Dragonite International Limited

叁龍國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 329)

Annual Report 2010

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. Wong Yin Sen
Mr. Hon Lik
Mr. Wong Hei Lin
Ms. Ching Yuen Man, Angela (appointed on 28 April 2010)
Mr. Au Yeung Kai Chor (appointed on 7 May 2010)

NON-EXECUTIVE DIRECTORS
Mr. Frank H. Miu (appointed as executive director on 12 April 2010 and re-designated as non-executive director on 7 May 2010)
Mr. Manfred A. Häussler (appointed on 12 October 2010)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Pang Hong
Mr. Cheung Kwan Hung (resigned on 28 June 2010)
Mr. Ding Xun (resigned on 28 June 2010)
Mr. Chung Yuk Lun (appointed on 14 April 2010)
Mr. Liu Kwong Sang (appointed on 19 April 2010)
Mr. Lam Man Sum, Albert (appointed on 28 April 2010)

AUDIT COMMITTEE
Mr. Pang Hong
Mr. Cheung Kwan Hung (resigned on 28 June 2010)
Mr. Ding Xun (resigned on 28 June 2010)
Mr. Chung Yuk Lun (appointed on 14 April 2010)
Mr. Liu Kwong Sang (appointed on 19 April 2010)
Mr. Lam Man Sum, Albert (appointed on 28 April 2010)

COMPANY SECRETARY
Mr. Chan Yiu Nam

AUDITOR
Deloitte Touche Tohmatsu

REGISTERED OFFICE
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
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PRINCIPAL BANKERS
in Hong Kong:
The Hong Kong and Shanghai Banking Corporation Limited

in the PRC:
China Construction Bank
Shengyang Economic and Technology
Development Zone Branch

WEBSITE
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STOCK CODE
0329

Chairman's Statements

On behalf of the board of directors (the "Board") of Dragonite International Limited (the "Company"), I am pleased to present this Annual Report for the year ended 31 December 2010 of the Company and its subsidiaries (the "Group").

RESULTS FOR THE YEAR 2010

For the Year 2010, the Group achieved a turnover of HK$21,786,000, representing a decrease of 77.68% from a turnover of HK$97,586,000 for the year 2009. The sales income of health care products and pharmaceutical products for the Year 2010 were HK$6,202,000 (2009: HK$14,973,000) and HK$18,543,000 (2009: HK$25,099,000) respectively. Negative turnover of HK$2,959,000 was recorded in the electronic cigarette business in current year (2009: positive turnover of HK$57,514,000), which was resulted from the continuous sales return since September 2009 as mentioned in the Company's 2009 Annual Report.

For the Year 2010, the audited consolidated loss attributable to shareholders of the Company amounted to HK$233,331,000, representing an decrease of approximately 47.4% over a loss of HK$443,907,000 for the Year 2009. On this basis, the loss per share of the Company for the Year was approximately HK$3.38 (2009: approximately HK$11.38). Due to deteriorated sales performance of the Group, substantial provisions of HK$65,399,000 and HK$9,328,000 were made for impairment loss of related inventory and property, plant and equipment respectively.

PROSPECTS FOR THE YEAR 2011

After a number of fund raising activities performed in Year 2010, the financial position of the Company was significantly improved. Looking ahead, the Company will concentrate on the electronic cigarette business and at the same time, constantly looking for new business and investment opportunities in order to maximizing the returns of the shareholders.

DIVIDENDS

No interim dividend was declared for the Year. The Board does not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: nil).

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers and shareholders. My deep appreciation and thankfulness goes to all members of our staff, in particular to my fellow directors and the management, for their continuous support to the Group's development in previous year.

On behalf of the Board
Wong Yin Sen
Chairman

Hong Kong, 29 March, 2011

Management Discussion and Analysis

BUSINESS PERFORMANCE CONDITIONS

Financial Results and Business Review

As anticipated in the Company's profit warning announcement dated 5 November 2010, the Company and its subsidiaries (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$21,786,000, representing a decrease of 77.68% from approximately HK$97,586,000 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 the 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 reporting 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 report. 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 report, 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 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).

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 ("R&D")

The Company owns both the original invention patents for electronic cigarette and 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 second-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 of about 25 countries. Existing partnerships were further developed in North America, the United Kingdom, 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 certain 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 Group are launching the complaint against those 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 the PRC, strong actions are underway to stop illegal manufacturing and exports of copycat products. The Company has already won several patent infringement cases in the 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 (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 (2009: HK$44,207,000). As at 31 December 2010, cash and bank balances was approximately HK$11,681,000 (2009: HK$24,117,000) and total assets was approximately HK$129,210,000 (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 reporting 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 and the entire amount of the authorised but unissued share capital of the Company be cancelled, (iii) the entire amount standing to the credit of the share premium account 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 carried 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 respective announcements 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 facing 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.

EMPLOYEE POLICY

As at 31 December 2010, the Group employed a total of about 120 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, so as to let every staff member become part of the Company. As a result, a fair ground for competition can be established where all staff will be proud of the Company.

FOREIGN EXCHANGE RISKS

The Group's operations conducted in the PRC are mainly settled in Renminbi. However, certain corporate activities (i.e. rights issue, placing of new shares, placing of convertible bonds) are conducted in Hong Kong dollars. Therefore, the Group is exposed to fluctuations in foreign exchange rate to a certain extent. Operating cash flow and 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 a foreign currency exchange contracts or derivatives to hedge against the Group's currency risks.

Corporate Governance Report

The Board is committed to maintaining and ensuring high standard of corporate governance, as the Board takes the view that high standard of corporate governance lays down a solid foundation for enhancing the high degree of accountability and transparency, maintaining sound and effective internal control, improving the performance of the Group and safeguarding the interests of the shareholders of the Company.

The Board has adopted the code provisions as set out in the Code of Corporate Governance Practice (the "Code Provisions") contained in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the Year, the Company has taken appropriate actions to comply with most of the Code Provisions. Further appropriate actions will be taken by the Company so as to comply with the Code Provisions.

THE BOARD

As at 31 December 2010, the Board of Directors of the Company (the "Board") comprises Mr. Wong Yin Sen (Chairman), Mr. Hon Lik (chief executive officer), Mr. Wong Hei Lin, Ms. Ching Yuen Man, Angela and Mr. Au Yeung Kai Chor as the executive Directors, and Mr. Frank H. Miu and Mr. Manfred A. Häussler as the non-executive Directors, and Mr. Pang Hong, Mr. Chung Yuk Lun, Mr. Liu Kwong Sang and Mr. Lam Man Sum, Albert as the Independent Non-executive Directors.

To the best knowledge of the Company, save for the three executive Directors who (including the Chairman and the chief executive director) have interest in a substantial shareholder of the Company, details of which were disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" of the Directors' Report, there is no financial, business, family or other material/relevant relationship between the Directors.

The Board is responsible for the overall strategic development of the Group. The Board is also responsible for the financial performance and internal control policies and procedures of the Group's business operation.

The Board meets at least two times a year to review the overall development, operation and financial performance, interim results, year end results and other matters of the Company that require approval of the Board. All the Board members are able to access the board papers and other relevant materials and they are given reasonable notice to review board papers and other relevant materials and they are provided with sufficient information as the basis for their decision making. In respect of full Board meeting, and so far as practicable in all other cases, an agenda and accompanying board papers had been despatched to Board members at a reasonable time before the intended date of a board meeting. The Chairman is the one who is responsible for the agenda of the board meetings.

The biographies of the Directors are set out in pages 17 to 19, which demonstrate a diversity of skills, expertise, experience and qualifications. Moreover, the executive Directors informally meets on a regular basis to discuss the daily operation issue of the Company. For those non-executive and independent non-executive Directors who were not personally present in the Company's principal place of business in Hong Kong, conference call was used by the Company to actively take advice from them.

