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 2012

The board of directors (the "Board") of Dragonite International Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012 (the "Period") together with the comparative figures for 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	Six months ended 30.6.2012 HK$'000 (unaudited)	30.6.2011 HK$'000 (unaudited)
Turnover			
Sales of goods		**9,755**	6,141
Less: Cost of goods sold		**(5,936)**	(34,024)
		3,819	(27,883)
Change in fair value of financial assets at fair value through profit or loss		**(16,578)**	(110,520)
Rental income		**2,220**	—
		(10,539)	(138,403)
Other income		**1,352**	1,791
Other gains and losses		**(10,674)**	377
Distribution cost		**(3,404)**	(333)
Administrative expenses		**(28,679)**	(29,599)
Other expenses		**(3,430)**	—
Finance costs		**(824)**	(661)
Loss before tax		**(56,198)**	(166,828)
Income tax expense	5	**(188)**	(32)
Loss for the period	6	**(56,386)**	(166,860)
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**(136)**	4,318
Total comprehensive expense for the period		**(56,522)**	(162,542)
			(Restated)
Loss per share			
Basic and diluted	8	**HK$(5.65) cents**	HK$(38.19) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**30.6.2012**	31.12.2011
		HK$'000	*HK$'000*
		(unaudited)	*(audited)*
Non-current assets			
Property, plant and equipment		**23,087**	25,799
Investment property		**145,000**	145,000
Financial assets at fair value through profit or loss		**10,410**	9,730
Prepaid lease payments		**2,664**	2,690
		181,161	183,219
Current assets			
Inventories		**10,275**	8,487
Trade receivables	9	**1,963**	4,184
Deposits, prepayment and other receivables		**6,554**	6,878
Tax recoverable		**—**	1,579
Prepaid lease payments		**82**	82
Financial assets at fair value through profit or loss		**119,514**	114,924
Bank balances and cash		**68,046**	55,970
		206,434	192,104
Current liabilities			
Trade payables	10	**6,731**	6,272
Accruals and other payables		**31,226**	33,665
Derivative financial instruments		**16,363**	5,689
Borrowings		**26,516**	92,342
Taxation payable		**1,015**	1,503
		81,851	139,471
Net current assets		**124,583**	52,633
NET ASSETS		**305,744**	235,852
Capital and reserves			
Share capital		**19,565**	271,731
Reserves		**286,179**	(35,879)
TOTAL EQUITY		**305,744**	235,852

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital HK$'000	Share premium account HK$'000	Shareholders' contribution HK$'000 (note a)	Translation reserve HK$'000	Non-distributable reserves HK$'000 (note b)	Share option reserve HK$'000	Merger reserves HK$'000 (note c)	Special reserves HK$'000 (note d)	Retained earnings (accumulated losses) HK$'000	Total equity attributable to owners HK$'000
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)
Other comprehensive income for the period	—	—	—	4,318	—	—	—	—	—	4,318
Total comprehensive income for the period	—	—	—	4,318	—	—	—	—	(166,860)	(162,542)
Issue of new shares upon right issues	184,725	230,699	—	—	—	—	—	—	—	415,424
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
Transactions costs attributable to issue of shares	—	(9,030)	—	—	—	—	—	—	—	(9,030)
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
At 1 January 2012 (audited)	271,731	1,433,173	21,780	93,991	24,737	8,716	(1,016,738)	3,142	(604,680)	235,852
Loss for the period	—	—	—	—	—	—	—	—	(56,386)	(56,386)
Other comprehensive income for the period	—	—	—	(136)	—	—	—	—	—	(136)
Total comprehensive income for the period	—	—	—	(136)	—	—	—	—	(56,386)	(56,522)
Capital Reorganisation	(266,296)	(1,433,173)	—	—	—	—	—	—	1,699,469	—
Issue of shares upon rights issue	10,869	97,823	—	—	—	—	—	—	—	108,692
Issue of shares upon placing	3,261	18,260	—	—	—	—	—	—	—	21,521
Transaction costs attributable to issue of shares	—	(3,799)	—	—	—	—	—	—	—	(3,799)
At 30 June 2012 (unaudited)	19,565	112,284	21,780	93,855	24,737	8,716	(1,016,738)	3,142	1,038,403	305,744

Notes:

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

(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 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.

