



Golden Dragon Group (Holdings) Limited  
金龍集團（控股）有限公司

(incorporated in the Cayman Islands with limited liability)

PROPOSED ISSUE OF  
NON-VOTING PREFERRED SHARES BY  
NEW WELLON LIMITED,  
AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF  
GOLDEN DRAGON GROUP (HOLDINGS) LIMITED  
AND RESUMPTION OF TRADING

The Board is pleased to announce that the Equity Subscription Agreement (as supplemented by the ESA Supplemental Agreements) was entered into on 14 October 2003 among Investor, the Company, New Wellon and Chenlong.

Subject to the fulfilment of certain conditions set out in the Equity Subscription Agreement, Investor has agreed to subscribe for, and New Wellon has agreed to allot and issue, an aggregate of 7,000,000 Preferred Shares for an aggregate consideration of US\$7 million (HK\$54,460,000). The net proceeds, after deduction of expenses, resulting from the Subscription is estimated to be approximately US\$6.7 million (approximately HK\$52.1 million).

Simultaneous with the execution of the Equity Subscription Agreement, Absolute Target has entered into the Deed of Undertaking (as supplemented by the DOU Supplemental Agreement) with Investor whereby Absolute Target has undertaken to Investor to procure the discharge by the Company, New Wellon and Chenlong of their respective obligations under the Agreements.

Upon First Completion, Investor will enter into:

- (a) the Deed of Put Option with the Company whereby the Company will grant to Investor the Put Option to purchase the Preferred Shares held by Investor by using one of the three methods provided under the Deed of Put Option as referred to below; and
- (b) the Shareholders' Agreement with Chenlong, New Wellon and the Company in respect of, inter alia, the respective rights and obligations of Investor and Chenlong as shareholders in New Wellon.

Details of the rights of the Preferred Shares are set out below under the section headed "Rights and Privileges of the Preferred Shares".

New Wellon is an investment holding company of the Subsidiaries. The Group is principally engaged in processing and sales of health care products, ginseng and related products and pharmaceutical products.

The net proceeds of the issue of 7,000,000 Preferred Shares of approximately US\$6.7 million (approximately HK\$52.1 million) are intended to be used by the Group for the Insulin Project.

The Company will issue an announcement as soon as practicable after First Completion and the entering into of the Deed of Put Option.

**Warning: shareholders and potential investors of the Shares are cautioned that the Insulin Project may or may not be proceeded with. There is no assurance that the Insulin Project will be successfully implemented and completed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.**

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on Wednesday, 15 October, 2003 pending the publication of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on Monday, 27 October, 2003.

EQUITY SUBSCRIPTION AGREEMENT

Parties

Investor: Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.

Investor, its directors and its beneficial owner are parties not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined under the Listing Rules).

Issuer: New Wellon

Warrantor: The Company, New Wellon

Chenlong (Note)

Note: At the request of Investor, Chenlong entered into the Equity Subscription Agreement in its capacity as the holding company of New Wellon pursuant to which Chenlong has represented to Investor in respect of its 100 per cent beneficial ownership in New Wellon and agreed to be bound by the provisions of the Equity Subscription Agreement.

The Subscription

Pursuant to the terms and conditions of the Equity Subscription Agreement, Investor has agreed to subscribe for, and New Wellon has agreed to allot and issue, an aggregate of 7,000,000 Preferred Shares.

Consideration

The consideration for the Subscription amounts to an aggregate of US\$7,000,000 (HK\$54,460,000) which shall be satisfied as to US\$4,000,000 upon First Completion and as to US\$3,000,000 upon Second Completion.

The consideration of US\$7,000,000 was determined after arm's length negotiations between Investor and the Group based upon the projection of the capital requirement of the Insulin Project in which approximately US\$2,500,000 will be used for the advancement of the Insulin Project and the acquisition of the intellectual property rights from the Third Party (as defined in the section headed the "Insulin Project" below) and approximately an aggregate of US\$4,500,000 will be used for investment in upgrading certain production facilities in the PRC, production development, marketing and general working capital. The Directors consider the consideration of US\$7,000,000 to be fair and reasonable. It is the requirement under the Equity Subscription Agreement that New Wellon will use at least 99 per cent of the consideration of US\$7,000,000 to advance the Insulin Project and only to the extent pre-approved by Investor. It is intended that the balance of 1 per cent of the consideration of US\$7,000,000 will be used to settle part of the costs and expenses incurred in the transactions contemplated under the Equity Subscription Agreement.