APPOINTMENTS OF DIRECTORS

All Directors carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. They carried our their duties imposed by the statutory requirements, the articles of association of the Company (the "Articles of Association") and the Listing Rules, complied with relevant requirements and strictly implemented resolutions of general meetings of the Company.

The appointment of executive Directors was based on their expertise and responsibility for the Group's various business operations.

The independent non-executive Directors also play an important role in the Board. The Board will seek their independent judgment on issues of strategic direction and future development; opinion on connected transactions and risk management on audit issues. Three of the independent non-executive Directors is a qualified accountant in Hong Kong and the rest of them satisfy the requirement of the Listing Rules.

The Board will consider the past performance, qualification, general market conditions and the Articles of Association in selecting and recommending candidates for directorships.

All Directors are regularly updated on governance and regulatory matters. There is a set of policies and procedures for the Directors to obtain independent professional advice (if necessary).

BOARD MEETINGS

During the Year, the Board had 38 Board meetings. Directors were given sufficient time to review documents and information relating to matters that have to be discussed during such meetings.

Details of Directors' attendance at Board meetings held in 2010 are as follows:

Name of Director	Attendance Times	Title
Wong Yin Sen	38/38	Chairman, Executive Director
Hon Lik	38/38	Chief Executive Officer, Executive Director
Wong Hei Lin	26/38	Executive Director
Ching Yuen Man, Angela	27/38	Executive Director (appointed on 28 April 2010)
Au Yeung Kai Chor	25/38	Executive Director (appointed on 7 May 2010)
Frank H. Miu	11/38	Non-executive Director (appointed as executive director on 12 April 2010 and re-designated as non-executive director on 7 May 2010)
Manfred A. Häussler	1/38	Non-executive Director (appointed on 12 October 2010)
Pang Hong	9/38	Independent Non-executive Director
Chung Yuk Lun	5/38	Independent Non-executive Director (appointed on 14 April 2010)
Liu Kwong Sang	5/38	Independent Non-executive Director (appointed on 19 April 2010)
Lam Man Sum, Albert	4/38	Independent Non-executive Director (appointed on 28 April 2010)
Cheung Kwan Hung	6/38	Independent Non-executive Director (resigned on 28 June 2010)
Ding Xun	6/38	Independent Non-executive Director (resigned on 28 June 2010)

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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Positions of the Chairman (held by Mr. Wong Yin Sen) and the Chief Executive Officer (held by Mr. Hon Lik) are held by separate individuals with a view to maintaining an effective segregation of duties in respect of the management of the Board and the day-to-day management of the Group's business.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The independent non-executive Directors bring independent judgment on issues of strategy, performance and risk. The Company has received from each of the independent non-executive Directors written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. Based upon the said confirmations, the Board considers that all the independent non-executive Directors are independent during the year under review.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Although none of the existing non-executive Directors (including independent non-executive Directors) are appointed for a specific term, the non-executive Director and the independent non-executive Directors are subject to retirement and rotation provisions under the Articles of Association.

According to the provisions of the Articles of Association and the Listing Rules, any Director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting of the Company, and in the case of an addition to the existing Board, until the next following annual general meeting of the Company. Furthermore, every Director, including those appointed for a specific term or holding office as chairman and/or managing Director, is subject to retirement by rotation at least once every three years. Furthermore, any Directors elected by the Company by ordinary resolution to fill a casual vacancy of the Board, or as an addition to the existing Board shall not be taken into account in determining which particular Directors or the number of Directors.

Each newly appointed Director will be reminded of his duties and responsibilities as Directors of listed company under the Listing Rules, related ordinances and relevant requirements of the regulatory bodies in Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company is be retired by rotation.

COMMITTEES

As part of the corporate governance practices, the Board has established the following committees, namely, the Audit Committee and the Remuneration Committee.

AUDIT COMMITTEE

The Audit Committee was established in 2001 with adoption of its terms of reference and its current members comprise:

Mr. Chung Yuk Lun (appointed on 14 April 2010) (Chairman)
Mr. Pang Hong
Mr. Liu Kwong Sang (appointed on 19 April 2010)
Mr. Lam Man Sum, Albert (appointed on 28 April 2010)

The duties of the Audit Committee include review and supervision of the financial reporting process and the Company's internal control policies and procedures.

The appointment of members of the Audit Committee is based on their broad experience in commercial sectors and professional knowledge on financial reporting and management.

The Audit Committee has met twice in the year under review to review the financial reporting matters and internal control policies and procedures issues. The Audit Committee also acts as the communication bridge between the Board and the external auditors in relation to the planning and scope of audit work. The interim results and the year end results of the Group for the year under review have been reviewed by the Audit Committee.

For the year under review, the Audit Committee held two meetings and the attendance records of the meetings are shown below.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005 with adoption of its terms of reference and its current members include:

Mr. Pang Hong (Chairman)
Mr. Chung Yuk Lun (appointed on 14 April 2010)
Mr. Liu Kwong Sang (appointed on 19 April 2010)
Mr. Lam Man Sum, Albert (appointed on 28 April 2010)

The duties of the Remuneration Committee include making recommendations on the Company's policy and structure for remuneration package of the Directors and senior management, evaluating and making recommendations on other employee benefit arrangements.

The appointment of members of the Remuneration Committee is based on their broad experience in the commercial sector and knowledge in the general economy conditions.

For the year under review, the Remuneration Committee held one meeting to determine the remuneration of the Directors and the attendance record of the meeting is shown below.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee for the appointment of Directors. In accordance with Company's Article of Association, the Board is empowered at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board.

Any Director so appointed shall retire and be eligible for re-election at the next following annual general meeting. The criteria for selecting a director are mainly based on the candidate's quality which includes, but not limited to, his/her qualification, experience, professional knowledge, ethics and integrity. During the year under review, seven new directors were appointed either to fill a casual vacancy or as an addition to the Board.

ATTENDANCE RECORD AT BOARD COMMITTEE MEETINGS

The following table shows the attendance of Directors at meetings of the Remuneration Committee and the Audit Committee during the Year:

	Number of meeting attended/ Number of meeting held	
Directors	**Remuneration Committee**	**Audit Committee**
Independent Non-executive Directors		
Mr. Pang Hong	1/1	2/2
Mr. Chung Yuk Lun	1/1	2/2
Mr. Liu Kwong Sang	1/1	2/2
Mr. Lam Man Sum, Albert	1/1	1/2
Mr. Cheung Kwan Hung, Anthony	0/1	1/2
Mr. Ding Xun	0/1	1/2

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

In determining the remuneration level and packages to the Directors and senior management, the Company took into account the prevailing market practice and trends and to reflect on time commitment, duties and responsibilities of the Directors and senior management and their contribution to the Group.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders and investors. The annual general meeting is the principal forum for formal dialogue with shareholders of the Company where the Board members are available to answer questions about specific resolutions being proposed at the meeting.

Information of the Group is also disseminated to the shareholders of the Company and investors in the following manners:

- Delivery of the interim reports and annual reports to all shareholders of the Company and other interested parties;

- Publication of announcements on the interim results and year end results on the website of the Stock Exchange and the website of the Company; and issue and publication of other announcements and shareholders' circulars in accordance with the continuing disclosure obligation under the Listing Rules; and

- Price sensitive information is disclosed to the public by way of announcement as required by the Listing Rules.

- Enquiries and suggestions from shareholders of the Company or investors are welcome through the following channels to the company secretary of the Company:

  - by mail to the Company's principal place of business in Hong Kong at Room 1101, 11th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong

  - by telephone at telephone number (852) 2858 4999

  - by fax at fax number (852) 2547 9221

  - by email at mchan@dragonite.com.hk

ACCOUNTABILITY AND AUDIT

The Directors acknowledge that they are responsible for overseeing the preparation of the accounts of the Group and ensuring the financial statements are prepared in accordance with the statutory requirements and applicable financial reporting standards and also ensuring the timely publication of the financial statements of the Group.