(d) 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 2000.

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 production and sales of a series of health care products, pharmaceutical products and Ruyan atomizing cigarettes, securities trading and investments and property investments in Hong Kong.

In prior six months period ended 30 June 2011, the Company's functional currency was Renminbi ("RMB"). During the year ended 31 December 2011, the directors had re-evaluated the underlying investment activities and strategy of the Company and have determined that the functional currency of the Company changed from RMB to Hong Kong dollars ("HKD").

For the purposes of presenting the condensed consolidated financial statements, the Group adopted HKD as its presentation currency for the convenience of the readers. The directors consider HKD 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 on the historical cost basis except for certain property and financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2012 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2011.

In the current period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the Group's financial year beginning on 1 January 2012.

HKAS 12 (Amendments)	Deferred tax - Recovery of underlying assets
HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets

The application of amendments to HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

(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 second half of the year ended 31 December 2011, the Group acquired Central Town Limited which includes a subsidiary principally engaged in property investment in Hong Kong. Thus, the executive directors consider property investment in Hong Kong is another new reportable and operating segment upon the acquisition.

The Group's operating and reportable segments under HKFRS 8 are therefore 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

(e) property investment in Hong Kong

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

For six months ended 30 June 2012

	Health care products *HK$'000*	**Pharmaceutical products** *HK$'000*	**Ruyan atomizing cigarettes** *HK$'000*	**Securities trading and investments** *HK$'000*	**Property investment in Hong Kong** *HK$'000*	**Consolidated** *HK$'000*
Segment turnover						
Sales of goods	—	8,891	864	—	—	9,755
Change in fair value of financial assets at fair value through profit or loss	—	—	—	(16,578)	—	(16,578)
Rental income	—	—	—	—	2,220	2,220
	—	8,891	864	(16,578)	2,220	(4,603)
Segment (loss) profit	(2,833)	(581)	(7,520)	(16,580)	1,268	(26,246)
Other income						1,352
Change in fair value of derivative financial instruments						(10,674)
Unallocated corporate expenses						(19,806)
Finance costs						(824)
Loss before taxation						(56,198)

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*	Consolidated *HK$'000*
Segment turnover					
Sales of goods	25	5,242	874	—	6,141
Change in fair value of financial assets at fair value through profit or loss	—	—	—	(110,520)	(110,520)
	25	5,242	874	(110,520)	(104,379)
Segment loss	(7,924)	(14,324)	(13,627)	(110,520)	(146,395)
Other income					1,791
Change in fair value of derivative financial instruments					377
Unallocated corporate expenses					(21,940)
Finance costs					(661)
Loss before taxation					(166,828)

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 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	
	30.6.2012	30.6.2011
	HK$'000	*HK$'000*
Income Tax in the PRC	**188**	32

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 30.6.2012 HK$'000	Six months ended 30.6.2011 HK$'000
Loss for the period has been arrived at after charging (crediting):		
Allowance for obsolete inventories (included in cost of sales)	**458**	27,762
Amortisation of prepaid lease payments	**48**	48
Change in fair value of derivative financial instruments (included in other gains and losses)	**10,674**	(377)
Depreciation of property, plant and equipment	**2,904**	2,545
Staff costs (including directors' emoluments and share-based payment expenses)	**8,879**	7,366
Allowance for bad and doubtful debts, net (included in other expenses)	**1,842**	—
Written off of tax recoverable (included in other expenses)	**1,588**	—
Interest income	**(10)**	—

(7) DIVIDEND

No dividends were paid, declared or proposed during both periods.

