Dragonite International Limited
叁龍國際有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 329)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors (the "Directors") of Dragonite International Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative figures for the previous year are set out below:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	3	**21,786**	97,586
Cost of goods sold		**(84,615)**	(234,974)
Gross loss		**(62,829)**	(137,388)
Other income		**795**	3,622
Change in fair value of derivative financial instruments		**912**	9,643
Change in fair value of financial assets designated at fair value through profit or loss		**9,700**	–
Gain on restructuring of convertible bonds		**–**	9,400
Net (loss) gain in held-for-trading investments		**(8,296)**	668
Distribution costs		**(40,708)**	(102,932)
Administrative expenses		**(45,039)**	(60,438)
Other expenses		**(38,244)**	(2,334)
Research and development expenses		**(6,354)**	(3,701)
Allowance for bad and doubtful debts		**(37,406)**	(95,055)
Provision for onerous contracts		**–**	(7,974)
Impairment loss on property, plant and equipment		**(9,328)**	(20,000)
Impairment loss on goodwill		**–**	(3,934)
Gain on disposal of subsidiaries		**21,903**	–
Finance costs		**(17,945)**	(31,432)
Loss before tax		**(232,839)**	(441,855)
Income tax expense	5	**(492)**	(2,052)
Loss for the year	6	**(233,331)**	(443,907)
Other comprehensive income			
Reclassification adjustment for exchange difference upon disposal of foreign operation		**(368)**	–
Exchange differences arising on translation to presentation currency		**6,719**	1,931
Other comprehensive income for the year		**6,351**	1,931
Total comprehensive expense for the year		**(226,980)**	(441,976)
			(Restated)
Loss per share			
Basic and diluted	8	**HK$(3.38)**	HK$(11.38)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment		**30,413**	46,859
Goodwill		**–**	–
Available-for-sale investments		**–**	–
Financial assets designated at fair value through profit and loss		**20,000**	–
Intangible assets		**–**	730
Prepaid lease payments		**2,678**	2,664
		53,091	50,253
Current assets			
Inventories		**35,378**	99,277
Trade receivables	*9*	**5,082**	46,042
Deposits, prepayments and other receivables		**5,736**	48,701
Taxation recoverable		**2,600**	2,818
Amount due from a shareholder		**–**	127
Prepaid lease payments		**79**	77
Held-for-trading investments		**11,113**	–
Financial assets designated at fair value through profit or loss		**4,450**	–
Bank balances and cash		**11,681**	24,117
		76,119	221,159
Current liabilities			
Trade payables	*10*	**4,647**	6,602
Accruals and other payables		**41,269**	35,597
Derivative financial instruments		**377**	–
Convertible bonds		**4,136**	152,000
Borrowings		**5,000**	–
Amount due to a shareholder		**–**	10,000
Amount due to a non-controlling interest		**–**	21,011
Taxation payables		**891**	1,995
		56,320	227,205
Net current assets (liabilities)		**19,799**	(6,046)
Total assets less current liabilities		**72,890**	44,207
Capital and reserves			
Share capital		**9,236**	151,336
Reserves		**63,654**	(107,129)
Equity attributable to owners of the Company		**72,890**	44,207

Notes:

1) GENERAL

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 "Stock Exchange").

Pursuant to the special resolution of the Company dated 6 July 2010, the name of the Company has been changed from Ruyan Group (Holdings) Limited to Dragonite International Limited with effect from 6 July 2010.

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.

The functional currency of the Company is Renminbi ("RMB"). For the purposes of presenting the consolidated financial statements, the Group adopted Hong Kong dollars as its presentation currency for the convenience of the readers. The directors consider Hong Kong dollars can provide more meaningful information to the Company's shareholders.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2) APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 32 (Amendments)	Classification of rights issues
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners
HK-INT 5	Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the consolidated financial statements.

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 year 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 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.

Amendments 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 amendments 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 amendments to HKAS 17 have removed such a requirement. The amendments require 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 the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The Group does not have any leasehold land that qualifies for finance lease classification.

