Dragonite International Limited
叁龍國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 329)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The board of directors (the "Board") of Dragonite International Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 (the "Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

	NOTES	**(unaudited) Six months ended** **30.6.2011** **HK$'000**	*30.6.2010* *HK$'000*
Turnover	4	**(33,868)**	14,708
Cost of sales		**(34,024)**	(54,896)
Gross loss		**(67,892)**	(40,188)
Other income		**1,791**	2,771
Distribution cost		**(333)**	(29,279)
Administrative and other expenses		**(29,599)**	(64,703)
Change in fair value of derivative financial instruments		**377**	(410)
Net unrealised loss on financial assets at fair value through profit or loss		**(70,511)**	(7,059)
Gain on disposal of subsidiaries		**—**	21,903
Finance costs		**(661)**	(17,441)
Loss before tax		**(166,828)**	(134,406)
Income tax expense	5	**(32)**	(247)
Loss for the period	6	**(166,860)**	(134,653)
Other comprehensive income			
Exchange differences on translation		**4,318**	1,292
Total comprehensive loss for the period		**(162,542)**	(133,361)
			(Restated)
Loss per share			
Basic	8	**HK$(0.10)**	HK$(0.46)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011

	NOTES	**(unaudited)** ***30.6.2011*** ***HK$'000***	(audited) *31.12.2010* *HK$'000*
Non-current assets			
Property, plant and equipment		**31,441**	30,413
Goodwill		**15,752**	—
Deposit paid for acquisition	11	**11,700**	—
Financial assets designated at fair value through profit or loss		**—**	20,000
Prepaid lease payments		**2,709**	2,678
		61,602	53,091
Current assets			
Inventories		**11,267**	35,378
Trade receivables	9	**4,949**	5,082
Deposits, prepayment and other receivables		**8,450**	5,736
Tax recoverable		**3,125**	2,600
Prepaid lease payments		**79**	79
Financial assets at fair value through profit or loss		**257,759**	11,113
Financial assets designated at fair value through profit or loss		**—**	4,450
Bank balances and cash		**26,582**	11,681
		312,211	76,119
Current liabilities			
Trade payables	10	**5,437**	4,647
Accruals and other payables		**39,384**	41,269
Derivative financial instruments		**—**	377
Borrowings		**1,558**	5,000
Convertible bonds		**4,469**	4,136
Taxation payable		**804**	891
		51,652	56,320
Net current assets		**260,559**	19,799
Total assets less current liabilities		**322,161**	72,890
Capital and reserves			
Share capital		**196,731**	9,236
Reserves		**125,430**	63,654
		322,161	72,890

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Share capital	Share premium account	Shareholders' contribution	Translation reserve	Non-distributable reserves	Share option reserve	Merger reserves	Special reserves	Accumulated losses	Total equity attributable to owners
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note a)		*(note b)*		*(note c)*	*(note d)*		
At 1 January 2010 (audited)	151,336	1,182,410	21,780	86,873	24,737	9,612	(1,016,738)	3,142	(418,945)	44,207
Loss for the period	—	—	—	—	—	—	—	—	(134,653)	(134,653)
Exchange differences on translation	—	—	—	1,292	—	—	—	—	—	1,292
Total comprehensive loss for the period	—	—	—	1,292	—	—	—	—	(134,653)	(133,361)
Issue of new shares	33,272	—	—	—	—	—	—	—	—	33,272
Issue of new shares upon conversion of convertible bonds	71,891	10,400	—	—	—	—	—	—	—	82,291
Recognition of equity-settled share-based payments	—	—	—	—	—	12,276	—	—	—	12,276
Issue of new shares upon exercise of share options	29,770	26,582	—	—	—	(11,984)	—	—	—	44,368
Issue of new shares upon rights issue	83,180	—	—	—	—	—	—	—	—	83,180
Disposal of a subsidiary	—	—	—	(368)	—	—	—	—	—	(368)
At 30 June 2010 (unaudited)	369,449	1,219,392	21,780	87,797	24,737	9,904	(1,016,738)	3,142	(553,598)	165,865
At 1 January 2011 (audited)	9,236	1,219,392	21,780	93,224	24,737	10,180	(1,016,738)	3,142	(292,063)	72,890
Loss for the period	—	—	—	—	—	—	—	—	(166,860)	(166,860)
Exchange differences on translation	—	—	—	4,318	—	—	—	—	—	4,318
Total comprehensive loss for the period	—	—	—	4,318	—	—	—	—	(166,860)	(162,542)
Issue of new shares upon right issues	184,725	221,669	—	—	—	—	—	—	—	406,394
Issue of shares upon subscription	1,847	1,109	—	—	—	—	—	—	—	2,956
Issue of shares upon exercise of share options	923	1,540	—	—	—	(783)	—	—	—	1,680
Recognition of equity settled share-based payments	—	—	—	—	—	783	—	—	—	783
At 30 June 2011 (unaudited)	**196,731**	**1,443,710**	**21,780**	**97,542**	**24,737**	**10,180**	**(1,016,738)**	**3,142**	**(458,923)**	**322,161**

