Dragonite International Limited
叁龍國際有限公司

(formerly known as "Ruyan Group (Holdings) Limited 如烟集團(控股)有限公司")

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 329)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board of directors (the "Board") of Dragonite International Limited (the "Company") is pleased to announce that the unaudited condensed consolidated income statement of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	NOTES	**30.6.2010** **HK$'000** **(unaudited)**	30.6.2009 HK$'000 (unaudited)
Revenue		**14,576**	145,286
Cost of sales		**(54,896)**	(60,080)
Gross (loss)/profit		**(40,320)**	85,206
Other income		**2,771**	1,700
Distribution cost		**(29,279)**	(49,734)
Administrative expenses		**(64,703)**	(52,119)
Change in fair value of investment held for trading		**(6,927)**	–
Change in fair value of derivative financial instruments		**(410)**	26,203
Gain on disposal of subsidiaries		**21,903**	–
Finance costs		**(17,441)**	(13,879)
Loss before tax		**(134,406)**	(2,623)
Income tax expense	*5*	**(247)**	(3,898)
Loss for the period	*6*	**(134,653)**	(6,521)
Other comprehensive income			
Exchange differences arising on translation		**1,292**	880
Total comprehensive expense for the period		**(133,361)**	(5,641)
Loss per share			
Basic	*8*	**HK(6.79) cents**	HK(0.37) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	30.6.2010 HK$'000 (unaudited)	31.12.2009 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**41,238**	46,859
Goodwill		–	–
Available-for-sale investments		–	–
Intangible assets		**188**	730
Prepaid lease payments		**2,648**	2,664
		44,074	50,253
Current assets			
Inventories		**52,241**	99,277
Trade receivables	*9*	**19,176**	46,042
Deposits, prepayment and other receivables		**48,546**	48,701
Taxation recoverable		–	2,818
Amount due from a shareholder		–	127
Prepaid lease payments		**77**	77
Held-for-trading investments		**15,066**	–
Bank balances and cash		**37,807**	24,117
		172,913	221,159
Current liabilities			
Trade payables	*10*	**1,907**	6,602
Accruals and other payables		**41,061**	35,597
Derivative financial instruments		**1,699**	–
Convertible bonds		–	152,000
Amount due to a shareholder		–	10,000
Amount due to a minority shareholder		–	21,011
Taxation payable		**2,744**	1,995
		47,411	227,205
Net current assets (liabilities)		**125,502**	(6,046)
Total assets less current liabilities		**169,576**	44,207
Non-current liabilities			
Convertible bonds		**3,711**	–
		165,865	44,207
Capital and reserves			
Share capital		**369,449**	151,336
Reserves		**(203,584)**	(107,129)
		165,865	44,207

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

(1) GENERAL INFORMATION

Dragonite International Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements is presented in Hong Kong dollars, and the functional currency of the Company is in Renminbi. As the Company is listed in Hong Kong, the directors consider that it is appropriate to present the interim financial information in Hong Kong dollars.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in production and sales of a series of health care products, pharmaceutical products and Ruyan atomizing cigarettes.

(2) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

(3) PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statement for the year ended 31 December 2009.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments or interpretations ("new and revised IFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the Group's financial period beginning on 1 January 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008
HKHKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC)-INT 17	Distributions of non-cash assets to owners

HKFRS 3 (Revised) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010. As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendment to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. The amendment to HKAS 17 requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 [1]
HKAS 24 (Revised)	Related party disclosures [4]
HKAS 32 (Amendment)	Classification of right issues [2]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters [3]
HKFRS 9	Financial instruments [5]
HK(IFRIC)-INT 14 (Amendment)	Prepayments of a minimum funding requirement [4]
HK(IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments [3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

(4) SEGMENTAL INFORMATION

Business segments

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions towards the Group's operations. Internal reports are reviewed by the Group's executive directors on monthly basis. The Group is principally engaged in production and sales of a series of health care products, pharmaceutical products and Ruyan atomizing cigarettes in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group's management for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by an unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

(a) health care products, which are mainly represented by ginseng products

(b) pharmaceutical products, which are mainly represented by licensed medicines

(c) Ruyan atomizing cigarettes

Segment information for the six months ended 30 June 2010 and 2009 about these businesses is presented below.

