



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

Continuing Connected Transactions

The Board is pleased to announce that on 4 November 2004 Jinlong Pharmaceutical, an indirect wholly-owned subsidiary of the Company has entered into the Supply of the Products Agreement with Beijing SBT for the sale of the Products on an ongoing manner.

Beijing SBT is an indirect 57.20% owned subsidiary of Dragon Concept Investments Limited which in turn is beneficially owned as to 52.11% and 47.89% by Messrs. Wong Yin Sen and Hon Lik, respectively, Mr. Wong Hei Lin had an indirect 5.88% interest in Beijing SBT, Mr. Li Kim Hung, Isaacs had an indirect 5.88% interest in Beijing SBT and Ms. 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 Supply of Products Agreement are expected to exceed HK\$10 million 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

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 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 will abstain from voting in relation to the resolutions for approving the Continuing Connected Transactions.

A circular containing, among other things, further details of the Continuing Connected Transactions, the advice from the independent board committee of the Company 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 terms and the respective caps in relation to the Continuing Connected Transactions will be sent to the Shareholders as soon as possible.

DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS

THE SUPPLY OF PRODUCTS AGREEMENT

Date:	4 November 2004
Parties:	Jinlong Pharmaceutical as supplier of the Products Beijing SBT as purchaser of the Products
Subject:	Pursuant to the Supply of Products Agreement, Jinlong Pharmaceutical will sell the Products to Beijing SBT.
Term:	The Supply of Products Agreement has a fixed term commencing from the Effective Date to 31 December 2006 (both dates inclusive). Both parties may renew the Supply of Products Agreement in writing at least 30 days before expiry on 31 December 2006 for another three years subject to compliance with the Listing Rules and either party will have the right to terminate the Supply of 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 the Products and the agreed net profit margin).

The sale of the Products by Jinlong Pharmaceutical to Beijing SBT in its ordinary course of business first commenced on 15 September 2004. From 15 September 2004 to the date of this announcement, the total amount of the Products having been sold by Jinlong Pharmaceutical to Beijing SBT is approximately RMB750,000 (approximately HK\$705,000). Save as the Supply of Products Agreement, no contract in writing or otherwise, in respect of the sale of the Products by Jinlong Pharmaceutical to Beijing SBT has been made during the period from 15 September 2004 to the date of this announcement, the amount of which does not exceed the de minimis threshold and was therefore exempt from announcement, reporting and shareholders' approval requirements pursuant to Rule 14A.33 of the Listing Rules.

Prior to obtaining the Independent Shareholders' approval at EGM, the Board will ensure the Company'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.

All the Directors previously participated in the negotiation with Beijing SBT for the terms of the Supply of the Products Agreement and annual caps in relation thereto.

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 Supply of Products Agreement and annual caps in relation thereto and only all the independent non-executive Directors voted in the said meeting.

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 Transactions and 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 and the respective caps for each of the three financial years ending 31 December 2006 as contemplated by the Supply of Products Agreement.

The Board proposes that the cap amounts of the sale of the Products by the Group to Beijing SBT for the relevant period in the financial year 2004 will not exceed RMB30 million (approximately HK\$28.2 million) and the respective cap amounts of the sale of the Products for each of the two financial years ending 31 December 2006 as contemplated by the Supply of Products Agreement will not exceed RMB300 million (approximately HK\$282 million) and RMB500 million (approximately HK\$472 million), respectively.

FEATURES OF ELECTRONIC CIGARETTES

Electronic Cigarettes have functions similar to traditional cigarettes. However, unlike traditional cigarettes, Electronic Cigarettes do not (i) contain tar (which in turn is alleged to contain harmful substance and carcinogenic compounds for human body); (ii) produce second-hand smoke to the others; (iii) require ignition process before smoking and thereby avoiding certain substance produced during the chemical process of ignition; and (iv) constitute fire hazard.

There is huge business potential for Electronic Cigarettes in light of approximately 350 million smokers of traditional cigarettes in PRC according to a publication of China Consumers Association in 2000 and the increasing health conscious trend, Beijing SBT anticipates that the demand for the Electronic Cigarettes is roughly 50% increase from the year 2005 to the year 2006 on the basis of the market research conducted by 上海市吸煙與健康協會 (Shanghai Municipality Smoking and Health Association) in 2004 as to the reception of Electronic Cigarettes by smokers of traditional cigarette as substitute for traditional cigarettes, smokers' degree of satisfaction in using Electronic Cigarette and extent of support which smokers will receive from their relatives when they opt for Electronic Cigarettes as substitute for traditional cigarettes.

Electronic Cigarettes have been commercially made available by Beijing SBT to the market since July 2004. To the best knowledge and belief of the Directors, no other product similar to the Electronic Cigarette (in terms of its distinctive features) is available in the market.

Given the Products are to be installed as refills for one-off consumption purpose into Electronic Cigarettes, taking into account of the assumptions and bases mentioned below, the Board expects that the estimated corresponding annual growth rate for the demand for the Products shall also be roughly 50% increase from the year 2005 to the year 2006.