The Directors are also committed to making appropriate announcements in accordance with the requirements of the Listing Rules to disclose all information that are necessary for shareholders of the Company to assess the financial performance and other aspects of the Company.

The Group's external auditors for the year under review are Deloitte Touche Tohmatsu and they will hold office until the forthcoming annual general meeting of the Company. The annual consolidated financial statements of the Group for the year under review have been audited by Deloitte Touche Tohmatsu. The statement of the auditors about their responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 28 to 29.

The Audit Committee is responsible for considering the engagement of external auditors of the Group and reviewing the independence and objectivity of the external auditors of the Group.

For the year under review, the fees of the external auditors of the Group for audit services amounted to HK$957,000 and for non-audit services amounted to HK$488,000.

INTERNAL CONTROL

The Board is responsible for ensuring that an adequate system of internal control is maintained within the Group, and for reviewing its effectiveness through the Audit Committee. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified personnel maintains and monitors the internal control systems on an ongoing basis.

The Board, through the Audit Committee, has conducted reviews of the effectiveness and the adequacy of the Group's system of internal control.

During the year under review, based on the evaluations made by the Audit Committee, the Board was satisfied that nothing has come to its attention to cause the Board to believe that the system of internal control is inadequate; and there is an ongoing process to identify, evaluate and manage significant risks encountered by the Group.

DIRECTORS

Executive Directors

Mr. Wong Yin Sen, aged 58, is one of the co-founders of the Group and currently the Chairman and President of the Group. Mr. Wong is familiar with the commercial, political and social situations in the PRC and has over 25 years of experience in operating enterprises with business in the PRC. After settling down in Hong Kong in 1992, he established and invested in the Group. Mr. Wong has accumulated abundant knowledge in the medical and health care product industry and has extensive experience in enterprise management. Mr. Wong is also a director of Absolute Target Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Hon Lik, aged 55, is a senior pharmacist and one of the co-founders of the Group. Currently he is the Chief Executive Officer of the Group. Mr. Hon graduated from Liaoning College of Traditional Chinese Medicine in 1982 and started his career with Liaoning Academy of Traditional Chinese Medicine in the same year. Mr. Hon was promoted to the position of vice superintendent of Liaoning Academy of Traditional Chinese Medicine in 1990, and was responsible for the company's technology development. Mr. Hon has approximately 25 years of experience in the medical field and invented and patented the technology used in the Chenlong Baoling Longevity Ginseng products. Mr. Hon established and invested in the Group in 1992. Mr. Hon is also a director of Absolute Target Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Wong Hei Lin, aged 56, is an economist and one of the co-founders of the Group. Mr. Wong established and invested in the Group in 1992 and currently he is the Vice-President of the Group. Mr. Wong started his career with Liaoning Academy of Traditional Chinese Medicine in 1978. Mr. Wong was promoted to the position of Factory Director of Academy of Traditional Chinese Medicine's honeybee product factory in 1982 and was responsible for the development of the honeybee health products. In 1984, Mr. Wong organised and set up Liaoning Academy of Traditional Chinese Medicine's Pharmaceutical Factory and became the Factory Director for sales. In 1989, Mr. Wong further organised and set up Liaoning Yunda Health Product Co. Ltd. and became the Chairman of the board of directors. Mr. Wong has over 27 years of experience in the health care product industry. Mr. Wong holds a diploma of professional management from the Shenyang United Workers' University. Mr. Wong is also a director of Absolute Target Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

Ms. Ching Yuen Man, Angela, aged 44, is a member of People's Political Consultation Conference of Conghua Shi, Guangzhou Province and a solicitor in Hong Kong. Ms. Ching completed her high school education in England and obtained her LLB degree at the University of Hong Kong in 1989. She is now consultant of Shum & Co. Ms. Ching, a legal practitioner with over 15 years of experience, advises a number of UK and Hong Kong listed companies and their subsidiaries. Ms. Ching was an independent non-executive director of China Strategic Holdings Limited, a company listed on the main board of the Stock Exchange, during the period from 26 May 2006 to 6 June 2008. Ms. Ching was appointed as an executive Director on 28 April 2010.

Mr. Au Yeung Kai Chor, aged 58, has over 20 years' experience in casino business and is a member of the senior management of a casino operator. He was an executive director of Mascotte Holdings Limited ("Mascotte") which is listed on the Stock Exchange. Mr. Au Yeung was responsible for the operation and administration of the PRC operation as well as investment and business development activities of Mascotte. He resigned from his position as an executive director of Mascotte with effect from 9 April 2010. Mr. Au Yeung was appointed as an executive Director on 7 May 2010.

Directors and Senior Management Profile

Non-executive Directors

Mr. Frank H. Miu, aged 62, holds a Juris Doctor's degree from Harvard Law School and a Bachelor of Economics and Accounting degree from St. John's University of Minnesota. He is licensed by the New York State Bar having been admitted in 1982. Mr. Miu is a member of the American Bar Association, the American Institute of Certified Public Accountants and the Hong Kong Institute of Directors. For the bulk of his 15 years of professional experience in accounting and law, he was an associate attorney in the Hong Kong office of New York firm, Kaye, Scholar, Hays, Fierman and Handler, and later served as counsel to the Hong Kong office of another New York firm, White and Case. Mr. Miu also has about 21 years of management experience in other corporate positions in the field of business and financial consulting. Mr. Miu is also an independent non-executive director of Mascotte Holdings Limited, a company listed on the main board of the Stock Exchange. He was an independent non-executive director of Heritage International Holdings Limited, Asia Commercial Holdings Limited, Willie International Holdings Limited, Wonson International Holdings Limited (currently known as China Ocean Shipbuilding Industry Group Limited) and China Sci-Tech Holdings Limited (currently known as CST-Mining Group Limited), all of which are companies listed on the main board of the Stock Exchange, until he resigned in June 2006, December 2006, March 2007, April 2007 and June 2007 respectively. Mr. Miu was also an executive director of Radford Capital Investment Limited, a company listed on the main board of the Stock Exchange, until he resigned in December 2009. Mr. Miu was appointed as an executive Director on 12 April 2010 and re-designated as a non-executive Director on 7 May 2010.

Mr. Manfred A. Häussler, aged 65, has an MBA from the University of Hamburg, and a Doctorate degree from the Budapest University of Economic Sciences (with Honors). He is fluent in German, English, French, Spanish, and Italian. He has over 25 years' experience as an executive in the consumer products, alcoholic beverages, and tobacco industries. Prior to 2006, Mr. Häussler held the positions including Product Manager of Colgate Palmolive (Germany), Director of International Marketing of Martini & Rossi (London & Geneva), Worldwide Business Director of Braun-Gillette, and Chief Operation Officer and President of International Operations and member of the board of directors of Reemtsma Cigarettenfabriken GmbH ("Reemtsma") (the 4th largest global cigarette manufacturer) and promoted to Chief Executive Officer of Reemtsma and member of the board of directors of Imperial Tobacco Group PLC following the acquisition of Reemtsma by Imperial Tobacco Group PLC. Since 2006, Mr. Häussler has been engaged as a strategic management consultant on a variety of projects for large multi-national corporations, including, among others, Phillip Morris International. He also served as a former member of the Governor's Advisory Committee for Economic and Social Development of Yunnan Province, the PRC. Save as disclosed herein, Mr. Häussler has not held any other directorship in listed companies in Hong Kong or overseas in the last three years.

Independent non-executive Directors

Mr. Pang Hong, aged 57, worked for around 20 years in various enterprises and government departments in the PRC. After studying for 3 years in the United States, Mr. Pang came to Hong Kong for his career development. Mr. Pang is familiar with the investment environment in the PRC and has extensive experience in the management of PRC companies. Mr. Pang was previously an executive director of Pacmos Technologies Holdings Limited (formerly known as PCL Enterprises Holdings Limited) which is listed on the Stock Exchange. He is currently engaged in private management consultancy. He is also currently an independent non-executive director of SMI Corporation Limited and M Channel Corporation Limited both of which are listed on the Stock Exchange. Mr. Pang was appointed as an independent non-executive Director on 17 January 2001.