Amendments to HKAS 32 Classification of rights issues

Amendments to HKAS 32 requires that rights issues, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights issues, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group has early adopted the amendments and the offer of rights by the Company to its shareholders on 3 June 2010 was then accounted for as an equity instrument, as required by the amendments, in the consolidated financial statements of the Group. The loss for the year would have decreased by approximately HK$16,636,000 and the basis and diluted loss per share would be decreased by HK$0.24 if the amendments had not been early adopted for the year ended 31 December 2010.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK (IFRIC)-Int 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK (IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3) REVENUE

Revenue represents the amounts received and receivable for goods sold net of discounts, sales related taxes and returns.

4) SEGMENT INFORMATION

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

	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	**6,202**	14,973	**18,543**	25,099	**(2,959)**	57,514	**21,786**	97,586
Segment (loss) profit	**(55,195)**	(102,806)	**(12,116)**	3,033	**(123,856)**	(294,808)	**(191,167)**	(394,581)
Other income							**795**	3,622
Change in fair value of derivative financial instruments							**912**	9,643
Change of fair value of financial assets designated at fair value through profit or loss							**9,700**	–
Gain on restructuring of convertible bonds							**–**	9,400
Gain on disposal of subsidiaries							**21,903**	–
Net (loss) gain in held-for-trading investments							**(8,296)**	668
Impairment of goodwill							**–**	(3,934)
Share-based payment expenses							**(12,552)**	(2,976)
Unallocated corporate expenses							**(36,189)**	(32,265)
Finance costs							**(17,945)**	(31,432)
Loss before tax							**(232,839)**	(441,855)

Segment (loss) profit represents the loss from/profit earned by each segment without allocation of central administration costs, other income, change in fair value of derivative financial instruments, change in fair value of financial assets designated at fair value through profit or loss, gain on restructuring of convertible bonds, gain on disposal of subsidiaries, net (loss) gain in held-for-trading investments, impairment of goodwill, share-based payment expenses, unallocated corporate expenses, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

	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*
Assets								
Segment assets	**46,348**	110,691	**23,375**	41,902	**7,595**	90,844	**77,318**	243,437
Bank balances and cash							**11,681**	24,117
Taxation recoverable							**2,600**	2,818
Other receivables							**2,048**	1,040
Financial assets designated at fair value through profit or loss							**24,450**	–
Held-for-trading investments							**11,113**	–
Consolidated total assets							**129,210**	271,412
Liabilities								
Segment liabilities	**8,777**	7,679	**7,617**	4,210	**14,421**	28,074	**30,815**	39,963
Other payables							**15,101**	33,247
Taxation payables							**891**	1,995
Convertible bonds							**4,136**	152,000
Derivative financial instruments							**377**	–
Borrowings							**5,000**	–
Consolidated total liabilities							**56,320**	227,205

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than held-for-trading investment, financial assets designated at fair value through profit or loss, certain other receivables, taxation recoverable and bank balances and cash.

- all liabilities are allocated to operating segments, other than derivative financial instruments, certain other payables, borrowings, taxation payables and convertible bonds.

Other segment information

	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*
Amounts included in measure of segment profit or loss or segment assets:								
Additions of non-current assets *(Note)*	**694**	2,270	**753**	107	**1,931**	826	**3,378**	3,203
Depreciation of property, plant and equipment	**1,965**	1,970	**683**	697	**6,515**	10,917	**9,163**	13,584
Amortisation of prepaid lease payments	**85**	77	**–**	–	**–**	440	**85**	517
Amortisation of intangible assets	**–**	–	**753**	1,090	**–**	–	**753**	1,090
Allowance for obsolescence inventory	**7,105**	33,990	**5,977**	–	**52,317**	157,716	**65,399**	191,706
Allowance for bad and doubtful debts	**9,801**	26,481	**8,107**	–	**19,498**	63,574	**37,406**	90,055
Provision for onerous contracts	**–**	–	**–**	–	**–**	7,974	**–**	7,974
Loss (gain) on disposal of property, plant and equipment	**37**	–	**17**	–	**1,280**	(2,666)	**1,334**	(2,666)
Research and development expenses	**–**	–	**–**	–	**6,354**	3,701	**6,354**	3,701
Impairment loss on property, plant and equipment	**4,051**	–	**94**	–	**5,183**	20,000	**9,328**	20,000

Note: Additions of non-current assets for both years are represented by the addition of property, plant and equipment.