Notes:

(a) Shareholders' contribution represents the amounts contributed by shareholders of Ruyan Investment (Holdings) Limited ("RIHL"), formerly known as SBT Investment (Holdings) Limited.

(b) The non-distributable reserve represents statutory reserves appropriated from profit after tax of the Company's subsidiary in the People's Republic of China (the "PRC") under the PRC laws and regulations.

(c) The special reserve of the Group represents reserve arising pursuant to group reorganisation on the basis that the group reorganisation had been affected on 1 January 2010.

(d) The merger reserve represents (i) the share capital of RIHL (ii) the carrying amount of equity interest in RIHL held by the non-controlling parties; and (iii) the fair value of the consideration paid for acquisition of RIHL.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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 Company acts as an investment holding company. Its subsidiaries are principally engaged in securities trading and investment, 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 purpose of presenting the condensed 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.

(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 financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements for the Period are consistent with those followed in the preparation of the Group's annual financial statement for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments or interpretations, ("new and revised HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have effective for the Group's financial year beginning on 1 January 2011.

HKAS 24 (Revised 2009)	Related party disclosure
HKAS 32 (Amendments)	Classification of rights issues
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010

The application of the above new or revised HKFRSs on the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards has been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issurance and are not yet effective:

HKFRS 7	Disclosures - Transfers of financial assets[1]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12 (Amendment)	Disclosures of interest in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[3]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
HKAS 19 (Revised in 2011)	Employee benefits[2]
HKAS 27 (Revised in 2011)	Separate financial statements[2]
HKAS 28 (Revised in 2011)	Investments in associates and joint ventures[2]

[1] Effective for accounting periods beginning on or after 1 July 2011.

[2] Effective for accounting periods beginning on or after 1 January 2013.

[3] Effective for accounting periods beginning on or after 1 July 2012.

[4] Effective for accounting periods beginning on or after 1 January 2012.

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

(4) SEGMENTAL INFORMATION

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions towards the Group's operations. During the Period, securities trading and investment has become a substantial operating activity to the Group, therefore it is reported in a new reportable segment. Figures in the segmental information for the period ended 30 June 2010 have been restated for comparative purposes only.

The Group's operating and reportable segments under HKFRS 8 are as follows:

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

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

(c) Ruyan atomizing cigarettes

(d) Securities trading and investments

The following is an analysis of the Group's turnover and results by operating and reportable segments for the Period:

For six months ended 30 June 2011

	Health care products *HK$'000*	**Pharmaceutical products** *HK$'000*	**Ruyan atomizing cigarettes** *HK$'000*	**Securities trading and investments** *HK$'000*	**Total** *HK$'000*
Segment turnover					
Sales of Goods	25	5,242	874	—	6,141
Net gain / (loss) from the sales of financial assets at fair value through profit or loss	—	—	—	(40,009)	(40,009)
	25	5,242	874	(40,009)	(33,868)
Segment result	(6,746)	(12,752)	(8,385)	(110,520)	(138,403)
Other income					1,791
Unallocated corporate expenses					(29,932)
Change in fair value of derivative financial instruments					377
Finance costs					(661)
Loss before tax					(166,828)