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**5,982**	49,187	**12,937**	18,740	**(4,343)**	77,359	**14,576**	145,286
Segment result	**(60,857)**	4,106	**(1,023)**	5,599	**(6,903)**	(16,249)	**(68,783)**	(6,544)
Other income							**2,771**	1,700
Unallocated corporate expenses							**(43,616)**	(10,103)
Change in fair value of held for trading							**(6,927)**	–
Change in fair value of derivative financial instruments							**(410)**	26,203
Finance costs							**(17,441)**	(13,879)
Loss before tax							**(134,406)**	(2,623)

Segment loss represents the loss from/profit earned by each segment without allocation of central administration costs, directors' salaries, share option expenses, investment income, finance cost, change in fair value of held-for-trading investments, change in fair value of derivatives financial instruments and gain in disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(5) INCOME TAX EXPENSE

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	*HK$'000*
Income Tax in the PRC	**247**	3,898

No Hong Kong Profits Tax is payable by the Company or its subsidiaries operating in Hong Kong since they had no assessable profit for both periods.

PRC Enterprise Income Tax is calculated at the rate prevailing in the relevant districts of the PRC taking relevant tax incentives into account.

(6) LOSS FOR THE PERIOD

	Six months ended 30.6.2010 HK$'000	30.6.2009 HK$'000
Loss for the period has been arrived at after charging (crediting):		
Advertising expenses	**15,857**	40,855
Allowance for bad and doubtful debts	**–**	17,354
Allowance for obsolete inventories (included in cost of sales)	**41,114**	–
Amortisation of intangible assets (included in cost of sales)	**480**	499
Amortisation of prepaid lease payments	**270**	341
Depreciation of property, plant and equipment	**5,472**	5,340
Staff costs (including directors' emoluments and share-based payment expenses)	**5,069**	11,857
Interest income	**(33)**	(60)

(7) DIVIDEND

No dividends were paid, declared or proposed during both periods. The directors do not recommend the payment of an interim dividend.

(8) LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30.6.2010 HK$'000	30.6.2009 HK$'000
Loss for the purpose of basic loss per share attributable to the owners of the Company	**(134,653)**	(6,521)

	Six months ended 30.6.2010	30.6.2009
Weighted average number of shares for the purpose of basic loss per share	**1,982,329**	1,772,145

Pursuant to the prospectus dated 14 May 2010, shareholders of the Company are entitled to subscribe the rights shares at a subscription price of HK$0.1 per rights share on the basis of one rights share for every two shares. Accordingly, the number of ordinary shares for the purpose of basic loss per share had been adjusted for the effect of rights issue retrospectively for both periods.

No diluted loss per share has been presented for the six months ended 30 June 2010 and 2009 because the conversion of the convertible bonds and share options would reduce the loss per share and the outstanding share options were anti-dilutive.

(9) TRADE RECEIVABLES

The Group allows an average credit period from 60 days to 270 days to its trade customers. The following is an aged analysis of trade receivables net of allowance of doubtful debts presented based on invoice date.

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
0-60 days	**3,587**	28,657
61-90 days	**1,503**	12,938
91-180 days	**2,392**	4,447
181-270 days	**8,351**	–
More than 270 days	**3,343**	–
	19,176	46,042

(10) TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on invoice date.

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
0-30 days	**–**	459
31-60 days	**6**	36
61-90 days	**–**	22
Over 90 days but less than 1 year	**1,256**	2,716
Over 1 year	**645**	3,369
	1,907	6,602

(11) EVENTS AFTER THE END OF THE INTERIM PERIOD

On 21 July 2010, it was announced by the Company that the board of directors of the Company proposed to put forward to the shareholders of the Company a proposal which included a capital reorganisation (the "Capital Reorganisation"), change of board size and a rights issue (the "Rights Issue").

(i) The Capital Reorganisation includes:–

– a proposed share consolidation (the "Share Consolidation") whereby every 40 issued and unissued shares of par value of HK$0.10 each will be consolidated into one consolidated share of HK$4 each (the "Consolidated Share");

– a proposed capital reduction whereby upon the Share Consolidation becoming effective, the nominal value of all the issued Consolidated Shares shall be reduced from HK$4 each to HK$0.10 each, and the issued and paid up capital of the Company shall be cancelled to the extent of HK$3.9 per Consolidated Share in issue, and the entire amount of the authorised but unissued share capital of the Company be cancelled (the "Capital Reduction");

– a proposed share premium cancellation whereby upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company be cancelled (the " Share Premium Cancellation"); and

– the authorised share capital will be increased to HK$1,000,000,000 divided into 10,000,000,000 shares.