Conditions of the Equity Subscription Agreement

First Completion is conditional upon completion and/or waiver of all or any one of the following conditions precedent to the reasonable satisfaction of Investor on or prior to 31 December 2003:

- (a) amendment of the memorandum and articles of association of New Wellon to: (A) allow the board of directors of New Wellon to conduct meetings by means of telephone or other audio communications equipment; (B) allow the shareholders of New Wellon to conduct meetings by means of telephone or other audio communications equipment; (C) set the total number of directors to six directors; (D) increase the authorised share capital of New Wellon by creating 7,000,000 Preferred Shares; and (E) reclassify the 10,000 shares of HK\$1.00 each (with voting right) in the capital of New Wellon into 10,000 Ordinary Shares (with voting right);

- (b) the Stock Exchange having issued a formal letter confirming that it has no further comments on this announcement;
- (c) the Company's principal solicitors or another law firm as may be directed by Investor having issued a letter addressed to the Company clarifying the procedural and practical effect of the no comments letter from the Stock Exchange referred to in (b) above and each of the Company's principal solicitors and regular legal counsels having issued formal legal opinion confirming, amongst other things, that: (i) in entering into and performing the Transaction Documents, it is not necessary to amend any of the memorandum and articles of association of any member of the Group apart from New Wellon; (ii) none of the terms of the Transaction Documents contravene or otherwise conflict with applicable laws, or the chartered documents of any member of the Group; and (iii) each of the Transaction Documents is enforceable;
- (d) simultaneously with First Completion, Cheng Kong Yin (being the trustee holding the share in New Wellon on trust for Chenlong) duly transfers all its shareholding in New Wellon to Chenlong, and the transfer is duly registered in the register of members of New Wellon;
- (e) completion of commercial and legal due diligence reasonably satisfactory to Investor on the transactions and the Insulin Project contemplated there; and
- (f) the Company having confirmed in writing to Investor in a form acceptable to Investor that all requirements imposed by the Stock Exchange under the Listing Rules or by the SFC under the Takeovers Code (if any) or otherwise in connection with the transactions contemplated by the Equity Subscription Agreement having been fully complied with.

Second Completion is conditional upon completion and/or waiver of all or any one of the following conditions precedent to the reasonable satisfaction of Investor:

- (a) First Completion having taken place;
- (b) prior to the expiry of 24 months from the date on which the First Completion takes place;
- (c) with respect to the Insulin Project: (i) receipt by the Group of the final approvals and issue of the required permits (if any) from the State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局) (or its replacement body) to the reasonable satisfaction of Investor; (ii) provision of an original formal legal opinion commenting from a PRC law perspective on material matters concerning the Insulin Project to be issued by legal counsel and in a form both satisfactory to Investor;
- (d) no Material Adverse Change shall have occurred prior to the date on which the Second Completion takes place;
- (e) completion of commercial and legal due diligence on the Insulin Project based on the then current information to the reasonable satisfaction of Investor.

Completion

First Completion is to take place within five business days after the conditions precedent to First Completion have been fulfilled or waived by Investor at which time, among other things, Investor will pay US\$4,000,000 as full first stage subscription consideration to subscribe for and the Company will issue and allot to it the 4,000,000 Preferred Shares as the first stage subscription shares.

Second Completion is to take place within five business days after the conditions precedent to Second Completion have been fulfilled or

waived by Investor at which time, among other things, Investor will pay US\$3,000,000 as full second stage subscription consideration to subscribe for and the Company will issue and allot to it the 3,000,000 Preferred Shares as the second stage subscription shares. At Second Completion, Investor is entitled to appoint two additional directors to the board of directors of New Wellon which will consist of no more than six directors. The appointment of the two directors by Investor will not enable Investor to gain control of the board of directors of New Wellon.

The Group's equity interest in New Wellon will not be diluted by the allotment and issue of the Preferred Shares to Investor.

If the conditions precedent for First Completion (as referred to under the section headed "Conditions of the Equity Subscription Agreement" above) have not been fulfilled or waived by 31 December 2003, the Equity Subscription Agreement and everything therein contained shall be null and void and of no effect and no parties to the Equity Subscription Agreement shall have any claim against the other parties other than the parties' respective confidentiality obligations thereunder.

If for any reason the Second Completion does not take place, Investor is entitled to defer Completion or rescind the Equity Subscription Agreement as referred to under the section headed "Deferred Completion and/or Rescission" below or to convert the Preferred Shares into senior term loan as referred to in paragraph (c) under the section headed "Rights and Privileges of the Preferred Shares" below. The aforesaid rights conferred on Investor will not affect any other rights and remedies that Investor may have against the Company, New Wellon and Chenlong in respect of any breach of the provisions of the Equity Subscription Agreement.