Revenue from major products

	2,010	2,009
	HK$'000	*HK$'000*
Sale of ginseng products	**6,202**	14,973
Sale of pharmaceutical products	**18,543**	25,099
Sale of Ruyan atomizing cigarettes	**(2,959)**	57,514
	21,786	97,586

Information about major customers

There is no single customer contributing over 10% of total sales of the Group for the year ended 31 December 2010 and 2009.

Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC"). Also, the non-current assets, which included property, plant and equipment, goodwill, intangible assets and prepaid lease payments and the revenue of the Group are substantially located/arisen in the PRC. Accordingly, no analysis by geographical segment is presented.

5) INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– current	**492**	2,051
– underprovision in prior years	**–**	1
	492	2,052

6) LOSS FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments		
– fees and other emoluments	**3,874**	5,033
Other staff costs		
– salaries, allowances and bonus	**8,872**	20,937
– share-based payment expenses	**647**	2,976
– retirement benefits scheme contributions	**463**	793
	13,856	29,739
Amortisation of intangible assets (included in cost of sales)	**753**	1,090
Amortisation of prepaid lease payments	**85**	517
Cost of inventories recognised as expense (note i)	**84,615**	231,752
Auditor's remuneration	**957**	1,615
Depreciation of property, plant and equipment	**9,163**	13,584
Operating lease rentals in respect of land and buildings	**8,070**	10,193
Interest income (included in other income)	**(13)**	(98)
Other expenses include:		
– Share-based payment expense granted to consultants (note iii)	**11,905**	–
– Loss (gain) on disposal of property, plant and equipment	**1,334**	(2,666)
– Impairment loss on deposit for acquisition of properties (note ii)	**–**	5,000
– Legal and professional fees (note iii)	**25,005**	–

Notes:

(i) Included in the cost of inventories recognised as expense is an allowance for inventory obsolescence of HK$65,399,000 (2009: HK$191,706,000). The allowance was provided for certain slow-moving raw materials and finished goods including certain models of Ruyan atomizing cigarettes which had quality problem.

(ii) A deposit of HK$5,000,000 was paid to an agent for an acquisition of certain properties in PRC during the year 2008. As at 31 December 2009, the directors of the Company assessed the recoverability of the amount and considered that the amount was irrecoverable. Therefore, an allowance for doubtful debt of HK$5,000,000 was provided.

(iii) The share-based payment expenses were granted to consultants and legal and professional fees incurred during the year ended 31 December 2010 were related to the Group's capital reorganisation.

7) DIVIDENDS

No dividend was paid or proposed for both years, nor has any dividend been proposed since the end of the reporting period.

8) LOSS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Loss for the purpose of basic and diluted loss per share (Loss for the year attributable to owners of the Company)	**(233,331)**	(443,907)

	2010	2009
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**69,020**	39,016

No diluted loss per share has been presented for the years ended 31 December 2010 and 31 December 2009 because the assumed conversion of the share options and the convertible bonds are anti-dilutive.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted loss per share for the years of 2010 and 2009 have been adjusted to reflect the impact of the rights issue and share consolidation effected during the year ended 31 December 2010.

9) TRADE RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**143,986**	171,174
Less: Allowance for doubtful debts	**(138,904)**	(125,132)
	5,082	46,042

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

	2010	2009
	HK$'000	*HK$'000*
0 to 60 days	**822**	28,657
61 to 90 days	**1,361**	12,938
91 to 180 days	**2,899**	4,447
	5,082	46,042

10) TRADE PAYABLES

The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 30 days	**51**	459
31 to 60 days	**–**	36
61 to 90 days	**–**	22
Over 90 days but less than 1 year	**517**	2,716
Over 1 year	**4,079**	3,369
	4,647	6,602

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

FINANCIAL RESULTS AND BUSINESS REVIEW

As anticipated in the Company's profit warning announcement dated 5 November 2010, the Group has recorded a loss for the year due to the significant decrease in sales of the electronic cigarettes and health care products and loss in investment of listed securities.