(ii) Change of board size

The Company proposed to change the board lot size for trading on The Stock Exchange of Hong Kong Limited from 2,000 shares to 10,000 adjusted shares upon the Capital Reorganisation becoming effective.

(iii) The Rights Issue

Upon the Capital Reorganisation becoming effective, the Company proposed to issue not less than 1,847,245,240 but not more than 2,478,902,780 rights shares at a subscription price of HK$0.22 per rights share, on the basis of twenty rights shares for every share in issue on the record date.

For details of the Capital Reorganisation, change of board size and the Rights Issue, please refer to the announcement of the Company dated 21 July 2010.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND MARKET CONDITIONS

The following is the business review for the six-month ended 30 June 2010 (the "period under review") presented by the Board.

During the period under review, the Group recorded an unaudited consolidated turnover of approximately HK$14,576,000, representing a decrease of approximately 90% when compared with approximately HK$145,286,000 in the corresponding period in 2009. The unaudited consolidated loss attributable to shareholders for the period under review was approximately HK$134,653,000 (corresponding period in 2009: HK$6,521,000). On these bases, the loss per share for the period under review was approximately HK6.79 cents (corresponding period in 2009: approximately HK 0.37 cents).

Loss for the period increased by 1965% to approximately HK$134,653,000 when compared with the corresponding period in 2009 was mainly attributed to the following adverse factors:

1. The sales of electronic cigarettes products were significantly reduced as a result of the growing threat from counterfeit brands and new regulatory restriction imposed against import of electronic cigarettes products by some overseas countries including but not limited to North America and Israel. Moreover, as mentioned in the annual report for the year ended 31 December 2009 of the Company (the "2009 Annual Report"), quality issue happened in one of our electronic cigarettes

products in September 2009, sales return was continuously recorded in current period, which resulted in a negative turnover in the electronic cigarettes segment.

2. Since the second half of 2009, the Group was seriously affected by poor financial performance and lack of working capital to finance its trading operation. In order to improve the working capital of the Group by speeding up the selling of the inventory, the selling prices of the products were significantly reduced. As a result, low gross profit was recorded in current period.

3. Provision for impairment of inventory at about HK$41,114,000 was made as a result of technical or commercial obsolescence. Provision was also made for the returned electronic cigarette products due to quality issue mentioned above.

4. In the first half of 2010, the Group was concentrated on various capital restructuring exercises and fund raising activities in order to repay the convertible bonds, improve its working capital and financial position, which included borrowing of loans, placing of shares and rights issue etc. As a result, legal and professional expenses were significantly increased when compared with the corresponding period in 2009.

As for the pharmaceutical business, although the sales of Azithromycin Granules (II)(「阿奇霉素顆粒」) and Rosiglitazone Hydrochloride Capsules(「鹽酸吡格列酮膠囊」), our two key products, both increased during the first half of the year as compared with the same period of last year, their macro-sustainability was still not optimistic. The continued increase in prices of raw materials and energy, continued strategic price reduction of medicine and irrational price competition caused by tendering have brought negative effect to our production and operation. Overall sales and gross profits both decreased compared with the same period of last year.

As mentioned above, the management of the Company was concentrated on capital restructuring exercises to improve its working capital and financial position of the Company in the first half of 2010. Prior to the capital restructuring exercises, the Company was approximately HK$183,000,000 in debt. As at the date of this announcement, the Company is almost debt free and is operating with a healthy cash flow. The Company is also planning to raise a gross proceeds of at least HK$400 million in the forthcoming capital reorganization (the "Capital Reorganisation") and rights issue (the "Rights Issue"), which have been announced in the announcement of the Company dated 21 July 2010. A surplus in net cash was sustained. The Group's balance sheet will be significantly strengthened if the Rights Issue can be completed.

In the first half of 2010, the electronic cigarettes business still significantly affected by threat from counterfeit brands and regulatory restriction imposed on importation of electronic cigarettes products in some overseas markets. Regulatory obstacles have precluded the Company from formally entering markets including Australia, Singapore and Canada. Restrictions on the sales of nicotine-content products have dramatically lessened the appeal of electronic cigarette products in Europe, Japan, Israel and elsewhere. The ambiguous and constantly-shifting regulatory environment in the United States, Israel,Turkey and elsewhere has temporarily restricted all sales of electronic cigarettes in those markets.