For six months ended 30 June 2010

	Health care products *HK$'000*	**Pharmaceutical products** *HK$'000*	**Ruyan atomizing cigarettes** *HK$'000*	**Securities trading and investments** *HK$'000*	**Total** *HK$'000*
Segment turnover					
Sales of Goods	5,982	12,937	(4,343)	—	14,576
Net gain / (loss) from the sales of financial assets at fair value through profit or loss	—	—	—	132	132
	5,982	12,937	(4,343)	132	14,708
Segment result	(60,857)	(1,023)	(6,903)	(6,927)	(75,710)
Other income					2,771
Unallocated corporate expenses					(43,616)
Change in fair value of derivative financial instruments					(410)
Finance costs					(17,441)
Loss before tax					(134,406)

Segment loss 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, share-based payment expenses and finance costs. 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	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
Income Tax in the PRC	**32**	247

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	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
Loss for the period has been arrived at after charging (crediting):		
Advertising expenses	**1,858**	15,857
Allowance for obsolete inventories (included in cost of sales)	**27,762**	41,114
Amortisation of intangible assets (included in cost of sales)	**—**	480
Amortisation of prepaid lease payments	**48**	270
Depreciation of property, plant and equipment	**2,545**	5,472
Staff costs (including directors' emoluments and share-based payment expenses)	**7,366**	5,069
Interest income	**—**	(33)

(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	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share attributable to the owners of the Company	**(166,860)**	(134,653)

	Six months ended	
	30.6.2011	30.6.2010
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,744,790**	293,732

No diluted loss per share has been presented for the six months ended 30 June 2011 and 2010 because the assumed conversion of the convertible bonds and the share options are anti-dilutive.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted loss per shares for the six months ended 30 June 2011 and 2010 have been adjusted to reflect the impacts of the rights issue, exercise of share options and share subscription during the Period.

(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.

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
0 - 60 days	**2,158**	822
61 - 90 days	**658**	1,361
91 - 180 days	**572**	2,899
181 - 270 days	**1,561**	—
	4,949	5,082

(10) TRADE PAYABLES

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

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
0 - 30 days	**—**	51
31 - 60 days	**112**	—
61 - 90 days	**151**	—
Over 90 days but less than 1 year	**119**	517
Over 1 year	**5,055**	4,079
	5,437	4,647

(11) EVENTS AFTER THE REPORTING PERIOD

On 4 August 2011, 750,000,000 shares of the Company have been successfully placed to independent third parties at HK$0.10 per share (the "Placing"). The net proceeds of approximately HK$73,000,000 was intended to be used as general working capital and/or allocated for the Group's future investments, including the acquisition of Central Town Limited. At the completion date of the Placing, the closing market price of the Company's shares was HK$0.145 per share.

Subsequent to the end of the reporting period, the Group completed the acquisition of the entire equity interest in and the shareholder's loan extended to Central Town Limited for a cash consideration of HK$117,000,000 in August 2011. Central Town Limited and its subsidiaries are principally engaged in property investment in Hong Kong. A deposit of HK$11,700,000 was paid for the acquisition in May 2011. Details of the acquisition are set out in the Group's circular dated 20 June 2011.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the Period (six months ended 30 June 2010: HK$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND MARKET CONDITIONS

The Group recorded an unaudited consolidated net loss of approximately HK$166,860,000 for the Period (six months ended 30 June 2010: net loss of approximately HK$134,653,000). Turnover for the Period was a negative amount of approximately HK$33,868,000, representing a decrease of 330.27% from approximately HK$14,708,000 for the corresponding period of last year. The loss and significant decrease in turnover were mainly attributable to the following factors:

1. The net loss of approximately HK$40,009,000 arising from the disposal of financial assets was recorded as turnover for the Period. As the market value of the Group's securities portfolio had declined, the net realized and unrealized losses in financial assets at fair value through profit or loss for the Period amounted to approximately HK$110,520,000 (six months ended 30 June 2010: HK$6,927,000).