(8) LOSS PER SHARE

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

	Six months ended 30.6.2012 HK$'000	Six months ended 30.6.2011 HK$'000
Loss for the purpose of basic and diluted earnings per share (loss for the period attributable to the owners of the Company)	**(56,386)**	(166,860)

	Six months ended 30.6.2012 '000	Six months ended 30.6.2011 '000 (Restated)
Weighted average number of ordinary shares for the purpose of basic loss per share	**997,174**	436,895

The computation of diluted loss per share does not assume the conversion of the Company's share options since the assumed conversion would result in a decrease in loss per share.

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 2012 has been adjusted to reflect the impact of capital reorganisation and rights issue during the six months ended 30 June 2012. Comparative figure for the six months ended 30 June 2011 has been restated accordingly.

(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 at the end of the reporting period.

	30.6.2012	31.12.2011
	HK$'000	HK$'000
0 - 60 days	**1,071**	1,258
61 - 90 days	**163**	42
91 - 180 days	**627**	2,884
181 - 270 days	**102**	—
	1,963	4,184

(10) TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on invoice date at the end of the reporting period.

	30.6.2012	31.12.2011
	HK$'000	HK$'000
0 - 30 days	**252**	51
31 - 60 days	**708**	1,006
61 - 90 days	**40**	65
Over 90 days but less than 1 year	**1,351**	1,226
Over 1 year	**4,380**	3,924
	6,731	6,272

(11) EVENTS AFTER THE REPORTING PERIOD

On 9 July 2012, the Company offered to grant an aggregate of 163,038,450 share options to subscribe for the ordinary shares in the capital of the Company at an exercise price of HK$0.07 each. The grantee exercised all the share options on 13 July 2012 subsequently.

At the extraordinary general meeting held on 6 August 2012, the shareholders of the Company approved the proposed capital reorganisation which involved (i) share consolidation on the basis that every 20 issued shares of par value of HK$0.01 each will be consolidated into 1 consolidated share of par value of HK$0.20 each; (ii) the nominal amount of each issued consolidated share will be reduced from par value of HK$0.20 each to par value of HK$0.01 each and the total number of consolidated shares in the issued share capital of the Company will be rounded down to a whole number; and (iii) the credit arising from the capital reduction will be applied to set-off the accumulated deficit of the Company and the balance (if any) will be transferred to a distributable reserve account of the Company. Upon the approval by the Grand Court of the Cayman Islands, it is expected that the proposed capital reorganisation will become effective after 4:00 p.m. on 31 October 2012.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the Period (six months ended 30 June 2011: HK$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded an unaudited consolidated net loss of approximately HK$56,386,000 for the Period (six months ended 30 June 2011: approximately HK$ 166,860,000). Due to the realized and unrealized losses on financial assets at fair value through profit or loss ("FAFVPL"), there was a negative turnover of approximately HK$10,539,000 for the Period (six months ended 30 June 2011: negative turnover of approximately HK$138,403,000).

Loss for the Period was mainly attributable to the following factors:

1. As a result of weak global growth and overall downturn of the securities market during the Period, the Group recorded the net realized and unrealized losses of approximately HK$16,578,000 (six months ended 30 June 2011: net loss of approximately HK$110,520,000) on change in fair value of FAFVPL in the income statement.

2. The sales of electronic cigarette products were low during the first half of 2012 as the Group had been adjusting its products mix after launching its new product lines in PRC market by the fall of 2011.

3. Due to the change in fair value of derivative financial instruments, a loss of approximately HK$10,674,000 was recorded (six months ended 30 June 2011: a profit of approximately HK$377,000).

Health Care Products

As planned, the Group carried out renovation work in the first half of 2012 to upgrade its manufacturing facilities to meet the latest GMP standard. Operation for manufacturing of health care products is expected to resume in the second half of 2012.

Pharmaceutical Products

Azithromycin Granules (II) (「阿奇霉素顆粒 (II)」) and Rosiglitazone Hydrochloride Capsules (「鹽酸吡格列酮膠囊」) remained the two key products of the Group during the Period. Turnover of pharmaceutical products for the Period was approximately HK$8,891,000, representing an increase of 69.61% from approximately HK$5,242,000 as compared to the corresponding period last year.