Deferred Completion and/or Rescission

Investor is entitled under the Equity Subscription Agreement, in its absolute discretion to defer Completion and/or rescind the Equity Subscription Agreement without liability and without any further obligation by notice at any time prior to Second Completion:

- (a) if the Company or New Wellon is in breach of any material term or condition of the Equity Subscription Agreement; or
- (b) if Investor reasonably forms an opinion as a consequence of undertaking due diligence (whether of a legal, financial nature or otherwise), that:
  - (i) there is or has been a deception or significant omission by or concerning New Wellon, the Company, Chenlong, or a company that controls, is controlled by, or under common control with New Wellon of any material information; or
  - (ii) that the information disclosed by or at the express or implicit request of New Wellon or the Company, or information independently obtained by Investor is such to reasonably concern Investor that: (A) the net asset value of Company or New Wellon Group is less than 90 per cent of the net asset value as disclosed in the relevant accounts of the Group; (B) any director or officer to be appointed by Investor to any of the New Wellon Group may be likely to suffer or incur any liability or statutory penalty if they were so appointed; (C) the progress, process and success of relevant research, validation of the scientific and medical claims and other matters with respect to the Insulin Project does not meet with Investor's reasonable expectation or satisfaction; or (D) all necessary upfront approval and consent may not be obtained from or provided by SFC in the reasonable time frame acceptable to Investor, if any.

Rights and Privileges of the Preferred Shares

Each Preferred Share shall give its holder the following rights and privileges:

(a) As regards dividend

New Wellon shall: (i) subject to the Companies Ordinance, first pay an amount equal to an annualized five per cent of its par value as an annual cumulative fixed dividend on or before 31 December of each calendar year, which rate will be adjusted pro rata for incomplete years and which dividend payment date shall be brought forward upon conversion into loan as provided for in paragraph (c) below (i.e. pro rata unpaid dividends for the final year and the amount equivalent to unpaid cumulative fixed dividends shall immediately become due and payable); (ii) then, to the extent holders of Preferred Shares did not for any reason in past payment dates get their annual cumulative fixed dividend as described in (i), pay catch-up dividend by distributing to the said holders from the remaining profits the outstanding amounts; and (iii) then distribute the remaining profits which the Company may determine to distribute in respect of any financial year among holders of Ordinary Shares held by them respectively.

(b) As regards distribution

Upon the winding-up of New Wellon, out of the assets of New Wellon to be returned, the aggregate par value of all outstanding Preferred Shares thereof plus all due but unpaid dividends shall be distributed among the holders of Preferred Shares in proportion to the nominal amounts of Preferred Shares held by them respectively and the balance of such assets shall belong to and be distributed among the holders of Ordinary Shares in proportion to the nominal amounts of the Ordinary Shares held by them respectively.

(c) As regards conversion into senior term loan

The holder of the Preferred Shares may at its option during a 6 month period commencing at the end of 24 months from the date on which the First Completion takes place convert such Preferred Shares into a one-year senior term loan in the same amount as US\$4,000,000 bearing interest at LIBOR plus 3 per cent per annum provided that the holder has held the Preferred Shares for at least 24 months and has not completed on the subscription to the 3,000,000 Preferred Shares.

(d) As regards voting

On a show of hands every holder of Ordinary Shares who is present in person or is represented by proxy shall have one vote, and on a poll every holder of Ordinary Shares present in person or by proxy shall have one vote but the Preferred Shares shall entitle the holders thereof to receive notice of or to attend as observer without voting powers at any general meeting of the Company.

After taking into consideration the difficulties experienced by the Group in fund raising through banks and other financial institutions (as referred to under the section headed “Deed of Put Option” below) and the prospects of the Insulin Project, the Directors consider that the annual five per cent dividend rate as referred to above is fair and reasonable.

The terms of the Equity Subscription Agreement have been arrived at after arm’s length negotiation and are considered by the Board to be fair and reasonable in the interest of the Company and the shareholders of the Company as a whole.