Mr. Chung Yuk Lun, aged 50, is a fellow member of The Association of Chartered Certified Accountants, an associate member of The Hong Kong Institute of Certified Public Accountants and an Associate Chartered Accountant (England and Wales). Mr. Chung has over 21 years' experience in finance and project investment. He is currently an executive director of Radford Capital Investment Limited and Ming Fung Jewellery Group Limited, an independent non-executive director of Heritage International Holdings Limited and Forefront Group Limited, all of which are companies listed on the main board of the Stock Exchange. Mr. Chung was appointed as an independent non-executive Director on 14 April 2010.

Mr. Liu Kwong Sang, aged 49, has been practising as a certified public accountant in Hong Kong with more than 20 years' experience. He graduated with honours from the Hong Kong Polytechnic University with a bachelor degree in accountancy and obtained the Master in Business Administration degree from the University of Lincoln, the United Kingdom. Mr. Liu is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of The Association of Chartered Certified Accountants, a fellow member of the Institute of Financial Accountants, the United Kingdom and a fellow member of the National Institute of Accountants, Australia. He is also a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Society of Registered Financial Planners. Mr. Liu acts as an independent non-executive director of Polytec Asset Holdings Limited and China Railsmedia Corporation Limited, securities of both are listed on the main board of the Stock Exchange, and of abc Multiactive Ltd whose securities are listed on the GEM board of the Stock Exchange and of Pacific CMA, Inc. whose securities were previously listed on the American Stock Exchange. He was also an independent non-executive director of Tack Fat Group International Limited and KH Investment Holdings Limited, whose securities are listed on the main board of the Stock Exchange. Mr. Liu was appointed as an independent non-executive Director on 19 April 2010.

Mr. Lam Man Sum, Albert, aged 55, is currently the shareholder and director of Hopkins CPA Ltd.. Mr. Lam is a fellow member of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants and member of the Hong Kong Securities Institute, Society of Chinese Accountants and Auditors and Taxation Institute of Hong Kong. Mr. Lam holds a Bachelor's Degree in Arts (Economics) from the University of Manchester, United Kingdom. He is currently an independent non-executive director of Junefield Department Store Group Limited, the shares of which are listed on the Stock Exchange. He had been the proprietor of Albert Lam & Co. CPA from 1993 to 2007 and a director of Everpride Biopharmaceutical Company Limited (currently known as Hao Wen Holdings Limited) from February 2005 to July 2006. Mr. Lam was appointed as an independent non-executive Director on 28 April 2010.

SENIOR MANAGEMENT OF THE GROUP

Mr. Chan Yiu Nam, was appointed as Financial Controller and Company Secretary of the Company on 13 August 2009. Mr. Chan holds a Bachelor of Arts (Honors) in Accountancy from the Hong Kong Polytechnic University. He is a member of Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has a number years of experience in accounting, auditing and tax consultancy in one of the major international accounting firms in Hong Kong.

Mr. Scott Fraser, is the Vice President of Ruyan Group's subsidiary company in Hong Kong. Mr. Fraser holds a Masters Degree in Business Administration from University of California at Berkeley, Haas School of Business. He has over 21 years sales and marketing working experience in various multinational corporations in the PRC and the U.S., including Intel China Limited as the marketing manager, and Motorola Asia/Pacific Limited as Retail Channel Marketing Manager. He is currently responsible for the Group's international market and sales development. He joined the Group in 2007.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December, 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December, 2010 are set out in the consolidated statement of comprehensive income on page 30.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the Company's share capital are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distributions to shareholders as at 31 December, 2010 comprise the share premium, contributed surplus and accumulated losses with a net aggregate amount of approximately HK$173,870,000 (2009: HK$1,123,022,000).

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Wong Yin Sen	
Mr. Hon Lik	
Mr. Wong Hei Lin	
Ms. Ching Yuen Man, Angela	(appointed on 28 April 2010)
Mr. Au Yeung Kai Chor	(appointed on 7 May 2010)

Non-executive Directors:

Mr. Frank H. Miu	(appointed as executive director on 12 April 2010 and re-designated as non-executive director on 7 May 2010)
Mr. Manfred A. Häussler	(appointed on 12 October 2010)

Independent Non-executive Directors:

Mr. Pang Hong	
Mr. Chung Yuk Lun	(appointed on 14 April 2010)
Mr. Liu Kwong Sang	(appointed on 19 April 2010)
Mr. Lam Man Sum, Albert	(appointed on 28 April 2010)
Mr. Cheung Kwan Hung	(resigned on 28 June 2010)
Mr. Ding Xun	(resigned on 28 June 2010)

In accordance with the Company's Articles of Association Messers. Wong Yin Sen, Wong Hei Lin, Liu Kwong Sang and Lam Man Sum Albert shall retire by rotation and, being eligible, offer themselves for re-election.

The non-executive director has no set term of office but are subject to retirement by rotation, and being eligible, offer themselves for re-election, in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December, 2010, the interests and short positions of the Directors and the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meeting of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange the Model Code were as follows:

Interests in the ordinary shares of HK$0.10 each in the Company (the "Shares")

Name of director	Capacity	Number of issued ordinary shares of the Company (Note 1)	Number of underlying shares in respect of the options granted under the share option scheme of the Company (Note 1 & 3)	Approximate percentage of the issued share capital of the Company
Wong Yin Sen	Beneficial Owner		43,912 (L)	0.05%
	Interest of a controlled corporation	7,965,000 (L) (Note 2)		8.62%
Hon Lik	Beneficial Owner		43,912 (L)	0.05%
	Interest of a controlled corporation	7,965,000 (L) (Note 2)		8.62%
Wong Hei Lin	Beneficial Owner		43,912 (L)	0.05%
	Interest of a controlled corporation	7,965,000 (L) (Note 2)		8.62%
Pang Hong	Beneficial Owner	–	29,275 (L)	0.03%

Notes:

(1) "L" denotes long position and "S" denotes short position.

(2) The 7,965,000 shares were held by Absolute Target Limited. Absolute Target Limited is owned as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin.

(3) For details of the interests in underlying shares in respect of the options granted under the share option scheme of the Company, please refer to the section "Share Option Scheme" below.

Long positions in the shares of associated corporation of the Company

Name of director	Name of associated corporation	Number of shares held	Approximately percentage of shareholding
Wong Yin Sen	Absolute Target Limited	4,625	46.25%
Hon Lik	Absolute Target Limited	4,250	42.50%
Wong Hei Lin	Absolute Target Limited	1,125	11.25%

Save as disclosed above, as at 31 December, 2010, none of the Directors or the Chief executive nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meeting of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The existing share option scheme was adopted by the Company on 30 May 2003 (the "Scheme") and is for the primary purpose of providing incentives to participants including, inter alia, employees, executive directors and non-executive directors of the Group, supplier of goods or services, customers of the Group, persons providing research, development or other technical support to the Group, shareholders of any member of the Group, advisers or consultants, or joint venture partners, and for such other purposes as the Board may approve from time to time.

The total number of shares in respect of which options may be granted under the Scheme is 369,449,049 shares, which is equivalent to 10% of the total number of shares of the Company in issue as at 23 July 2010, being the date of refreshment of the limit of the Scheme and the total issued share capital as at the date of this report.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares of the Company in issue;

(ii) and having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant in excess of HK$5 million,

such grant of option shall be subject to prior approval of the shareholders of the Company who are not connected persons of the Company as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

An option must be exercised within five years from the date of grant or such shorter period as the Board may notify to the grantee. Option granted must be taken up within 28 days from the date of offer, upon payment of HK$1 as consideration.