The loss attributable to shareholders amounted to approximately HK$233,331,000 for the year ended 31 December 2010 (2009: HK$443,907,000). Turnover for the year was approximately HK$21.8 million, representing a decrease of 77.68% from approximately HK$97.6 million for last year. In addition to those adverse factors set out under "Management and Discussion Analysis – Business Review and Market Conditions" in the Company's 2010 interim report for the 6 months ended 30 June 2010 ("2010 Interim Report"), the loss and significant decrease in turnover were also attributed to the following adverse factors:

1. Impairment loss on property, plant and equipment and intangible assets, mainly resulting in the continuing deterioration in the business of the Group due to the drastic decline in turnover, customers' purchase orders, production scale and customer confidence as a consequence to the factors mentioned above. The drastic decline in production scale significantly reduced the recoverable amounts of the fixed assets which is much less than their carrying value.

2. As the equity market was unstable in 2010, the market value of the Group's securities portfolio has declined. The total realized and unrealized losses from securities investment trading for the year ended 31 December 2010 amounted to approximately HK$8,296,000 (2009: realized and unrealized gain of HK$668,000).

As for the pharmaceutical business, as mentioned in the 2010 Interim Report, the continuous increase in prices of raw materials and energy, continuous 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 of our pharmaceutical business both decreased when compared with last year.

As mentioned above, the Company has taken the measure of price reduction for the health care products in order to reduce the inventories. Due to the downturn of the domestic market, the effect of the measure was not satisfactory and the sales volume of the health care products in this year amounted to only about HK$6,202,000.

In 2010, the electronic cigarettes business was still significantly affected by threat from counterfeit brands and regulatory restriction imposed on import of electronic cigarettes products in some overseas markets. Regulatory obstacles have precluded the Company from formally entering overseas markets including Australia, Singapore and Canada. Restrictions on the sales of nicotine-content products have temporarily restricted all sales of electronic cigarettes in United States, Israel etc. Additionally, the cheap and low-quality counterfeit products that have entered international markets in the past two years have had a drastic 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 has indirectly affected Company's reputation and sales as well.

The Group continued to pay effort in enforcing and protecting its proprietary rights in e-cigarette technology in 2010. During the year, a core RUYAN patent was approved in the United States, three patents were granted in Korea and two patents were granted in Israel. An additional design patent was granted in the United States. Significant litigations were initiated against suspected intellectual property infringers in the United States near the end of the year.

The management of the Company concentrated on capital restructuring exercises and fund raising activities to improve the working capital and financial position of the Group in 2010. Details of the capital restructuring exercises and fund raising activities during the year are summarized in the later part of this announcement. Prior to the capital restructuring exercises and fund raising activities, the Company was approximately HK$183,000,000 in debt. As at the date of this announcement, the Company is almost debt free and there is a surplus in net cash after the completion of the capital reorganisation (the "Capital Reorganisation") and rights issue (the "Rights Issue") in February 2011.

Securities Investment

As mentioned above, the Group has performed a series of fund raising activities and there is a surplus in net cash for working capital. The Group's balance sheet was significantly strengthened and this has paved the way for future strategic growth. Before appropriate investment opportunities were identified, the net cash surplus exceeded normal operating requirements. Accordingly, with the intention to achieve a return better than deposit rate, part of the surplus working capital was utilized for short term investments in the equity market as part of the Group's treasury function. However, as the equity market was rather unstable in 2010, the market value of the Group's securities portfolio has declined. The total realized and unrealized losses from trading securities investment trading for the year ended 31 December 2010 amounted to approximately HK$8,296,000 (2009: realized and unrealized gain of HK$668,000).

The Group will continue to invest a portion of its surplus working capital in equity market when the opportunities arise. However, it is anticipated that the securities market will remain volatile in the foreseeable future and accordingly the management will exercise caution and commit diversification strategy in conducting the Group's treasury function. Meanwhile, in order to improve its treasury operations, the Group is striving to make further improvements in the relevant policies and procedures particularly in the areas of risk management, control and monitoring.

Research and Development

The Company owns both the original invention patents for the electronic cigarette and the RUYAN brand trademark ("RUYAN") in various countries.

RUYAN began launching new core products in late 2010 – in particular, its disposable cigarette, and intended to regain market-share by offering affordable, practical solutions to adult smokers and to those who are affected by 2nd-hand smoke. In 2011 the Company will first ramp up its launch of disposable products and will then continue to expand its product portfolio to include all tiers of the market and will invest aggressively in R&D to build on mid-market and high-end products that appeal to various consumer segments. All of these efforts will be synchronized to reinforce Ruyan's brand position as a trend-setting safe smoking alternative that offers people freedom and choice. Products will be further customized to meet the needs of various markets and tastes.