ESA SUPPLEMENTAL AGREEMENTS

Pursuant to the ESA Supplemental Agreements, Investor has agreed with the Company, New Wellon and Chenlong, among other things, that (i) Investor will exercise the Put Option (as defined below) to require the Company to purchase all but not part only of the Preferred Shares from Investor; and (ii) the aggregate number of Shares to be allotted and issued under the Conversion will be capped at 20 per cent of the entire issued share capital of the Company as at the date of the Deed of Put Option and with the remaining number of shares otherwise due for allotment to Investor under the Conversion being immediately payable in cash or by the Promissory Note at option of Investor.

DEED OF UNDERTAKING

Simultaneous with the execution of the Equity Subscription Agreement, Absolute Target has entered into the Deed of Undertaking (as supplemented by the DOU Supplemental Agreement) with Investor whereby Absolute Target has undertaken to Investor to procure the discharge by the Company, New Wellon and Chenlong of their respective obligations under the Agreements and agreed to indemnify Investor against any loss suffered by, among other things, Investor in connection with any claim against Investor that arises as a result of the failure of the Company, New Wellon and Chenlong to observe any of the provisions of the Agreements and as a result of the failure of Absolute Target to observe any of the provisions of the Deed of Undertaking. Pursuant to the Deed of Undertaking, Absolute Target also agreed not to sell or otherwise diminish its equity interest in the Group below 51 per cent prior to Investor having issue the Put Notice and the due completion of a Buyout or Conversion or Debt (as referred to below).

The Company will make disclosure in respect of the above in its subsequent interim and annual reports for so long as circumstances giving rise to the obligation continue to exist pursuant to Practice Note 19 of the Listing Rules.

DEED OF PUT OPTION

Upon First Completion, the Company will enter into the Deed of Put Option with Investor pursuant to the terms of the Equity Subscription Agreement.

Pursuant to the Deed of Put Option, the Company will grant to Investor the Put Option exercisable by Investor during the Put Option Period to require the Company to purchase all but not part only of the Preferred Shares from Investor to the reasonable satisfaction of Investor. Completion of the sale and purchase of Preferred Shares under the Deed of Put Option shall take place within two business days following the date of the Put Notice specifying the number of all the Preferred Shares Investor puts to and require the Company to purchase, and whether Investor is in principle willing to accept the Promissory Note Method (referred to below).

The Company shall at its discretion pay Investor for the purchase of the Preferred Shares using one of the three following methods (except the Company may only choose between the BuyOut Method or the Conversion Method if Investor did not in the Put Notice indicate its willingness to accept the Promissory Note Method):

(a) BuyOut Method

delivery of cash, or originals of other financial instruments may may be directed by Investor in the Put Notice, in immediately available funds free and clear of all bank and financial charges in the amount of the Exercise Price (“Buyout”).

The formula for calculating the Exercise Price is illustrated as follows:

Exercise Price = [Funding Amount + (Funding Amount x IRR x No. of year(s))] – dividend actually received by Investor

(b) Conversion Method

Delivery of original share certificates duly issued by the registered registrar for the Company (or if so directed by Investor in the Put Notice, original statement/certificate confirming that Shares have been duly deposited to Investor’s nominated CCASS account) evidencing that the Company has newly issued to Investor the Shares, in such number calculated by applying the Conversion Formula, credited as fully paid-up and ranking pari passu with other Shares (“Conversion”) Provided That the actual aggregate number of Shares to be allotted and issued under the Conversion shall be capped at 20 per cent of the entire issued share capital of the Company as at the date of the Deed of Put Option with the remaining number of Shares due for allotment to Investor under the Conversion being immediately payable in cash or by Promissory Note at the option of Investor.

On the assumption that all the 7,000,000 Preferred Shares are issued pursuant to the Equity Subscription Agreement and are purchased by the Company pursuant to the Deed of Put Option using the Conversion Method, a maximum of 116,800,000 Shares (on the basis of the entire issued share capital of 584,000,000 Shares) would fall to be issued, representing 20 per cent of the issued share capital of the Company as at the date hereof and approximately 16.67 per cent of the issued share capital of the Company as enlarged by the allotment and issue of such Shares.

The Board has obtained a general mandate to allot, issue or deal with additional Shares up to a maximum of 20% of the aggregate nominal amount of the issued Shares as at 30 May 2003 (being the date of the last annual general meeting of the Company). The Company will ensure that such mandate will be maintained as valid and sufficient upon execution of the Deed of Put Option. If for any reason such mandate becomes invalid or otherwise insufficient before the execution of the Deed of Put Option, the Company will proceed to convene a meeting to obtain a specific approval from the shareholders of the Company.

