited is the 100% holding company of the Vendor. The Vendor holds approximately 43.95% of the entire issued share capital of the Company. Mr. Wong also holds approximately 46.25% of the entire issued share capital of Absolute Target Limited, which in turn indirectly holds approximately 31.03% of the total share capital of the Company
“Noteholder(s)”	the holder of the Convertible Notes
“Note Placing Agreement”	the conditional subscription agreement dated 3 July 2007 entered into between the Company and the Placing Agent in respect of the subscription of the Convertible Notes
“Placing”	the placing of a maximum of 105,000,000 existing Shares beneficially owned by the Vendor at the Placing Price pursuant to the terms of the Placing and Subscription Agreement
“Placing Agent”	BOCI Asia Limited, a corporation licensed to carry on types 1 and 6 regulated activities within the meaning of the SFO, which is an Independent Third Party
“Placing Closing Date”	means the date on which the closing of the Placing shall take place in accordance with the terms of the Placing and Subscription Agreement, being 3 July 2007 or such later time and/or date as the Vendor and the Placing Agent may agree in writing
“Placing and Subscription Agreement”	the placing and subscription agreement entered into by and among the Vendor, the Company and the Placing Agent dated 3 July 2007
“Placing Price”	HK\$1.38 per Placing Share
“Placing Shares”	a maximum of 105,000,000 Shares beneficially owned by the Vendor to be placed through the Placing Agent on a best efforts basis under the Placing and Subscription Agreement
“PRC”	The People's Republic of China
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Placee(s)”	any institutional, corporate or individual investor(s) procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the terms of the Placing and Subscription Agreement
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Success Glory”	Success Glory Group Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Li Kim Hung, Isaacs, an executive Director
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Terms and Conditions”	the terms and conditions of the Convertible Notes to appear on the reverse of each of the definitive certificates evidencing the Convertible Notes
“Top-Up Subscription”	the subscription of the Top-Up Subscription Shares pursuant to the terms of the Placing and Subscription Agreement
“Top-Up Subscription Price”	HK\$1.38 per Top-Up Subscription Share
“Top-Up Subscription Share(s)”	such number of new Shares which is equal to the number of Placing Shares actually sold under the Placing and Subscription Agreement (the maximum number being 105,000,000) to be subscribed for by the Vendor pursuant to the terms of the Placing and Subscription Agreement
“Trading Day(s)”	a day when the Stock Exchange or an Alternative Stock Exchange (as defined in the Terms and Conditions) is open for dealing business
“Trustee”	Deutsche Bank AG, being the trustee for the Noteholders
“US”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“US Securities Act”	the US Securities Act of 1933, as amended
“Vendor”	Smart Huge Group Limited, a company incorporated in the British Virgin Islands with limited liability, a substantial Shareholder of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“2007 AGM”	the adjourned annual general meeting of the Company held on 21 June 2007
“%”	per cent.

Hong Kong, 5 July 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; and the independent non-executive Directors are Mr. Pang Hong, Mr. Cheung Kwan Hung, Anthony and Mr. Ding Xun.

An announcement containing details of the matter is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under “Latest Listed Company Information” and on the website of Golden Dragon Group (Holdings) Limited at www.goldendragon.hk under “Investor Relations”.

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