Additionally, the exponential pace with which the flood of cheap, low-quality, high-volume counterfeit products have entered international markets in the past two years has had a dramatic effect on the Company's ability to design, market, protect and sell its invention both in the People's Republic of China (the "PRC") and around the world. The lack of concern for consumer safety and overall quality on the part of most of the counterfeit manufacturers and their associated foreign marketers means that not only governments and media but also businesses and consumers are wary of electronic cigarettes – and this has indirectly affected Company's reputation and sales as well.

NEW PRODUCT DEVELOPMENT

The Company owns both the original patents for the electronic cigarette and the RUYAN brand ("RUYAN") around the world.

The Company will launch new versions of its "one-time" use, recyclable RUYAN RAPP® personal vaporizer in the United States and RUYAN Jazz® in the rest of the world in September 2010. These two products will update the larger, 1st-generation products that were launched globally in 2009.

The RUYAN V10 exemplifies the basic principle of greater smoking simulation without the dangers generated by the 4,000 chemicals released with traditional smoking. This product has been test-marketed in selected global markets and will be formally launched to mass markets by the forth quarter of 2010.

RUYAN R&D will continue to develop mass, specialty, high-end and re-packaged products to meet the varied demand for non-tobacco smoking alternatives in various markets.

REGIONAL DEVELOPMENT

In the first half of the fiscal year, the Company continued working closely with partners and potential partners around the world to launch new products, to develop markets, and to address regulatory concerns and competition from illicit brands and manufacturers. A core RUYAN invention patent was approved in the United States and an invention patent was granted in Korea during the period under review.

Progress in United States

The U.S. Food and Drug Administration ("US FDA") has classified electronic cigarettes as drug delivery devices, subject to regulation under the Federal Food, Drug, and Cosmetic Act ("FDCA"). As a result, electronic cigarettes require market authorisation prior to importation and sale into the country. The Company and its partners in United States will continue to work closely with regulatory authorities at the federal and state levels to design and market RUYAN products along an acceptable regulatory path.

As disclosed in the announcement of the Company dated 27 July 2010, the patent application (patent application number 10/587, 707) for electronic atomization cigarette has been approved in the United States by the United States Patent And Trademark Office ("USPTO"). As the USPTO is considered by many patent experts to represent the "gold standard" for patent legitimacy and validity, this patent approval will help eliminate inferior product imitations and ensure high quality and safe products in global markets.

Progress in United Kingdom and Ireland

In February 2009, the Company agreed to cooperate with Nicocigs Ltd ("Nicocigs") of the United Kingdom for distribution of its products within the United Kingdom and Ireland. Nicocigs has established relationships with several prominent wholesalers in these markets and has begun to introduce RUYAN products to pharmaceutical, entertainment, internet, corporate, grocery and hyper-mart channels. Both RUYAN V10 and the new version of RUYAN Jazz® will be launched into large retail channels within the forth quarter of 2010, depending upon the outcome of regulatory considerations underway within the government and due for decision in September 2010. Legal actions against parties suspected of infringement on RUYAN's intellectual property rights in the United Kingdom and Ireland are forthcoming.

Progress in Other Markets

During the period under review, RUYAN products have been test-marketed in several other key markets, including France, Sweden, Malaysia, Russia and India. Sales inroads and sampling have been conducted with customers in many more locations. The Company treats quality and safety as its top concerns. With R&D on new products nearing completion and with the maturity of its patent system, the Company plans aggressive actions on a number of fronts to eliminate inferior product imitations and to ensure high quality and safe products in global markets in the near future.

The Company has already won several patent infringement cases in the PRC and now has the resources to proactively defend its intellectual property rights in global markets.

LIQUIDITY, FINANCIAL ANALYSIS AND CAPITAL STRUCTURE

As at 30 June 2010, the Group's net borrowing was HK$3,711,000 (31 December 2009: HK$152,000,000), in which all of the borrowings were fixed convertible bonds. Gearing ratio of the Group decreased from approximately 343.9% as at 31 December 2009 to approximately 2.24% as at 30 June 2010. This calculation is based on net borrowings mentioned above and shareholders fund of HK$165,865,000 (31 December 2009: HK$44,207,000). Cash and bank balances of approximately HK$37,807,000 (31 December 2009: HK$24,117,000) and total assets of approximately HK$216,987,000 (31 December 2009: HK$271,412,000). Net current assets of the Group on the same date amounted to approximately HK$125,502,000 (Net current liabilities as at 31 December 2009: HK$6,046,000). As at 30 June 2010, the balance of the inventories amounted to HK$52,241,000, representing a decrease of HK$47,036,000 when compared with the balance of that as at 31 December 2009.