(c) Promissory Note Method

If indicated by Investor of its willingness to accept settlement by Promissory Note in the Put Notice: (i) delivery of the original Promissory Note duly issued by the Company in favor of Investor or Investor’s nominee (“Debt”); and (ii) delivery of the original Corporate Guarantee duly issued by Absolute Target in favor of Investor and/or Investor’s nominee.

If for any reason the Company fails to complete the purchase of Preferred Shares as required under the Put Option and the Put Notice then, without prejudice to other rights Investor may have, Investor shall be entitled to specific performance of the completion using any one of the three abovementioned methods as Investor may elect; and the Exercise Price shall be considered immediately due and payable in cash as of the Put Notice and the Company shall pay Investor a late interest fee on the Exercise Price until fully paid at the rate of two per cent per month.

Under the Deed of Put Option, Investor will agree not to issue the Put Notice during the first year of the Put Option Period where the publicly traded intra-day price (including any daily closing price) of the Shares is at or below HK\$0.45.

Commencing from the date of the Conversion, Investor shall have the right to appoint (and replace at its discretion) two Directors to the Board which presently consists of seven Directors and the Company has undertaken to ensure that the then Board shall have no more than nine Directors. The appointment of the two Directors by Investor will not enable Investor to gain control of the Board.

While the Directors were negotiating the Exercise Price (including the annual IRR of 15 per cent) with Investor, the Directors had during the past 12 months also explored other alternatives for raising funds including obtaining loans from banks and financial institutions. However, after entering into numerous negotiations with such banks and financial institutions, no concrete agreement could be reached between the Group and any one of them. In view of the size of the fund, the Group was not able to secure funds from such banks and financial institutions sufficient to meet the capital requirement of the Insulin Project.

The Director did also consider raising fund by way of placing. The Directors have however taken the view that the current market price (approximately HK\$0.4 per Share) does not reasonably reflect the value of the Group especially, the potential prospects of the Insulin Project.

For reasons of the above, the Directors are of the view that the Subscription is the best practicable method to raise fund for the Insulin Project as it will also improve the gearing of the Group. After taking into consideration the difficulties experienced by the Group in fund raising through banks and other financial institutions and the prospects of the Insulin Project, the Directors consider that the formula for calculating the Exercise Price and the annual IRR of 15 per cent are fair and reasonable.

The terms of the Deed of Put Option (including the Exercise Price) have been arrived at after arm’s length negotiation and are considered by the Board to be fair and reasonable in the interest of the Company and the shareholders of the Company as a whole.

As the Directors are confident in the prospects of the Insulin Project, the Directors are of the view that the Group will have sufficient fund to meet the Put Option should Investor elect to exercise the same in future.

SHAREHOLDERS’ AGREEMENT

Upon First Completion, the Company, Chenlong and New Wellon will enter into the Shareholders’ Agreement with Investor in respect of, inter alia, the rights and obligations of Investor and Chenlong in New Wellon. Under the Shareholders’ Agreement, it is provided that the board of directors of New Wellon shall comprise of no more than six directors, Chenlong will be entitled to appoint up to four directors and Investor will be entitled to appoint up to two directors to the board of directors of New Wellon upon the Second Completion. If Chenlong offers to sell its shares in New Wellon to a third party purchaser, Investor has a pre-emptive right to purchase the shares of Chenlong or has a tag-along right to offer to sell its shares to such third party purchaser. The Shareholders’ Agreement further provides that Investor shall have the right to transfer any Preferred Shares to any third party provided that an opportunity to purchase those to-be-transferred Preferred Shares should first be presented to the Company at such terms to be agreed between the parties if the transfer by Investor is not to its associated company. It is however intended that the Group will not exercise such pre-emptive right to purchase the Preferred Shares on terms which are more favourable to Investor than those under the Put Option.

The Shareholders’ Agreement shall continue to be effective unless there is an initial public offering or listing of shares of New Wellon or by unanimous consent of the parties to the Shareholders’ Agreement. The Company will indemnify, among other things, Investor against any loss suffered or incurred by Investor in connection with any claim that may arise as a result of the failure of Chenlong, New Wellon or any of their associates to observe any of the provisions of the Shareholders’ Agreement.

The terms of the Shareholders’ Agreement have been arrived at after arm’s length negotiation and are considered by the Board to be fair and reasonable in the interest of the Company and the shareholders of the Company as a whole.