Regional Development

During the year, further progress was made in market-entry and sales were in recorded in some 25 countries. Existing partnerships were further developed in North America, the United Kingdom and Ireland, Korea, Israel, and Turkey. At the same time, progress was made in sales and in regulatory and market planning with potential partners in the European Union, Russia, Japan, and elsewhere. A core RUYAN patent was approved in the United States, three patents were granted in Korea and two patents were granted in Israel. An additional design patent was granted in the United States during the year.

Progress in United States

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

In December 2010, the United States Court of Appeals ruled against The Food and Drug Administration's ("US FDA") previous classification of the electronic cigarettes as drug delivery devices, subject to regulation under the Food, Drug, and Cosmetic Act (FDCA). As a result, the e-cigarette will likely be regulated by the US FDA as a tobacco product under the Family Smoking Prevention and Tobacco Control Act of 2009. Not all of the regulatory and commercial implications of this turn of events have been settled. The Group will continue to work closely with regulatory authorities at the federal and state levels to comply with all regulations and to design products that help people.

In January 2011, Ruyan Investment (Holdings) Limited (the "Plaintiff"), a wholly-owned subsidiary of the Company, initiated a civil action for infringement of its patent, United States Patent No. 7,832,410 (the "410 Patent") against defendants incorporated in Florida and Nevada in the United States District Court of the Central District of California (the "US Court"). The Company is confident that it will prevail in this litigation and that its patent portfolio will provide broad patent coverage over the electronic cigarettes as more patents are granted from our core patent applications. The Company and its subsidiaries are launching the complaint against the defendants with a view to enforcing and protecting its proprietary rights in the e-cigarette technology.

Progress in Other Markets

During the year, RUYAN products have been test-marketed in several other key markets throughout Europe and Asia. Sales inroads and sampling have been conducted with customers in more locations. The Company treats quality and safety as its top concerns. With R&D on new products close to completion and with the maturity of its patent portfolio, 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 Group has supported partners in the United States, the United Kingdom, Korea, Israel, Turkey and other countries to defend patent and trademark positions in their respective countries. In response, our partners have taken appropriate actions to pursue patent infringements wherever possible. Additional legal support has been driven through government channels to reinforce RUYAN's position as the authentic and original manufacturer of the e-cigarette and related products. In PRC, strong actions are underway to stop illegal manufacturing and exports of copycat products. The Company has already won several patent infringement cases in PRC and the Group will pick up the pace and increase its investments in intellectual property protection in global markets exponentially.

LIQUIDITY, FINANCIAL ANALYSIS AND CAPITAL STRUCTURE

As at 31 December 2010, the Group's net borrowing was HK$9,136,000 (31 December 2009: HK$152,000,000), in which all of the borrowings represented the liability component of fixed convertible bonds and margin facilities utilised. Gearing ratio of the Group decreased from approximately 343.8% as at 31 December 2009 to approximately 12.53% as at 31 December 2010. This calculation is based on net borrowings mentioned above and shareholders fund of HK$72,890,000 (31 December 2009: HK$44,207,000). Cash and bank balances of approximately HK$11,681,000 (31 December 2009: HK$24,117,000) and total assets of approximately HK$129,210,000 (31 December 2009: HK$271,412,000). Net current assets of the Group on the same date amounted to approximately HK$19,799,000 (Net current liabilities as at 31 December 2009: HK$6,046,000). As at 31 December 2010, the balance of the inventories amounted to HK$35,378,000, representing a decrease of HK$63,899,000 when compared with the balance of that as at 31 December 2009.

As disclosed in the annual report of the Company for the year ended 31 December 2009, the Company recorded total borrowings of approximately HK$152,000,000 which represented the outstanding convertible bonds ("Convertible Bonds"). Such amount was originally due for redemption on 31 July 2010, but the default of partial payments due on 30 September 2009 and 31 December 2009 rendered the whole outstanding amount repayable on demand.

In February 2010, the Company received a conversion notice that the holder of the Convertible Bonds in a carrying amount of approximately HK$12,291,000 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 Bonds and improve the financial position of the Group, the Company has sought new funds through the various exercises during the year. In addition to fund raising exercises which were set out under "Management Discussion and Analysis – Liquidity, Financial Analysis and Capital Structure" section of the 2010 Interim Report, the following are details of another fund-raising activity conducted by the Group during the year:

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 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 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. After the completion of the Capital Reorganisation, the Company would 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 and Rights Issue were completed on 15 December 2010 and 28 January 2011 respectively and net proceeds of HK$390.65 million were raised and 1,847,245,240 adjusted shares have been issued.