2. The sales of electronic cigarettes products were very minimal during the Period as the Group has been revamping its products. In the first six months of 2011, the Group strived to revamp its products so as to expand its product portfolio to include all tiers of the market in the second half of 2011. Turnover from electronic cigarettes amounted to approximately HK$874,000 for the Period (six months ended 30 June 2010: a negative amount of HK$4,343,000).

3. Due to technical or commercial obsolescence, a provision for impairment of inventory at about HK$27,762,000 was made for the Period.

4. Sales and production of health care products had been temporarily suspended during the Period.

As for the pharmaceutical business, Azithromycin Granules (II)(「阿奇霉素顆粒(II)」) and Rosiglitazone Hydrochloride Capsules (「鹽酸吡格列酮膠囊」) remained as two key products of the Group for the sales during the Period. The continued increase in prices of raw materials and energy, continued strategic price reduction of medicine and irrational price competition caused by tendering have adversely affected operations. Turnover of pharmaceutical products for the Period was approximately HK$5,242,000, representing a decrease of 59.48% from approximately HK$12,937,000 as compared to the corresponding period in 2010.

In the first six months of 2011, the Group focused on developing the electronic cigarette business through new product innovation. The Group paid much attention to research and development of new products and plans to launch new products in the PRC prior to overseas markets.

The Group continued to enforce and protect its proprietary rights in e-cigarette technology during the Period. Significant litigation was initiated against suspected intellectual property infringers in the United States. The Group is continuing litigation and is confident it will prevail. Design patent for e-cigars was filed on 20 July 2011 in the PRC. It is expected that more core patents will be filed by the Group.

Trading of Securities

Since 2011, the Group has been expanding its principal business in securities trading. During the Period, part of the surplus working capital was utilized for short term investments in the securities market. However, the development in the sovereign debt crisis in Europe causes an adverse impact on the global market. As the market value of the Group's securities portfolio had declined, the net realized and unrealized losses from securities trading for the Period amounted to approximately HK$110,520,000 (six months ended 30 June 2010: HK$6,927,000).

The Group will continue to expand and diversify its investment portfolio when the opportunities arise. In view of continuing worries over the euro zone debt crisis in addition to a gloomy forecast on global growth, the management of the Company will adopt a cautious approach in securities trading.

Property Investment

In view of the surge of the real estate price in the recent years, the Company holds a positive view towards the prospects of real estate market in Hong Kong, particularly the commercial and retail real estates and the Board believes that the investment in real estate market is a good strategic plan. The Group therefore entered into a sale and purchase agreement on 4 May 2011 to acquire the entire issued share capital of Central Town Limited for the interests in the property situated at the Basement, China United Centre, 28 Marble Road, North Point, Hong Kong.

Research & Development - New Product Launch

Ruyan's research and development team recently achieved a major technical breakthrough advancing the vapor yield of the electronic cigarette. The new technology will be implemented in 9 newly designed electronic cigarette models across three new product lines to be launched in the second half of 2011. In addition, the Company has greatly improved the taste and quality of its electronic cigarettes.

The Company held a trade conference in Beijing in early August 2011 for prospective new PRC distributors to introduce its new lines of electronic cigarettes. The conference was well-attended by distributors from all regions across the PRC. The responses from the distributors were very positive and various letters of intent were received.

The Company considers quality and safety as its top concerns. Backed by its extensive research and development investment program, technical innovation and quality control, and together with the maturity of its patent portfolio, the Company is confident it will succeed in driving out inferior product imitations in global markets in the near future. These efforts will be synchronized to reinforce Ruyan's brand position as a high-end, trend-setting, and safe smoking alternative that offers consumers freedom and choice.

Intellectual Property

The Company has an extensive portfolio of issued patents for the electronic cigarettes and additional pending patent applications that continue to issue in many key markets. The Company is also in the process of filing national phase applications for a core patent (" Improved Atomizing Electronic Cigarette" - PCT/CN2010/000125) in countries including the United States, Canada, Japan, Brazil, Egypt, Israel, and Singapore. The Company also recently applied for a patent on a novel capacitive sensor, which is an internal component of certain electronic cigarettes. With its existing portfolio and the successful grant of these new patents, the Company believes its intellectual property rights will offer broad protection for its innovative electronic cigarettes.