SHAREHOLDING STRUCTURE

Set out below is a table showing the shareholding structure in the Company before and after the exercise of the Put Option by using the Conversion Method:

Shareholders	Shareholding Structure in the Company as at the date of the execution of the Deed of Put Option		Shareholding Structure in the Company after the exercise of the Put Option by using the Conversion Method	
	Shares	%	Shares	%
Absolute Target	438,000,000	75	438,000,000	62.50
Investor (Note)	–	–	116,800,000	16.67
Public – others	146,000,000	25	146,000,000	20.83

Note: Assuming that all the 7,000,000 Preferred Shares are issued pursuant to the Equity Subscription Agreement and are purchased by the Company pursuant to the Deed of Put Option using the Conversion Method, a maximum of 116,800,000 Shares (on the basis of the entire issued share capital of 584,000,000 Shares) would fall to be issued, representing 20 per cent of the issued share capital of the Company as at the date hereof and approximately 16.67 per cent of the issued share capital of the Company as enlarged by the allotment and issue of such Shares.

LISTING

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may be allotted and issued pursuant to the Deed of Put Option in the event the Conversion Method is used. The Company will issue an announcement as soon as practicable if the allotment and issue of the Shares pursuant to the Deed of Put Option takes place.

No application will be made for the listing of, or permission to deal in, the Preferred Shares on the Stock Exchange or other stock or securities exchanges.

INSULIN PROJECT

The Group, through New Wellon, has received a letter of intent (the “Letter of Intent”) on 7 November 2002 from an independent third party (the “Third Party”) who is not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined under the Listing Rules), confirming that the Third Party intended to cooperate with the Group in a proposed investment project for developing new pharmaceutical product of Insulin Nasal Spray Solution (胰島素噴鼻液). The Third Party has obtained the patent on a nasal spray applicator used by diabetic patients to consume insulin using the technology as described in the patent certificate and has lodged the application for Certificate of New Medicine (新藥證書) with the State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局) (then known as the State Drug Administration Bureau of the PRC (中華人民共和國國家藥品監督管理局) in respect of the pharmaceutical product of Insulin Nasal Spray Solution (胰島素噴鼻液) for treating the diabetics. The said Certificate of New Medicine is expected to be issued by the end of 2003.

Under the Letter of Intent, the said pharmaceutical product will be developed jointly by the Group and the Third Party (through the use of an equity joint venture enterprise to be established in due course) for commercial production after having been awarded with the Certificate of New Medicine (新藥證書) by the State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局). After negotiations, the Group has reached an understanding with the Third Party that the Group will use approximately US\$2,500,000 for advancement of the Insulin Project and the acquisition of the intellectual property rights in respect of the Insulin Project from the Third Party. No concrete agreement has however been reached between the parties at this stage. Upon receiving funds from Investor, the Group will proceed to negotiate further with the Third Party to enter into a binding agreement to implement the Insulin Project. It is anticipated that the capital requirement to implement the Insulin Project will require approximately US\$7,000,000.

Although the Group has not yet entered into any binding agreement with the Third Party, both Investor and the Group are confident on the future prospects of the Insulin Project and therefore after arm’s length negotiations between the parties, Investor has agreed to invest in the Group by way of the Subscription. In this connection, the Group and Investor has agreed under the Equity Subscription Agreement that Second Completion is conditional upon the requisite approvals and



permits be obtained from the State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局). In the event that First Completion or Second Completion does not take place, Investor has certain rights and obligations as referred to under the section headed “Completion” above.

The Company will issue an announcement as soon as practicable if any agreement is entered into with the Third Party which gives rise to a notifiable transaction pursuant to Chapter 14 of the Listing Rules.

**Warning: shareholders and potential investors of the Shares are cautioned that the Insulin Project may or may not be proceeded with. There is no assurance that the Insulin Project will be successfully implemented and completed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.**

**INFORMATION ON INVESTOR**

Investor is a financial institution which provides, inter alia, financial supports to businesses and financial institutions in developing countries with capital and know-how. The Investor was founded by the Dutch government and business community in 1970. The Dutch State holds 51% of its shares while the large Dutch banks retain 42%. The remaining 7% is held by employers’ associations and trade unions and some 100 Dutch companies and individual investors.

**INFORMATION ON THE GROUP, NEW WELLON AND USE OF PROCEEDS**

The Group is principally engaged in processing and sales of health care products, ginseng and related products and pharmaceutical products. New Wellon is an indirect wholly-owned subsidiary of the Company and is an investment holding company of the Subsidiaries.

New Wellon is a major subsidiary of the Company which represents 95 per cent or more of the consolidated net tangible assets or pre tax trading profits of the Group. The principal business of the New Wellon Group includes processing and sales of health care products, ginseng and related products and pharmaceutical products.