Electronic Cigarettes

Nine newly designed electronic cigarette models across three new product lines were launched in the fall of 2011. The first half of 2012 was a consolidation period for the new product lines and development of overseas markets. Recorded turnover of electronic cigarette for the Period amounted to approximately HK$864,000 (six months ended 30 June 2011: approximately HK$874,000) a slightly decreaseof 1.14% as compared with the same period in 2011.

Trading of Securities

The Group regards securities trading as a treasury function to invest its surplus cash in the Hong Kong securities market with an aim to capture future appreciation of share price. Given that the euro zone debt crisis and weak global growth, prevailing market sentiment in capital market may continue weak and securities markets may remains highly volatile. During the Period, the Group disposed a portion of its securities portfolio, resulting in a net realized gain on the change in fair value of FAFVPL for the Period amounting to approximately HK$3,082,000 (six months ended 30 June 2011: a net realised loss of approximately HK$ 30,309,000). The Group incurred realized and unrealized losses from its securities trading in an aggregate amount of approximately HK$16,578,000 for the Period (six months ended 30 June 2011: approximately HK$110,520,000).

The Group will continue to take opportunities to diversify its investment portfolio and to capture future appreciation of share price. The Group's external investment adviser will continue to provide professional advice and analysis to the Board to assist the Group in making investment decisions. Facing with increasing uncertainties in the global economy, the management will exercise a cautious approach in securities trading.

Property Investment

The Group owns the premises situated at the Basement, China United Centre, 28 Marble Road, North Point, Hong Kong. The said property has been fully leased out (save for the common area for public access) to generate a monthly rent of HK$410,000. Attributable to such rental income, the Group recorded a segment turnover of approximately HK$2,220,000 for the Period (six months ended 30 June 2011: nil).

Research & Development

The Company considers quality and safety as its top concerns. Backed by its extensive research and development investment program, technical innovation and quality control, Ruyan's research and development team recently achieved a major technical breakthrough advancing the vapor yield of the electronic cigarette. In addition, the Company continues to improve the taste, quality and reliability of its electronic cigarettes.

Recent improvements to Ruyan atomization technology deliver nicotine more efficiently and at a more sustained level over the life of the atomizer. Moreover, Ruyan's unique atomizer structure allows each ingredient in solution to exist in its non-azeotropic form. Approximately the same proportion of each ingredient in the solution is atomized with each puff and Ruyan's atomization curve has a normal distribution. The unique design of the Ruyan atomizer provides for consistent nicotine release in the vapor. Ruyan's sensor is very power-efficient helping extend battery life and the sensor automatically shuts off after 7 seconds of continuous inhalation in order to avoid potential risk of protracted heating.

Ruyan emphasizes reliability in the design and manufacture of its products and provides a stainless steel, encased and leak-resistant cartomizer that houses the atomizer. Within the past 8 months, Ruyan has adopted several new technologies to ensure there is no leakage and no droplets inhaled into the mouth — common problems among other e-cigarettes.

Intellectual Property

The Company is a leader in electronic cigarette technology and is developing an extensive portfolio of issued patents and new pending patent applications. In 2012, the Company anticipates obtaining additional intellectual property coverage with the grant of at least one other Electronic Cigarette patent in the United States, Europe and other key markets. The Company is 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 in an electronic cigarette. The Company continues to actively strengthen and enforce its intellectual property rights, which provide broad protection for its innovative electronic cigarettes. The Company's continued creation and acquisition of intellectual property in the United States and elsewhere around the globe has enabled it to strengthen and expand its strategic partnerships in recent years.

As announced in 2011, the Company's wholly-owned subsidiary, Ruyan Investment (Holdings) Limited ("Ruyan"), filed two civil actions for infringement of United States Patent No. 7,832,410 in the United States District Court for the Central District of California against a total of 11 defendants. Only one defendant is still litigating this case; the remainder have either settled with Ruyan, otherwise resolved the dispute, or simply defaulted. Ruyan has requested default judgments of infringement and permanent injunctions against the defaulting defendant. Other of the settling defendants have stipulated to judgments of validity of the asserted patent, infringement, and an injunction. Many of the settling defendants have also paid damages based on their respective sales of the infringing electronic cigarette products.