The basis of the said cap amounts is determined with reference to: (i) the estimated amount of purchase orders expected to be placed by Beijing SBT with the Group; (ii) 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; (iii) market research of the demand for Electronic Cigarettes conducted by 上海市吸煙與健康協會 (Shanghai Municipality Smoking and Health Association) in 2004; and (iv) Beijing SBT estimates the average consumption rate for smokers of traditional cigarettes in PRC to be approximately 16 traditional cigarettes consumed per day which is equivalent to approximately 300 units of Products per year assuming that one unit of the Products is equivalent to a packet of 20 traditional cigarettes and the average estimated daily usage of the Products is approximately 0.82 unit for each smoker using Electronic Cigarette; (v) up to approximately 0.3% and 0.6% of 350 million smokers of traditional cigarettes in the PRC for the years 2005 and 2006, respectively is estimated to opt for Electronic Cigarettes on the basis of the market research of the demand for Electronic Cigarettes conducted by 上海市吸煙與健康協會 (Shanghai Municipality Smoking and Health Association) in 2004; (vi) the estimated demand for Electronic Cigarettes (in terms of number) for the years 2004, 2005 and 2006 are approximately 200,000, 1.2 million and 1.8 million, respectively; and on the basis of the said consumption rate being equivalent to approximately 300 units of the Products per year for each smoker using Electronic Cigarette, the estimated demand for the Products (in terms of number) for the years 2004, 2005 and 2006 will be approximately 60 million, 360 million and 540 million, respectively. However, due to the existing production capacity and manpower of Jinlong Pharmaceutical, Jinlong Pharmaceutical as the manufacturer and supplier of the Products therefore estimates the sales of the Products for the years 2004, 2005 and 2006 to be 12 million, 120 million and 200 million units of the Products, respectively.

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

Having regard to the terms of the Supply of 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 constitute ongoing connected transactions for the Group under Rule 14A.35 of the Listing Rules which will be subject to the approval of Independent Shareholders at the EGM.

REASON FOR THE CONTINUING CONNECTED TRANSACTIONS

The Board (consisting of all the independent non-executive Directors only) considers that the Continuing Connected Transactions 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 have been negotiated and will be conducted on an arm's length basis and on normal commercial terms and on terms no less favourable than terms available to or from (as appropriate) independent third party, 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, as the engagement in the Continuing Connected Transactions enables the Group to utilize some of its spare production facilities and manpower to generate additional source of income. The engagement of Continuing Connected Transactions 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 an indirect 57.20% owned subsidiary of Dragon Concept Investments Limited which is in turn beneficially owned as to 52.11% and 47.89% by Messrs. Wong Yin Sen and Hon Lik, respectively, Mr. Wong Hei Lin had an indirect 5.88% interest in Beijing SBT, Mr. Li Kim Hung, Isaacs had an indirect 5.88% interest in Beijing SBT and Ms. Cheng Kong Yin is the spouse of Mr. Wong Yin Sen, all of them being the Directors. The annual consideration of the Continuing Connected Transactions are expected to exceed HK\$10 million and therefore they 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 the production and sale of health care products and pharmaceuticals.

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 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 will abstain from voting in relation to the resolutions for approving the Continuing Connected Transaction.

A circular containing, among other things, further details of the Continuing Connected Transactions, 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 will be sent to the Shareholders as soon as possible.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Absolute Target Limited”	Absolute Target Limited, a company incorporated in British Virgin Islands, and a substantial shareholder of the Company holding 75% interest in the issued share capital of the Company (which is beneficially owned as to 46.25%, 42.50% and 11.25% by Messrs. Wong Yin Sen, Hon Lik and Wong Hei Lin);
“associate”	has the meaning ascribed thereto under the Listing Rules;
“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 57.20% owned subsidiary of Dragon Concept Investments Limited which is in turn beneficially owned as to 52.11% and 47.89% by Messrs. Wong Yin Sen and Hon Lik, respectively, Mr. Wong Hei Lin had an indirect 5.88% interest in Beijing SBT, Mr. Li Kim Hung, Isaacs had an indirect 5.88% interest in Beijing SBT and Ms. Cheng Kong Yin is the spouse of Mr. Wong Yin Sen, all of them being the Directors;
“Board”	the board of Directors;
“Business Day”	a day (excluding Saturday) on which commercial banks are generally open for banking business in Hong Kong provided that each business day shall finish at 4:00 p.m. except Saturdays which shall so finish at 12:30 p.m.;
“Company”	Golden Dragon Group (Holdings) Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“Continuing Connected Transactions”	transactions contemplated by the Supply of Products Agreement;
“Directors”	directors of the Company;
“Dragon Concept Investments Limited”	Dragon Concept Investments Limited, a company incorporated in the British Virgin Islands;
“Effective Date”	the date on which the Independent Shareholders approve the Supply of Products Agreement and the annual caps in relation thereto at the EGM to be convened for that purpose;
“EGM”	extraordinary general meeting of the Company;
“Electronic Cigarettes”	smokeless atomizing electronic cigarettes manufactured and sold by Beijing SBT;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the the People's Republic of China;
“Independent Shareholders”	Shareholders (other than Absolute Target Limited and its associates);
“Jinlong Pharmaceutical”	金龍藥業有限公司 (Jinlong Pharmaceutical Company Limited), a wholly foreign-owned enterprise established under the laws of the PRC and is an indirect wholly-owned subsidiary of the Company;
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People's Republic of China excluding Hong Kong, Macau and Taiwan for the purpose of this announcement;
“Products”	alkaloid liquid as contained in alkaloid liquid containers together with inhalers installed for one-off consumption purpose as refills into Electronic Cigarettes;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supply of Products Agreement”	the agreement dated 4 November 2004 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\$0.94.

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. Mo Kwan Nin and Mr. Cheung Kwan Hung, Anthony.

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

Hong Kong, 11 November 2004