The net proceeds of the issue of the 7,000,000 Preferred Shares under the Equity Subscription Agreement of approximately US\$6.7 million (approximately HK\$52.1 million) are intended to be used for the Insulin Project.

**REASONS AND EFFECTS OF THE SUBSCRIPTION AND CONVERSION**

After taking into account the other alternatives for raising funds including obtaining loans from the banks and financial institutions, the Directors, after due and careful consideration, considered that the Subscription is the best alternative to raise funds for the Insulin Project and in the best interests of the Company. The issue of 7,000,000 Preferred Shares will enable the Group to raise funds at a reasonable and efficient way for investment in the Insulin Project, as well as with no immediate dilution effect on the existing shareholding interest of the Company until and unless the Preferred Shares are put to the Company by Investor and the Company chooses to use the Conversion Method (other than the BuyOut Method or Promissory Note Method) under the Deed of Put Option. The issue of 7,000,000 Preferred Shares will also improve the gearing of the Group. In addition, the investment by Investor in the Group reflects its confidence in the future prospects of the Group in the Insulin Project.

**GENERAL**

The Company will issue an announcement as soon as practicable after First Completion and the entering into of the Deed of Put Option.

**SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on Wednesday, 15 October, 2003 pending the publication of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on Monday, 27 October, 2003.

**DEFINITIONS OF THE TERMS USED IN THIS ANNOUNCEMENT**

“Absolute Target”	Absolute Target Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a controlling shareholder of the Company
“Agreements”	the Equity Subscription Agreement, the Shareholders’ Agreement, the Deed of Put Option and the Promissory Note
“Board”	the board of Directors
“business day”	a day (other than a Saturday or a day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which banks in Hong Kong are generally open for business and “business days” shall be construed accordingly;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chenlong”	Chenlong Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“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
“Completion”	First Completion and Second Completion
“Conversion Formula”	the following formula to determine the appropriate number of Shares in the event of the Conversion: Number of Shares to be issued equals the higher of (Exercise Price divided by the 30-days average publicly traded price of the Shares as stated in the Stock Exchange’s daily quotation sheets

leading up to exercise date as may be determined by Investor) and (Exercise Price divided by 0.72). All decimal points will be rounded up to the whole number. For the purposes of calculation, the last day of the said 30-days period shall be the date of the relevant Put Notice issued by Investor

“Corporate Guarantee”	an irrevocable and legally binding corporate guarantee in favour of Investor, which guarantee shall be in a form pre-approved or otherwise provided by Investor and shall unconditionally guarantee on a full indemnity and joint and severally liable basis the Company’s performance and discharge of the Promissory Note, including but not limited to payments of interests as and when due
“Deed of Undertaking”	the deed of undertaking dated 14 October 2003 entered into between Investor and Absolute Target as supplemented by the DOU Supplemental Agreement
“Deed of Put Option”	the deed of put option to be entered into between Investor and the Company
“Directors”	directors of the Company
“DOU Supplemental Agreement”	a supplemental agreement made on 23 October 2003 between Investor and Absolute Target amending certain provisions in the Deed of Undertaking
“Equity Subscription Agreement”	the equity subscription agreement dated 14 October 2003 among Investor, the Company, New Wellon and Chenlong as supplemented by the ESA Supplemental Agreements
“ESA Supplemental Agreements”	the First Supplemental Agreement and the Second Supplemental Agreement
“Exercise Price”	an amount, expressed in Hong Kong Dollars (at the fixed currency conversion rate of US\$1.00: HK\$7.78), to be reasonably determined by Investor to give Investor an annual IRR of 15 per cent calculated on the Funding Amount, then subtract from that sum the amount of priority dividend actually received by Investor as holder of Preferred Shares
“First Completion”	first completion of the subscription of 4,000,000 Preferred Shares under the Equity Subscription Agreement
“First Supplemental Agreement”	a supplemental agreement made on 17 October 2003 between Investor, Company, New Wellon and Chenlong amending certain provisions in the Equity Subscription Agreement
“Funding Amount”	the aggregate amount of funding, capital injection and subscription consideration as Investor may contribute to New Wellon under the Equity Subscription Agreement (i.e. US\$4,000,000 after First Completion and US\$7,000,000 after Second Completion)
“Group”	the Company and its subsidiaries
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Insulin Project”	the project being undertaken by the Group to manufacture and distribute a nasal spray applicator used by diabetic patients to consume insulin
“Investor”	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., an independent third party, a company incorporated under the laws of the Netherlands
“IRR”	the discount rate at which the sum of all distributions from an investment discounted to the time of the investment equal the cost of the investment
“LIBOR”	one-year term London Inter-Bank Offer Rate (being the rate per annum) for U.S. Dollars quoted by the principal London office of a bank designated by Investor and prevailing as at the first date of the relevant period where interest accrues
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Material Adverse Change”	a material negative change in: (a) the financial or trading position or prospects of New Wellon, the Company or the Insulin Project; or (b) the value of assets or amount or nature of liabilities as compared with the position disclosed in the relevant accounts of the Group; or (c) the turnover, direct or indirect expenses or the margin of profitability of New Wellon as compared with the position disclosed for the equivalent period of the last financial year, provided, however, that none of the following shall be deemed in themselves, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been a material adverse change: (i) any change in the market price or trading volume of the Company, (ii) any adverse change resulting directly from changes affecting the industry, the PRC and Hong Kong economy or (iii)