In June 2012, the Group filed ten new complaints for infringement of United States Patent No. 8,156,944 in the United States District Court for the Central District of California. These cases are in a very early stage, however, the clerk of the court has already entered default against three of the ten defendants. Two of the three defaulted defendants in this matter are requesting that the court put the default aside and allow them to consider defending.

Progress in Overseas Markets

Patents were granted in Canada, China, Korea and the United States during 2012. 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 2012, the Group had fully repaid its unsecured borrowings, remaining a secured bank borrowing of approximately HK$26,516,000 (31 December 2011: approximately HK$92,342,000). Such borrowing was denominated in HKD, and thus, there was no exposure to fluctuations in exchange rate. Gearing ratio of the Group decreased from approximately 39.15% as at 31 December 2011 to approximately 8.67% as at 30 June 2012. This calculation is based on the borrowing mentioned above and shareholders' funds of approximately HK$305,744,000 (31 December 2011: approximately HK$235,852,000). Cash and bank balances amounted to approximately HK$68,046,000 (31 December 2011: approximately HK$55,970,000) and total assets were approximately HK$387,595,000 (31 December 2011: approximately HK$375,323,000). Net current assets of the Group on the same date amounted to approximately HK$124,583,000 (31 December 2011: approximately HK$52,633,000). As at 30 June 2012, inventories amounted to approximately HK$10,275,000, representing an increase of approximately HK$1,788,000 when compared with the amount as at 31 December 2011. The Group had no material capital commitment as at 30 June 2012.

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

1) In March 2012, the Company completed a capital reorganisation which involved, among others, share consolidation of every 5 issued shares into 1 consolidated share and capital reduction. Upon the said capital reorganisation became effective after 4:00 p.m. on 19 March 2012, par value of the shares of the Company has become HK$0.01 each and the authorised share capital of the Company has become HK$1,000,000,000 divided into 100,000,000,000 shares of HK$0.01 each. Subsequently, the Company allotted and issued 1,086,923,000 shares on 2 May 2012, by way of rights issue at a subscription price of HK$ 0.1 per rights share on the basis of one rights share for every two shares then held. Net proceeds of approximately HK$102,900,000 were raised.

2) On 29 June 2012, the Company completed a placement of 326,076,900 ordinary shares to independent investors at the placing price of HK$0.066 per share and the Company received net proceeds of approximately HK$20,442,000.

These fund raising activities during the Period (i) strengthened the Group's financial position with additional resources for future expansion; and (ii) provided the paid-up capital for a new wholly-owned subsidiary in California to facilitate sales, marketing, regulatory compliance as well as public relations in regard to the Group's electronic cigarette business in the United States. The said subsidiary was duly incorporated in California in August 2012. As at 30 June 2012, the issued share capital of the Company was 1,956,461,400 shares of HK$0.01 each.

As announced by the Company on 29 June 2012, the Company proposed the capital reorganisation (the "2012 Capital Reorganisation") involving (i) every 20 issued shares of par value of HK$0.01 each be consolidated into one consolidated share of par value of HK$0.20 each; (ii) the nominal value of each issued consolidated share be reduced from par value of HK$0.20 each to par value of HK$0.01 each by cancellation of the paid-up capital to the extent of HK$0.19 on each issued consolidated share; (iii) rounding down the total number of consolidated shares in the issued share capital of the Company to the nearest whole number; and (iv) the credit arising from the capital reduction to cancel the accumulated deficit of the Company with the balance to be transferred to a distributable reserve account of the Company. The proposed 2012 Capital Reorganisation was approved by the shareholders of the Company at the extraordinary general meeting held on 6 August 2012. Upon the approval by the Grand Court of the Cayman Islands, it is expected that the proposed 2012 Capital Reorganisation will become effective after 4:00 p.m. on 31 October 2012.