As disclosed in the 2009 Annual Report, the Company recorded total borrowings of approximately HK$152 million which represented the outstanding convertible notes ("Convertible Notes"). Such amount was originally due for redemption on 31 July 2010, but for the default of partial payments due on 30 September 2009 and 31 December 2009, rendering the whole outstanding amount repayable on demand.

In February 2010, the Company received a conversion notice that the holder of the Convertible Notes in a principal amount of HK$12,291,390.72 exercised the conversion rights attaching thereto at the conversion price of HK$0.65 per share. As such, a total of 18,909,832 shares of the Company were issued and allotted.

In order to settle the remaining balance of the Convertible Notes and improve the financial position of the Group, the Company had been seeking new funds through the following exercises during the period:

1) On 21 March 2010, the Company entered into an agreement with a placing agent to place the zero-coupon convertible bonds ("New Convertible Bonds") with an aggregate principal amount of HK$250 million and the principal amount was subsequently reduced to HK$75 million on 7 June 2010. Accordingly, the placing of the New Convertible Bonds has been successfully completed on 22 June 2010 and net proceeds of HK$69.5 million was raised.

   In view of the prosperous future and development of the Company, the Company received conversion notices from certain placees regarding the conversion of their respective New Convertible Bonds in an aggregate amount of HK$70,000,000. As a result, 700 million of new shares have been issued and the outstanding principal amount of the New Convertible Bonds has reduced to HK$5,000,000 as at 30 June 2010.

2) On 16 April, 2010, the Company entered into a loan agreement and a facility letter with a lender which is an independent third party (the "lender"). The lender has agreed to provide to the Company an one year loan facility in the amount of HK$35,000,000 which will be secured by way of a charge over all the shares of Chenlong Group Limited, a wholly-owned subsidiary of the Company. On the same date, the Company had drawdown HK$25,000,000 of this one year loan facility. Details of the loan agreement have been set out in the Company's announcement dated 16 April 2010. The loan amount was fully settled as at 30 June 2010.

3) On 20 April 2010, the Company announced to the proposed rights issue on the basis of one rights share for every two shares held on the record date at the subscription price of HK$0.1 per rights share. This rights issue was completed on 3 June 2010 and net proceeds of HK$76.72 million were raised and 831,802,916 shares have been issued.

4) On 11 June 2010, the Company placed 332,721,166 shares to an independent investor at the subscription price of HK$0.1 per share. The placing was completed on 25 June 2010 and the Company received a net proceed of approximately HK$33.27 million.

5) In addition, 297,696,000 share options were exercised over the period under review. The net proceeds of approximately HK$44.36 million was received by the Company.

On 9 June 2010, the Company received a demand letter from two parties purporting to be the holders of all the outstanding Convertible Notes demanding immediate payment. The Company fully settled the balance of the Convertible Notes (inclusive of default interest) on 17 June 2010.

The fund raising activities in current period are not only providing the Group with the funds to repay the liability under the Convertible Notes, but also place the Company in a far stronger position to carry out the additional financing which we will need for future expansion. The management is of the view that the Group's incoming cash flow from the financing activities and business operations will provide sufficient funds for the Group to meet with the requirements of present operation and further business development in the foreseeable future.

CHARGE OF ASSETS

As at 30 June 2010, the Group had no bank deposits pledged to banks (2009: Nil).

CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not provide any form of guarantees for any outside companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

SHORT AND LONG TERM BUSINESS PROSPECTS AND DEVELOPMENT PLANS

Electronic Cigarette

The Company will continue to work with governments and international organizations around the world to address continuing concerns about safety and regulatory requirements of the electronic cigarette. Scientific testing will be continued. The Company strongly believes its invention benefits humankind the markets that are demanding practical solutions to the smoking pandemic.

Beginning from the second half of 2010, the Company will continue to speed up its marketing effort. The marketing strategies of RUYAN products will change from product-oriented approach in the past, which primarily be focused on the product itself, to market-oriented approach which will focus more on the appeal or social status the product provides.

The recent validation of the company's intellectual property in the United States and elsewhere over the past several years will enable the Company to strengthen and expand its strategic partnerships around the globe. Looking forward, the Company plans to continue to invest in research and development and to define the global market for the electronic cigarette. The Company is confident that by ramping up its R&D, intellectual property, marketing strategies and regulatory work in concert, the market demand for RUYAN products will pick up quickly in the near future.