During the Period, the Company's wholly-owned subsidiary, Ruyan Investment (Holdings) Limited, has initiated civil actions for infringement of US Patent No. 7,832,410 against a total of 11 defendants in the United States District Court of the Central District of California ("US Court"). The US Court has already entered a Notice of Default in regard to two of the defendants and ruled against a Motion to Dismiss by a third. The Company believes the 11 defendants include the largest electronic cigarette companies in the United States and is confident it will prevail in these litigations.

Progress in Overseas Markets

Patents were granted in Canada, Japan, and Malaysia during the first half of 2011. The Company is expanding distribution of electronic cigarettes in many overseas markets. The Company has been approached by new prospective distributors and is also pursuing new innovative distribution channels in certain markets. New orders have been received from several European countries for its new lines and product testing is underway in the United Kingdom, Greece, Netherlands, Malaysia, and other markets.

LIQUIDITY, FINANCIAL ANALYSIS AND CAPITAL STRUCTURE

As at 30 June 2011, the Group's net borrowing was approximately HK$6,027,000 (31 December 2010:HK$9,136,000), in which all of the borrowings represented the liability component of convertible bonds and unsecured bank borrowings. Gearing ratio of the Group decreased from approximately 12.53% as at 31 December 2010 to approximately 1.87% as at 30 June 2011. This calculation is based on net borrowings mentioned above and shareholders fund of approximately HK$322,161,000 (31 December 2010: HK$72,890,000). Cash and bank balances amounted to approximately HK$26,582,000 (31 December 2010: HK$11,681,000) and total assets was approximately HK$373,813,000 (31 December 2010: HK$129,210,000). Net current assets of the

Group on the same date amounted to approximately HK$260,559,000 (31 December 2010: HK$19,799,000). As at 30 June 2011, the inventories amounted to approximately HK$11,267,000, representing a decrease of approximately HK$24,111,000 when compared with the amount as at 31 December 2010. The Group had no material capital commitment as at 30 June 2011.

In order to improve the financial position of the Group, the Company had the following fund raising exercises during the Period:

1) Subsequent to the capital reorganization in 2010 which involved, among other things, share consolidation and capital reduction, the Company allotted and issued 1,847,245,240 shares on 28 January 2011, by way of right issue at a subscription price of HK$ 0.22 per rights share on the basis of twenty rights shares for every share held on 7 January 2011. Net proceeds of approximately HK$390,650,000 was raised.

2) On 30 March 2011, an independent investor subscribed for 18,470,000 shares of the Company which was issued under general mandate at the subscription price of HK$0.16 per share. The share subscription was completed on 12 April 2011 and the Company received a net proceeds of approximately HK$2,856,000.

The above fund raising activities strengthened the financial position of the Company and broadened its capital base. The Company has fully utilized such proceeds. As at 30 June 2011, the issued share capital of the Company was 1,967,307,502 shares of HK0.10 each.

FOREIGN EXCHANGE RISKS

The Group's operations conducted in the PRC are mainly settled in Renminbi. However, certain corporate activities (i.e. rights issue and subscription of new shares) are conducted in Hong Kong dollars. Therefore, the Group is exposed to fluctuations in foreign exchange rate to a certain extent. Operating cash flow or liquidity of the Group is not subject to any exchange rate fluctuations. Currently, the Group has no formal hedging policies in place. The Group has not entered into any foreign currency exchange contracts or derivatives to hedge against the Group's currency risks.

PROSPECTS FOR THE YEAR 2011 AND DEVELOPMENT PLAN

Electronic Cigarette

The Company will continue to accelerate its marketing efforts. The marketing strategy of RUYAN products will evolve from a product oriented approach, which primarily focused on the product itself, to a 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. As disclosed in the announcement of the Company dated 13 January 2011, 28 January 2011 and 1 August 2011, the Group has initiated civil actions for infringement of its patents in the 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 and beyond. The Company is confident that it will prevail in this litigation and regain market share in the electronic cigarette business once its proprietary rights are enforced and protected.