Pursuant to the option agreement dated 8 August 2011 relating to the possible acquisition of Apex Corporate Investments Limited ("Apex"), the holding company of HON Chinese Medicine Company Limited (the "Clinic"), the exercise price of the call/put options is capped at HK$75 million and the minimum is HK$25 million. The Group will keep itself appraised of any future fund raising opportunities for investing in Apex and the Clinic if and when the option is exercised.

FOREIGN EXCHANGE RISKS

The Group's operations conducted in the PRC are mainly settled in Renminbi. However, all corporate activities (i.e. capital reorganization, rights issue and placing of new shares) and leasing of real estate property are conducted in Hong Kong dollars. Therefore, the Group is exposed to fluctuations in foreign exchange rate to a certain extent. 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 2012 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 Group will continue to focus on products launched and improvement in late 2012. In addition, two new products launched already in the first half of 2012.

For 2012, the Company anticipates obtaining additional intellectual property coverage with the grant of other Electronic Cigarette patent in the United States, Europe and other key markets and may institute additional litigation based on the newly-acquired rights. The Company continues to actively monitor and enforce its rights.

In the PRC, the objectives of anti-smoking and tobacco control are clearly stated in the "12th Five Year Plan", 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.

Internationally Ruyan is working with partners to meet regulatory concerns, and plans to begin delivering product to the United States and United Kingdom markets in Q4 of 2012. In Israel, Ruyan Jazz was re-launched in mainstream retail channels in July 2012. Product quality feedback is excellent, and a significant marketing push is planned for Q3-Q4.

In addition to launching new and innovative quality products, selecting business partners and developing sales channels continue to be the top priorities for international business.

With the improving regulatory environment, strengthened intellectual property enforcement, and with the implementation of new GMP and ISO manufacturing standards and other quality assurance processes, the Company believes it has a bright future and an important role to play in reducing the cost of health care and improving the quality of life of smokers and those around them.

Pharmaceuticals and Health Care Products

The operating results of pharmaceuticals products are generally satisfactory in the first half of 2012. The Group will attempt to develop more sales channels and focus on exploring new product lines to broaden the income stream.

Upon fulfilling the latest GMP standards for its ginseng product manufacturing plant, it is expected that the Group will resume operations in the second half of 2012. The Company holds a positive view towards the prospects of the health care products business and is considering to expand the product mix of ginseng products and other non-traditional alternative medicines.

DETAILS OF MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

There were no material acquisitions or disposals of subsidiaries during the Period.

PLEDGE OF ASSETS

At 30 June 2012, margin facilities of approximately HK$59,702,000 (31 December 2011: approximately HK$51,486,000) from regulated securities brokers were granted to the Group which were secured by the Group's FAFVPL with the carrying amount of approximately HK$129,924,000 (31 December 2011: approximately HK$124,654,000).

CONTINGENT LIABILITIES

As at 30 June 2012, 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.

EMPLOYEES POLICY

As at 30 June 2012, the Group employed approximately 203 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.

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.

CORPORATE GOVERNANCE

The Board is responsible for performing the corporate governance duties with written terms of reference. Save as disclosed below, the Company has complied with all code provisions of the code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "Code") during the period from 1 April 2012 to 30 June 2012 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").

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.

In respect of provision A.6.7 of the Code, all independent non-executive directors attended the annual general meeting of the Company held on 29 May 2012 except Mr. Liu Kwong Sang who was unable to attend due to sickness.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuers (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. Ho Tak Fun.

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 2012 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
Gary Drew Douglas
Managing Director

Hong Kong, 24 August 2012

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

Executive Directors
Mr. Wong Yin Sen *(Chairman)*
Mr. Gary Drew Douglas *(Managing Director)*
Mr. Hon Lik
Ms. Chan Mee Sze
Mr. Lam Suk Ping

Independent Non-executive Directors
Mr. Chung Yuk Lun
Mr. Liu Kwong Sang
Mr. Lam Man Sum, Albert
Mr. Ho Tak Fun