The fund raising activities in the current year have not only provided the Group with the funds to repay the liability under the Convertible Bonds, but also placed the Company in a far stronger position to carry out 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 the requirements of present operation and further business development in the foreseeable future. Going forward, the Company will focus on its existing core business. The Company will seek to strengthen these businesses and to identify investment opportunities that will provide favorable recurring income and investment returns to the Company.

PROSPECTS FOR THE YEAR 2011 AND DEVELOPMENT PLAN

Electronic Cigarette

The Company is launching new marketing and initiates on several fronts. The marketing strategies of RUYAN products are evolving from a product oriented approach to a market oriented approach which will focus more on the appeal or social status the product provides.

The validation of the Company's intellectual property in the United States and elsewhere in recent years has enabled the Company to strengthen and expand its strategic partnerships around the globe. As disclosed in the announcement of the Company dated 13 January 2011 and 28 January 2011, the Group has initiated a civil action for infringement of its patents in United States. It is expected that similar civil actions will be initiated in other countries and investments in intellectual property protection will be ramped up significantly in 2011. The Company is confident that it will prevail in this litigation and gain market share as its proprietary rights in the e-cigarette technology are enforced and protected.

Pharmaceuticals and health care products

In respect of the pharmaceutical products, the Company will take active measures and seek other investment and development opportunities to overcome the unfavorable factors when faced with circumstances such as the continuous increase of price of raw materials and energy and the continuous price reduction by policy.

Although the market demand of health care products remains low for a short term, people will attach much more importance to genuine health products and its market potential will be tremendous due to the improvement in living standards. The management team plans to reform the production plants of the health care products in 2011 so that the business of health care products will soon return to the level as in previous years.

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 Group 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 year ended 31 December 2010.

CHARGE OF ASSETS

As at 31 December 2010, the Group had no bank deposits pledged to banks to secure banking facilities granted to its subsidiaries (2009: nil).

PLEDGE OF ASSETS

The Group had entered into a loan agreement under which substantially all of the Group's assets have been pledged to secure the loan facilities. As at 31 December 2010, the loan was fully repaid and no loan facilities was utilized.

At 31 December 2010, margin facilities from regulated securities brokers were granted to the Group which were secured by the Group's financial assets at fair value through profit or loss of approximately HK$4,809,000 (2009: NIL). The carrying amount of the financial assets at fair value through profit or loss charged under the utilised facilities to the securities broker was HK$11,113,000 (2009: NIL).

CONTINGENT LIABILITIES

As at 31 December 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.

AUDIT COMMITTEE

The audit committee of the Company and the management of the Company have reviewed the accounting principals and practices adopted by the Group and have discussed the matters related to auditing, financial reporting procedures and internal control, including the review of the final results of the Group for the year ended 31 December 2010.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") set out in the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and has complied with the CG Code during the year ended 31 December 2010, save for the following deviations:

(i) the independent non-executive Directors were not appointed for specific terms as required by paragraph A.4.1. of the CG Code but they are subject to the retirement by rotation in accordance with the articles of association of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. After making specific enquiries with the Directors, the Company has received the confirmations from each of the Directors confirming that he or she has complied with the required standard of dealings set out in the Model Code for the year ended 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year ended 31 December 2010, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 31 December 2010.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.dragonite.com.hk. The 2010 annual report will be dispatched to shareholders of the Company and available on the above websites in due course.

By order of the Board
Dragonite International Limited
Ching Yuen Man, Angela
Executive Director

Hong Kong, 29 March 2011

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors
Mr. Wong Yin Sen
Mr. Hon Lik
Mr. Wong Hei Lin
Ms. Ching Yuen Man, Angela
Mr. Au Yeung Kai Chor

Non-executive Directors
Mr. Frank H. Miu
Mr. Manfred A. Häussler

Independent non-executive Directors
Mr. Pang Hong
Mr. Chung Yuk Lun
Mr. Liu Kwong Sang
Mr. Lam Man Sum, Albert