Market conditions have changed from previous years. As the objectives of anti-smoking and tobacco control are now clearly stated in the "12th Five Year Plan" in the PRC, we are increasingly optimistic about our future development and the industry. 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 research and development, intellectual property, marketing strategies and regulatory work in concert, the market demand for RUYAN products will grow rapidly in the near future.

Pharmaceuticals and health care products

The Board anticipates that our pharmaceuticals and health care products will recover from the recent market adjustment in the PRC. The sales and production of health care products have been temporarily suspended in order to upgrade our production plants for improving the sanitary standards and product quality. In future, the Group will seize every opportunity to diversify its line of ginseng products and other non-traditional health care products.

DETAILS OF MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Period under review, Ruyan International Limited, a wholly-owned subsidiary of the Company, acquired the entire interest in Charm Action Group Limited and its subsidiary ("Charm Action Group") from an independent third party at a cash consideration of HK$10,000,000. The acquisition was duly completed on 21 February 2011. This was for the future market development of e-cigarette in North America.

On 4 May 2011, the Company through a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to acquire the entire issued share capital of and the related shareholder's loan extended to Central Town Limited for the property situated at the Basement, China United Centre, 28 Marble Road, North Point, Hong Kong at an aggregate consideration of HK$117,000,000. In August 2011, completion was taken place and a portion (approximately 9,747 square feet) of the premises has been leased to HON Chinese Medicine Company Limited (the "Clinic") at the rate of HK$350,000 per month for 5 years, which will provide a steady income stream for the Group. Upon completion, the Group has entered into an option agreement for the possible acquisition of Apex Corporation Investments Limited ("Apex"), the holding company of the Clinic. The pre-agreed exercise price of such option is capped at HK$75 million and the minimum is HK$25 million. The Group has no obligations to make further investments into Apex. However, if and when the Group acquires Apex, the Company will keep itself appraised of any future fund raising opportunities for developing Apex and the Clinic.

Save as disclosed herein this announcement, there were no significant investments held, and material acquisitions or disposals of subsidiaries and associated companies during the Period.

CHARGE OF ASSETS

As at 30 June 2011, the Group had no bank deposits pledged to banks to secure banking facilities granted to its subsidiaries (31 December 2010: nil).

PLEDGE OF ASSETS

At 30 June 2011, margin facilities of approximately HK$ 122,729,000 (31 December 2010: HK$4,809,000) 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 with the carrying amount of approximately HK$257,759,000 (31 December 2010: HK$11,113,000).

CONTINGENT LIABILITIES

As at 30 June 2011, the Group did not provide any form of guarantees for any external party and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EMPLOYEE POLICY

As at 30 June 2011, the Group employed a total of about 216 employees in the PRC and Hong Kong.

The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group. In addition, discretionary bonus will be paid to staff based on individual and the Group's performance.

The Group will further establish its own corporate culture, strengthen staff training and implement the appraisal system.

DISCLOSURE OF OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

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 Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the Period, with deviation from A.4.1 of the Code as summaries below.

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term and be subject to re-election. The non-executive directors of the Company are not appointed for a specific term of office, which constitutes a deviation from A.4.1 of the Code. However, all non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in 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 Period.

AUDIT COMMITTEE

The interim financial results for the Period have been reviewed by the audit committee of the Company. The audit committee comprises four independent non-executive directors of the Company, namely Mr. Chung Yuk Lun, Mr. Lam Man Sum, Albert, Mr. Liu Kwong Sang and Mr. Pang Hong.

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 website at www.dragonite.com.hk. The 2011 interim report 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 despatched to the shareholders of the Company in due course.

APPRECIATION

The Board would like to express our gratitude and sincere appreciation to our business partners, all management and staff members, and shareholders for their continuous support.

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

Hong Kong, 26 August 2011

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

Executive Directors
Mr. Wong Yin Sen *(Chairman)*
Mr. Au Yeung Kai Chor
Ms. Chan Mee Sze
Ms. Ching Yuen Man, Angela
Mr. Hon Lik
Mr. Lam Suk Ping

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