Pharmaceuticals and health care products

In 2010, the Company will continue to speed up its marketing effort. The Company will consolidate the existing market share while promotion strategies are in progress to further the development of the high-end, mid-range and low-end markets. All these strategies will continue to be market-oriented. In the meantime, active and flexible marketing strategies are adopted for different items, regions and customers.

Proposed capital reorganisation and rights issue

As announced by the Company on 21 July 2010, the Company proposed to have a Capital Reorganization involving (i) every 40 issued and unissued shares of par value of HK$0.10 each will be consolidated into one consolidated share of par value of HK$4, (ii) the par value of the each issued consolidated shares of the Company be reduced from HK$4 each to HK$0.1 each by cancelling a sum of HK$3.9 per consolidated share in issue, (iii) the entire amount of the authorised but unissued share capital of the Company be cancelled, and (iv) the authorised share capital of the Company to be increased from HK$25,000,000 divided into 250,000,000 adjusted shares to HK$1,000,000,000 divided into 10,000,000,000 adjusted shares by the creation of an additional 9,750,000,000 new adjusted shares.

Subject to the completion of the Capital Reorganisation, the Company will carry out a Rights Issue of twenty rights shares for every one adjusted share at subscription price of HK$0.22 per rights share. The Capital Reorganisation is expected to be completed in December 2010 and the Rights Issue will be completed in February 2011. The estimated net proceeds of the Rights Issue will be not less than HK$390.65 million to not more than HK$525.45 million.

The Company considers that the proposed Capital Reorganisation and Rights Issue will enable the Group to replenish the depleted capital base due to previous year's losses. As such, the Rights Issue is expected to help the Group strengthen its capital base and to enhance its financial position. Furthermore, the Rights Issue will give the qualifying shareholders under the Rights Issue the opportunity to maintain their respective pro-rata shareholdings interests in the Company and, hence the Board considers that fund raising through the Rights Issue is in the interests of the Company and its shareholders as a whole.

Going forward, the Company will focus on its existing core business. The Company will seek to strengthen these businesses to obtain investment opportunities that will provide favorable recurring income and investment returns to the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the period under review, Chenlong Group Limited, a wholly-owned subsidiary of the Company, disposed of its entire interest in Charm Action Limited and its subsidiary ("Charm Action Group") to an independent third party at a cash consideration of US$1. The disposal was duly completed on 23 April 2010.

Save as disclosed above, there was no other material acquisition or disposal of subsidiaries and associated companies during the six months ended 30 June 2010.

SIGNIFICANT INVESTMENTS HELD

There was no material change in the significant investments held by the Group during the six months ended 30 June 2010.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the period under review, with the following exception as having been elaborated in our 2009 Annual Report:

Under code provision A.4.1 of the Code, non-executive directors should be appointed for specific term and subject to re-election. The non-executive directors of the Company are not appointed for a specific term of office. However, the non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2010.

EMPLOYEE POLICY

As at 30 June 2010, the Group employed a total of about 120 employees in the PRC and Hong Kong.

The Group will further establish its own corporate culture, strengthen staff training and implement the appraisal system, so as to let every staff member become part of the Company. As a result, a fair ground for competition can be established where all staff will be proud of the Company.

AUDIT COMMITTEE

The interim financial report during the period under review has been reviewed by the audit committee of the Company. The audit committee comprises four independent non-executive directors of the Company, namely Mr. Pang Hong, Mr. Chung Yuk Lun, Mr. Liu Kwong Sang and Mr. Lam Man Sum, Albert.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's webstie at www.dragonite.com.hk. The interim report for the six months ended 30 June 2010 of the Company will also be published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.dragonite.com.hk and will be dispatched to the shareholders of the Company in due course.

By order of the Board
Dragonite International Limited
Wong Yin Sen
Chairman

Hong Kong, 24 August 2010

As at the date of this announcement, the executive directors of the Company are Mr. Wong Yin Sen, Mr. Hon Lik, Mr. Wong Hei Lin, Ms. Ching Yuen Man, Angela and Mr. Au Yeung Kai Chor, the non-executive director of the Company is Mr. Frank H. Miu and the independent non-executive directors of the Company are Mr. Pang Hong, Mr. Chung Yuk Lun, Mr. Liu Kwong Sang and Mr. Lam Man Sum, Albert.