The exercise price is determined by the directors of the Company, and shall be at least the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme has a life of 10 years unless otherwise terminated in accordance with the terms of the Scheme.

The following table discloses movements in the Company's share options during the period:

Category of participants	Date of share options granted *(note i)*	No. of share options granted as at 1 January 2010	No. of share options granted during the year	No. of share options exercised during the year	No. of share options lapsed/ cancelled during the year	No. of share options adjusted during the year *(note iv)*	No. of share options outstanding as at 31 December 2010	Exercise period	Adjusted exercise price per share option *(note iv)*
Directors									
Wong Yin Sen	9 January 2008	1,500,000	–	–	–	1,456,088	43,912	11 January 2008 to 10 January 2013	20.48
Hon Lik	9 January 2008	1,500,000	–	–	–	1,456,088	43,912	4 February 2008 to 3 February 2013	20.48
Wong Hei Lin	9 January 2008	1,500,000	–	–	–	1,456,088	43,912	4 February 2008 to 3 February 2013	20.48
Pang Hong	9 January 2008	1,000,000	–	–	–	970,725	29,275	14 January 2008 to 13 January 2013	20.48
Cheung Kwan Hung *(note ii)*	9 January 2008	1,000,000	–	–	–	970,725	29,275	11 January 2008 to 10 January 2013	20.48
Ding Xun *(note ii)*	9 January 2008	1,000,000	–	–	–	970,725	29,275	22 January 2008 to 21 January 2013	20.48
		7,500,000					219,561		

Category of participants	Date of share options granted *(note i)*	No. of share options granted as at 1 January 2010	No. of share options granted during the year	No. of share options exercised during the year	No. of share options lapsed/ cancelled during the year	No. of share options adjusted during the year *(note iv)*	No. of share options outstanding as at 31 December 2010	Exercise period	Adjusted exercise price per share option *(note iv)*
Employees (in aggregate)									
	9 January 2008	22,600,000	–	–	–	21,938,384	661,616	6 February 2008 to 5 February 2013	20.48
	18 February 2008	1,000,000	–	–	–	970,725	29,275	17 March 2008 to 16 March 2013	23.92
	28 February 2008	4,000,000	–	–	–	3,882,900	117,100	27 March 2008 to 26 March 2013	23.92
	5 June 2008	2,000,000	–	–	–	1,941,450	58,550	3 July 2008 to 2 July 2013	21.16
	20 November 2009 *(note v)*	6,000,000	–	(1,000,000)	–	4,853,625	146,375	20 November 2009 to 19 November 2013	5.72
		35,600,000					1,012,916		
Others (note iii)									
	6 May 2008	2,000,000	–	–	–	1,941,450	58,550	3 June 2008 to 2 June 2013	20.84
	30 March 2009	15,000,000	–	–	–	14,560,875	439,125	30 March 2009 to 29 March 2013	13.68
	28 April 2010 *(note vi)*	–	130,336,000	(130,336,000)	–	–	–	28 April 2010 to 27 April 2015	0.2
	10 June 2010 *(note vii)*	–	166,360,583	(166,360,583)	–	–	–	10 June 2010 to 9 June 2015	0.109
		17,000,000					497,675		
Total		60,100,000					1,730,152		

Notes:

(i) There is no vesting period for the share options granted except for 21,600,000 (adjusted: 632,340) share options granted during 2008 are subject to a vesting period of three stages with 33.33% of such options granted becoming exercisable on the first anniversary, another 33.33% becoming exercisable on the second anniversary and the remaining 33.34% becoming exercisable on the third anniversary of the respective dates on which the options were accepted.

(ii) Mr. Cheung Kwan Hung and Mr. Ding Xun were resigned as an independent non-executive director on 28 June 2010 .

(iii) These are individuals who rendered consultancy services in respect of management of the Ruyan atomizing cigarettes to the Group. The Group granted share options to them for recognizing their services similar to those rendered by other employees. The consultancy services rendered by the consultants include coordination of potential investment projects and advise on potential acquisition. In the opinion of the directors, the consultancy services rendered by the consultants are similar to those rendered by the employees. Therefore, the fair value of the share options granted to the consultants was measured by the same accounting policies as that of the employees in accordance with HKFRS 2.

(iv) The number of share options and exercise price per share option were adjusted immediately after the completion of the rights issue on 3 June 2010 and the capital consolidation on 15 December 2010.

(v) The weighted average closing price of the shares immediately before 2 March, 2010 on which the options were exercised was HK$0.21 per share.

(vi) The weighted average fair value of all options granted on 28 April, 2010 was HK$0.0525 per share. The fair value of the share options granted is calculated on 28 April, 2010, using the Binomial model with the following assumptions: expected dividend yield of 0%, expected life of five years, expected volatility of 94% and risk-free interest rate of 2.026%. The weighted average closing price of the shares immediately before 28 April, 2010 on which the options were exercised was HK$0.162 per share.

(vii) The weighted average fair value of all options granted on 10 June, 2010 was HK$0.0304 per share. The fair value of the share options granted is calculated on 10 June, 2010, using the Binomial model with the following assumptions: expected dividend yield of 0%, expected life of five years, expected volatility of 91% and risk-free interest rate of 1.594%. The weighted average closing price of the shares immediately before 10 June, 2010 on which the options were exercised was HK$0.115 per share.

(viii) The variables and assumption on which the option pricing model is based representing the best estimation of the Directors as to the circumstances existing at the time the options were granted. Changes in variables and assumption may result in changes in the fair value of the options.

The closing prices of the Company's shares immediately before 28 April, 2010 and 10 June, 2010, the dates of grant of the options in 2010, were HK$0.165 and HK$0.101, respectively. (The closing prices of the Company's shares immediately before 30 March, 2009 and 20 November, 2009, the dates of grant of the options in 2009, were HK$0.4 and HK$0.167 respectively; the closing prices of the Company's shares immediately before 9 January, 2008, 18 February, 2008, 28 February, 2008, 6 May, 2008 and 5 June, 2008, the dates of grant of the 2008 options, were HK$0.61, HK$0.70, HK$0.70, HK$0.61 and HK$0.62 respectively).

SUBSTANTIAL SHAREHOLDER

So far as is known to Directors, as at 31 December, 2010, the persons or companies (other than directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name	Capacity	Number of share of the Company (Note 1)	Approximately percentage of shareholding
Yu Man Fung Alice	Beneficial owner	337,284,759 (L)	17.39%
Absolute Target Limited *(Note 2)*	Beneficial owner	167,265,000 (L)	8.62%
Chung Nam Securities Limited	Beneficial owner	1,999,968,200 (L) *(Note 3)*	76.84% *(Note 5)*
Mr. Andrew Liu	Beneficial owner	500,000,000 (L) *(Note 4)*	19.21% *(Note 5)*

Notes:

(1) "L" denotes long position and "S" denotes short position.

(2) Absolute Target Limited is owned as to 46.25%, 42.50% and 11.25% by Mr. Wong Yin Sen, Mr. Hon Lik and Mr. Wong Hei Lin respectively.

(3) These are the Shares issued and allotted under the Rights Issue (the "Rights Shares") which Chung Nam Securities Limited being the underwriter of the Rights Issue (the "Underwriter") has agreed to underwrite in respect of the Rights Issue.

(4) These are Rights Shares which Mr. Andrew Liu, being a sub-underwriter, has agreed to sub-underwrite from the Underwriter in respect of the Rights Issue.

(5) The percentage of shareholding in the Company of the Underwriter and Mr. Andrew Liu are derived from their disclosure of interest notices filed by them respectively and is calculated on the basis of 2,602,847,919 Shares of the Company being the aggregate of the maximum number of Rights Shares issued pursuant to the underwriting agreement and the maximum possible number of Shares issued as at the record date of the Rights Issue.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December, 2010.