“New Wellon”	New Wellon Limited, a company incorporated under the Companies Ordinance with limited liability and an indirect wholly-owned subsidiary of the Company
“New Wellon Group”	New Wellon and each of 瀋陽金龍保健品有限公司 (Shenyang Jinlong Health Care Products Company Limited*), 金龍藥業有限公司 (Jinlong Pharmaceutical Company Limited*), 瀋陽辰龍保齡人參有限公司 (Shenyang Chenlong Longevity Ginseng Company Limited*), 集安新華龍參業有限公司 (Jian New Wellon Ginseng Industry Co., Ltd.*) and 北京東方金龍生物保健品有限公司 (Beijing Dong Fang Jilong Biological Health Care Products Co., Ltd.*)
“Ordinary Shares”	the shares of HK\$0.10 each in the capital of New Wellon to be reclassified into ordinary shares of New Wellon pursuant to the Equity Subscription Agreement
“PRC”	the People’s Republic of China excluding Hong Kong for the purpose of this announcement
“Preferred Shares”	the non-voting preferred shares of US\$1.00 each in the capital of New Wellon proposed to be created and allotted and issued pursuant to the Equity Subscription Agreement
“Promissory Note”	an irrevocable and legally binding three year promissory note in favour of Investor, which note shall be credited as fully paid by Investor and in a form pre-approved or otherwise provided by Investor and shall: (a) have a principal amount equivalent to the Exercise Price; and (b) bear interest at LIBOR plus three per cent per annum
“Put Notice”	a written notice issued by Investor to the Company requiring the Company to purchase the Preferred Shares pursuant to the Deed of Put Option
“Put Option”	a put option exercisable by Investor to require the Company to purchase the Preferred Shares held by Investor pursuant to the Deed of Put Option
“Put Option Period”	a three (3) years period commencing one year after Investor or its assignee has first held shares in New Wellon, as evidenced by the relevant date of allotment/transfer as shown next to its name on the register of members of New Wellon, inclusive of the start and end date of that period
“Second Completion”	second completion of the subscription of 3,000,000 Preferred Shares under the Equity Subscription Agreement
“Second Supplemental Agreement”	a supplemental agreement made on 23 October 2003 between Investor, Company, New Wellon and Chenlong amending the definition provision in the Equity Subscription Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“Shares”	shares of HK\$0.10 each in the capital of the Company
“Shareholders’ Agreement”	the Shareholders’ Agreement to be entered into among Investor, Chenlong, New Wellon and the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 7,000,000 Preferred Shares by Investor under the Equity Subscription Agreement
“Subsidiaries”	瀋陽金龍保健品有限公司 (Shenyang Jinlong Health Care Products Company Limited*), 金龍藥業有限公司 (Jinlong Pharmaceutical Company Limited*), 瀋陽辰龍保齡人參有限公司 (Shenyang Chenlong Longevity Ginseng Company Limited*), 集安新華龍參業有限公司 (Jian New Wellon Ginseng Industry Co., Ltd.*) and 北京東方金龍生物保健品有限公司 (Beijing Dong Fang Jilong Biological Health Care Products Co., Ltd.*)
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transaction Documents”	the Equity Subscription Agreement, the Shareholders’ Agreement and the Deed of Put Option
“US\$”	United States dollars, the lawful currency of the United States of America

*In this announcement, US\$ has been converted into HK\$ at the rate of US\$1.00: HK\$7.78 for indication purpose only*

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

Hong Kong, 24 October 2003  
*\* for identification purpose only*