Issue of shares under General Mandate

Pursuant to an subscription agreement entered into between the Company and Ms. Yu Man Fung Alice on 11 June 2010, the Company issued 332,721,166 ordinary shares ("Subscription Shares") of HK$0.10 each with an aggregate nominal value of HK$33,272,116.60 to Ms. Yu Man Fung Alice on 22 June 2010 at an issue price of HK$0.10 under the general mandate granted to the directors of the Company on 3 June 2010. The market price of the Company's shares on 11 June 2010 was HK$0.108. The net price per Subscription Share issued was approximately HK$0.10 to the Company. The Subscription Shares were issued to raise additional capital for the Company and the proceeds raised had been applied to settle short-term loan and for general working capital of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company and the Group was entered into or existed during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 10 to 16.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance, time, commitment, duties and responsibilities of Directors, contribution to the Group, comparable market statistics and prevailing market practice and trends.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the largest supplier of the Group by itself and together with the next four largest suppliers accounted for about 13% and 58%, respectively, of the Group's purchases.

During the year, the five largest customers of the Group accounted for less than 30% of the Group's turnover.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers.

RELATED PARTY TRANSACTIONS

The related party transactions set out in note 38 to the financial statements did not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Mr. Wong Yin Sen
Chairman

Hong Kong
29 March, 2011

Independent Auditor's Report

TO THE SHAREHOLDERS OF DRAGONITE INTERNATIONAL LIMITED
叁龍國際有限公司
(FORMERLY KNOWN AS RUYAN GROUP (HOLDINGS) LIMITED
如烟集團(控股)有限公司)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Dragonite International Limited (formerly known as Ruyan Group (Holdings) Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 87, which comprise the consolidated statement of financial position as at 31 December, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances that give a true and fair view but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December, 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	7	**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	30	**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	30	**–**	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	24	**–**	(7,974)
Impairment loss on property, plant and equipment		**(9,328)**	(20,000)
Impairment loss on goodwill		**–**	(3,934)
Gain on disposal of subsidiaries	34	**21,903**	–
Finance costs	9	**(17,945)**	(31,432)
Loss before tax		**(232,839)**	(441,855)
Income tax expense	10	**(492)**	(2,052)
Loss for the year	11	**(233,331)**	(443,907)
Other comprehensive income			
Reclassification adjustment for exchange difference upon disposal of foreign operation	34	**(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	15	**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	16	**30,413**	46,859
Goodwill	17	**–**	–
Available-for-sale investments	18	**–**	–
Financial assets designated at fair value through profit and loss	19	**20,000**	–
Intangible assets	20	**–**	730
Prepaid lease payments	21	**2,678**	2,664
		53,091	50,253
Current assets			
Inventories	22	**35,378**	99,277
Trade receivables	23	**5,082**	46,042
Deposits, prepayments and other receivables	24	**5,736**	48,701
Taxation recoverable		**2,600**	2,818
Amount due from a shareholder		**–**	127
Prepaid lease payments	21	**79**	77
Held-for-trading investments	25	**11,113**	–
Financial assets designated at fair value through profit or loss	19	**4,450**	–
Bank balances and cash	26	**11,681**	24,117
		76,119	221,159
Current liabilities			
Trade payables	27	**4,647**	6,602
Accruals and other payables	28	**41,269**	35,597
Derivative financial instruments	30	**377**	–
Convertible bonds	30	**4,136**	152,000
Borrowings	29	**5,000**	–
Amount due to a shareholder	31	**–**	10,000
Amount due to a non-controlling interest	31	**–**	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	32	**9,236**	151,336
Reserves		**63,654**	(107,129)
Equity attributable to owners of the Company		**72,890**	44,207

The financial statements on pages 30 to 87 were approved and authorised for issue by the Board of Directors on 29 March 2011 and are signed on its behalf by:

Wong Yin Sen
DIRECTOR

Ching Yuen Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December, 2010

	Share capital HK$'000	Share premium account HK$'000	Shareholders' contribution HK$'000 (note a)	Translation reserve HK$'000	Share option reserve HK$'000	Non-distributable reserves HK$'000 (note b)	Merger reserves HK$'000 (note d)	Special reserves HK$'000 (note c)	Accumulated profits (losses) HK$'000	Attributable to owners of the Company HK$'000
At 1 January, 2009	151,336	1,182,410	21,780	84,942	10,510	24,737	(1,016,738)	3,142	21,088	483,207
Loss for the year	–	–	–	–	–	–	–	–	(443,907)	(443,907)
Other comprehensive income for the year	–	–	–	1,931	–	–	–	–	–	1,931
Total comprehensive income for the year	–	–	–	1,931	–	–	–	–	(443,907)	(441,976)
Lapse of share options	–	–	–	–	(3,874)	–	–	–	3,874	–
Recognition of equity-settled share-based payments	–	–	–	–	2,976	–	–	–	–	2,976
At 31 December, 2009	151,336	1,182,410	21,780	86,873	9,612	24,737	(1,016,738)	3,142	(418,945)	44,207
Loss for the year	–	–	–	–	–	–	–	–	(233,331)	(233,331)
Other comprehensive income for the year	–	–	–	6,351	–	–	–	–	–	6,351
Total comprehensive income for the year	–	–	–	6,351	–	–	–	–	(233,331)	(226,980)
Issue of new shares	**33,272**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33,272**
Issue of new shares upon conversion of convertible bonds	**71,891**	**10,400**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**82,291**
Issue of new shares upon exercise of share options	**29,770**	**26,582**	**-**	**-**	**(11,984)**	**-**	**-**	**-**	**-**	**44,368**
Issue of new shares upon right issue	**83,180**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**83,180**
Capital Reorganisation	**(360,213)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**360,213**	**-**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**12,552**	**-**	**-**	**-**	**-**	**12,552**
At 31 December, 2010	**9,236**	**1,219,392**	**21,780**	**93,224**	**10,180**	**24,737**	**(1,016,738)**	**3,142**	**(292,063)**	**72,890**

Notes:

(a) Shareholders' contribution represents the amounts contributed by shareholders of SBT Investment (Holdings) Limited ("SBT") previously known as Best Partners Worldwide Limited.

(b) The non-distributable reserve represents statutory reserves appropriated from profit after tax of the Company's PRC subsidiary 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 effected on 1 January, 2000.

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

Consolidated Statement of Cash Flows

For the year ended 31 December, 2010

	Notes	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(232,839)**	(441,855)
Adjustments for:			
Depreciation of property, plant and equipment		**9,163**	13,584
Amortisation of prepaid lease payments		**85**	517
Amortisation of intangible assets		**753**	1,090
Allowance for inventory obsolescence		**65,399**	191,706
Allowance for bad and doubtful debts		**37,406**	95,055
Provision for onerous contracts		**–**	7,974
Share-based payment expense		**12,552**	2,976
Finance costs		**17,945**	31,432
Change in fair value of derivative financial instruments		**(912)**	(9,643)
Change in fair value of financial assets at designated fair value through profit or loss		**(9,700)**	–
Gain on restructuring of convertible bonds		**–**	(9,400)
Gain on early redemption of convertible bonds		**–**	(161)
Gain on disposal of subsidiaries	*34*	**(21,903)**	–
Change in fair value of held for trading investment		**1,056**	(668)
Interest income		**(13)**	(98)
Impairment losses on property, plant and equipment		**9,328**	20,000
Impairment loss on goodwill		**–**	3,934
Loss (gain) on disposal of property, plant and equipment		**1,334**	(2,666)
Operating cash flows before movements in working capital		**(110,346)**	(96,223)
Decrease (Increase) in inventories		**2,224**	(94,358)
Decrease in trade receivables		**31,734**	44,256
Decrease in deposits and other receivable		**15,226**	10,459
(Increase) decrease in held-for-trading investments		**(12,169)**	7,460
Decrease in trade payables		**(557)**	(13,037)
Increase (decrease) in accruals and other payables		**24,789**	(806)
Cash used in operations		**(49,099)**	(142,249)
Interest received		**13**	98
Interest paid		**(1,146)**	(2,089)
PRC income tax paid		**(119)**	(15,068)
NET CASH USED IN OPERATING ACTIVITIES		**(50,351)**	(159,308)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(3,378)**	(3,203)
Purchase of financial assets designated at fair value through profit or loss		**(14,750)**	–
Net cash outflow arising on disposal of subsidiaries	*34*	**(389)**	–
Proceeds on disposal of property, plant and equipment		**2,078**	8,935
Proceeds on disposal of prepaid lease payments		**–**	24,773
Repayments from (advance to) a shareholder		**127**	(127)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(16,312)**	30,378

Consolidated Statement of Cash Flows

For the year ended 31 December, 2010

	2010	2009
	HK$'000	HK$'000
FINANCING ACTIVITIES		
New other borrowing raised	130,000	–
Interest paid on other borrowings	(2,402)	–
Repayment of other borrowings	(125,000)	(3,591)
Redemption of convertible bonds	(153,681)	(43,163)
Proceeds from issue of convertible bonds	75,000	–
Issue of new shares	160,820	–
(Repayment to) advances from a shareholder	(10,000)	10,000
(Repayment to) advances from non-controlling interest	(21,011)	6,226
NET CASH FROM (USED IN) FINANCING ACTIVITIES	53,726	(30,528)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,937)	(159,458)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	24,117	182,298
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	501	1,277
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	11,681	24,117

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"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

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.

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.

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

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 basic 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.

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

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.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January, 2013 and that the application of the new Standard may mainly affect the classification and measurement of the Group's available-for-sales investments. The management considers the impact is insignificant to the Group after the application of HKFRS 9.

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. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented in the consolidated statement of financial position as an intangible asset.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, sales related taxes and returns.

Revenue from sale of goods is recognised when the goods are delivered and title has passed at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

From 1 January, 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits costs

Payments to defined contribution retirement benefits schemes and state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

The Group's intangible assets represent technology know-how acquired from third parties.

Inventories

Inventories comprise raw materials, work-in-progress and finished goods are carried at the lower of cost and net realisable value.

Cost includes direct materials, direct labour costs and overheads that have been incurred in bringing the inventories and work in progress to their present location and condition and is calculated using the weighted average method.

Net realisable value is the estimated by the management and is determined by reference to the selling price less all costs to completion and costs to be incurred in selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a shareholder and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

The Group's available-for-sale financial assets comprised unlisted equity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial assets because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period from 60 to 270 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sales equity securities will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

Convertible bonds containing liability component and conversion option derivative

Convertible bonds issued by the Group that contain liability, early redemption option derivatives and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the liability, early redemption options and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The early redemption option derivatives and conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When an entity extinguishes the convertible bonds before maturity through an early redemption or repurchase, in which the original conversion privileges are unchanged, are extinguished, the consideration paid and any transaction costs for the repurchase or redemption are allocated to the liability, early redemption option derivatives and conversion option components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible bonds were issued.

Once the allocation of the consideration is made, the amount of gain or loss relating to the liability component are recognised in profit or loss and equity respectively.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, early redemption option derivatives and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amount due to a shareholder, amount due to a non-controlling interest and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts (the liability component) and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Rights issued by the Company for issuing a fixed number of the Company's equity instruments for a fixed amount of any currency are equity instruments if the Company offers the rights pro rata to all of its existing owners of ordinary shareholders of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and others providing similar services as employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of derivative financial instruments and financial assets designated at fair value through profit or loss

As described in notes 19 and 30, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The derivative financial instruments and financial assets designated at fair value through profit or loss are valued using the binominal model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because binominal model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. The carrying amounts of the financial derivatives are set out in notes 19 and 30 respectively.

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December, 2010, the carrying amount of trade receivable is approximately HK$5,082,000 (net of allowance for doubtful debts of approximately HK$138,904,000) (31 December, 2009: carrying amount of approximately HK$46,042,000, net of allowance for doubtful debts of approximately HK$125,132,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Allowances for inventories

The management of the Group reviews an aging analysis at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items.

If the market condition was to deteriorate, resulting in a lower net realisable value for such finished goods and work-in-progress, additional allowances may be required.

As at 31 December, 2010, the carrying amount of inventories is approximately HK$35,378,000 (net of accumulated allowance for obsolescence inventories of approximately HK$325,766,000) (31 December, 2009: carrying amount of approximately HK$99,277,000, net of accumulated allowance for obsolescence inventories of approximately HK$260,367,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholder through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include the borrowings disclosed in note 29, convertible bonds disclosed in the note 30 and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010	2009
	HK$'000	HK$'000
Financial assets		
Financial assets at fair value through profit or loss		
– Designated at fair value through profit or loss	**24,450**	–
– Held-for-trading investments	**11,113**	–
Loans and receivables (including cash and cash equivalents)	**18,309**	95,521
Financial liabilities		
Financial liabilities at fair value through profit or loss		
– Derivative financial instruments	**377**	–
Amortised cost	**35,792**	214,835

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, financial assets designated at fair value through profit or loss, trade receivables, other receivables, bank balances and cash, trade payables, other payables, borrowings, amount due from/to a shareholder, amount due to a non-controlling interest, derivative financial instruments and convertible bonds. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Certain bank balances of the Group are denominated in foreign currencies which are different from functional currencies of respective group entities. As at 31 December, 2010 and 2009, as bank balances of respective group entities denominated in foreign currency was immaterial, the Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. In view of the immaterial foreign currency amount, no sensitivity analysis was presented.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances.

The Group is also exposed to fair value interest rate risk in relation to the fixed-rate borrowings (see Note 29 for details) through the impact of market interest rate changes on interest bearing borrowings.

The Group currently does not have interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

<u>Sensitivity analysis</u>

The management considers that the Group's exposure to cash flow interest rate risk on variable-rate bank balances as a result of the change of market interest rate is insignificant due to its short-term maturity and thus no sensitivity analysis is prepared for interest rate risk.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Other price risk

The Group is exposed to price risk in respect of:

– the conversion option and early redemption options embedded in the convertible bonds which allows the bondholders to convert to the Company's ordinary shares and allow the bondholders and the Group to early redeem the convertible bonds.

– the conversion option embedded in the financial assets designated at fair value through profit or loss which allows the Company to convert to the issuers' ordinary shares.

– the held-for-trading investments in respect of equity securities listed in the respective stock exchange.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. No sensitivity analysis is prepared for the convertible bonds issued by the Company as the directors consider the price risk is minimal.

If the prices of the respective equity instruments had been 5% (2009: 5%) higher/lower:

- post-tax loss for the year ended 31 December, 2010 would decrease/increase by HK$556,000 (2009: nil) as a result of the changes in fair value of held-for-trading investments.

- post-tax loss for the year ended 31 December, 2010 would decrease/increase by HK$1,223,000 (2009: nil) as a result of the changes in fair value of financial assets designated at fair value through profit or loss.

The management would manage its exposure arising from these investments by closely monitoring the performance of respective listed equity security and market conditions. The management would consider diversifying the portfolio of these investments as they consider appropriate.

In management's opinion, the sensitivity analysis are unrepresentative of the inherent marked risk as the pricing model used in the fair value valuation of the conversion option and early redemption options embedded in the convertible bonds and the financial assets designated at fair value through profit or loss involves multiple variables and certain variables are interdependent.

Credit risk

As at 31 December, 2009 and 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on financial assets designated at fair value through profit or loss is limited because the counterparties are sizable companies listed in The Stock Exchange of Hong Kong. The directors consider the default in payment upon maturity to be low.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk

The Group manages its liquidity risk by monitoring and maintaining a level of cash and cash equivalents secured adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the ultisation of bank borrowing and ensure compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity risk tables

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2010 HK$'000
2010						
Non-derivative financial liabilities						
Trade payables	–	4,647	–	–	4,647	4,647
Other payables	–	22,009	–	–	22,009	22,009
Convertible Bonds (note)	16	–	–	5,000	5,000	4,136
Other borrowings	24	–	5,268	–	5,268	5,000
		26,656	5,268	5,000	36,924	35,792

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2009 HK$'000
2009						
Non-derivative financial liabilities						
Trade payables	–	6,602	–	–	6,602	6,602
Other payables	–	25,222	–	–	25,222	25,222
Amount due to non-controlling interest	–	21,011	–	–	21,011	21,011
Amount due to a shareholder	–	10,000	–	–	10,000	10,000
Convertible Bonds (note)	4	2,320	–	171,065	173,385	152,000
		65,155	–	171,065	236,220	214,835

Note: The undiscounted cash outflows represent the coupon interest payments and redemption amount of the Convertible Bonds on the assumption that they will not be early redeemed by the Company before the maturity date.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements recognised in the consolidated statement of financial position (continued)

As at 31 December, 2010

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Non-derivative financial assets held for trading	**11,113**	**–**	**–**	**11,113**
Financial assets designated at fair value through profit or loss				
Unlisted debt securities	**–**	**–**	**24,450**	**24,450**
Total	**11,113**	**–**	**24,450**	**35,563**
Financial liabilities at FVTPL				
Derivative financial liabilities	**–**	**–**	**377**	**377**
Total	**–**	**–**	**377**	**377**

There were no transfers between Level 1 and 2 in the current and prior years.

Reconciliation of Level 3 fair value measurements of financial assets (liabilities)

	Conversion option derivatives HK$'000	Unlisted debt securities HK$'000
At 31 December, 2009 and 1 January, 2010	–	–
Purchases	–	14,750
Issuance of convertible bonds	(19,340)	–
Conversion	18,051	–
Unrealised gains in profit or loss	912	9,700
At 31 December, 2010	**(377)**	**24,450**

7. REVENUE

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

8. SEGMENT INFORMATION

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

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)

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3.

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.

8. SEGMENT INFORMATION (CONTINUED)

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 investments, 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.

8. SEGMENT INFORMATION (CONTINUED)

Other segment information

Amounts included in measure of segment profit or loss or segment assets:

	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
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.

8. SEGMENT INFORMATION (CONTINUED)

Revenue from major products

	2010	2009
	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.

9. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
The finance costs represent interests on:		
– other borrowings wholly repayable within five years	**3,548**	1,862
– convertible bonds (note 30)	**14,397**	29,570
	17,945	31,432

10. INCOME TAX EXPENSE

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January, 2008 onwards.

The taxation for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2010 HK$'000	2009 HK$'000
Loss before taxation	(232,839)	(441,855)
Tax at PRC income tax rate of 25%	(58,210)	(110,464)
Tax effect of expenses not deductible for tax purpose	28,839	25,702
Tax effect of incomes not taxable for tax purpose	(8,129)	(451)
Tax effect of deductible temporary difference not recognised	2,367	79,668
Tax effect of tax losses not recognised	35,625	9,472
Underprovision in prior years	–	1
Income tax on concessionary rate	–	(1,876)
Taxation for the year	492	2,052

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$244,770,000 (2009: HK$102,270,000) available for offset against future profits. No provision of deferred taxation has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary difference of HK$456,668,000 (2009: HK$447,200,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as the directors of the Company is not certain when taxable profit will be available again which the deductible temporary differences can be utilised.

11. LOSS FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (Note 12)		
– 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.

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the thirteen (2009: seven) directors were as follows:

	Wong Yin Sen HK$'000	Wong Hei Lin HK$'000	Hon Lik HK$'000	Au Yeung Kai Chan HK$'000	Ching Yuen Man HK$'000	Ching Yuk Lun HK$'000	Lam Man Sum HK$'000	Cheung Kwai Hung HK$'000	Ding Xun HK$'000	Pang Hong HK$'000	Liu Kwong Sang HK$'000	Frank H. Min HK$'000	Manfred A. Haussler HK$'000	Total 2010 HK$'000
Fees	–	–	–	–	–	–	–	–	–	150	–	–	–	150
Other emoluments														
Salaries	585	585	585	557	527	86	81	–	–	–	84	171	53	3,314
Other allowances	228	–	–	–	–	–	–	–	–	–	–	–	130	358
Retirement benefits scheme contributions	9	9	9	9	8	4	4	–	–	–	–	–	–	52
	822	594	594	566	535	90	85	–	–	150	84	171	183	3,874

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000	Ding Xun HK$'000	Pang Hong HK$'000	Cheung Kwan Hung HK$'000	Total 2009 HK$'000
Fees	–	–	–	–	150	150	150	450
Other emoluments								
Salaries	1,650	900	675	1,020	–	–	–	4,245
Other allowances	227	–	20	48	–	–	–	295
Retirement benefits scheme contributions	12	12	12	7	–	–	–	43
	1,889	912	707	1,075	150	150	150	5,033

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining one (2009: one) individual were as follows:

	2010	2009
	HK$'000	HK$'000
Salaries and other benefits	**702**	775
Contributions to retirement benefits schemes	**12**	9
	714	784

His emoluments was within the following band:

	2010	2009
	No. of employees	No. of employees
Nil to HK$1,000,000	**1**	1

14. DIVIDENDS

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

15. 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 purposes 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 purposes 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.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January, 2009	54,181	16,799	50,964	7,008	13,450	142,402
Exchange adjustments	(98)	(23)	(118)	(25)	(25)	(289)
Additions	–	804	2,326	21	52	3,203
Disposals	(20,644)	(12,258)	–	–	(2,835)	(35,737)
At 31 December, 2009	33,439	5,322	53,172	7,004	10,642	109,579
Exchange adjustments	**1,259**	**147**	**1,686**	**244**	**347**	**3,683**
Additions	**–**	**691**	**1,978**	**709**	**–**	**3,378**
Disposal of subsidiaries	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Disposals	**–**	**(1,433)**	**–**	**(1,273)**	**(2,791)**	**(5,497)**
At 31 December, 2010	**34,698**	**4,727**	**56,836**	**6,678**	**8,198**	**111,137**
DEPRECIATION AND IMPAIRMENT LOSSES						
At 1 January, 2009	12,011	12,551	9,135	3,881	6,268	43,846
Exchange adjustments	(28)	(14)	(31)	(12)	(9)	(94)
Provided for the year	1,532	1,988	8,559	731	774	13,584
Disposal of subsidiaries	(1,851)	(11,961)	–	–	(804)	(14,616)
Impairment loss for the year (note)	–	–	20,000	–	–	20,000
At 31 December, 2009	11,664	2,564	37,663	4,600	6,229	62,720
Exchange adjustments	**438**	**60**	**743**	**166**	**194**	**1,601**
Provided for the year	**1,415**	**87**	**5,571**	**1,525**	**565**	**9,163**
Disposal of subsidiaries	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Disposals	**–**	**(493)**	**–**	**(800)**	**(792)**	**(2,085)**
Impairment loss for the year (note)	**–**	**1,905**	**6,756**	**544**	**123**	**9,328**
At 31 December, 2010	**13,517**	**4,123**	**50,733**	**6,032**	**6,319**	**80,724**
NET BOOK VALUES						
At 31 December, 2010	**21,181**	**604**	**6,103**	**646**	**1,879**	**30,413**
At 31 December, 2009	21,775	2,758	15,509	2,404	4,413	46,859

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note:

In view of the huge operating loss experienced by the Group in health care products, pharmaceutical products and Ruyan atomizing cigarettes business during the year, the directors of the Company reviewed the carrying value of their leasehold improvement, plant and machinery and furniture, fixtures and equipment based on value in use assessment, in order to assess their recoverable amount.

For the year ended 31 December, 2010, impairment losses of HK$4,051,000, HK$94,000 and HK$5,183,000 were provided to health care products, pharmaceutical products and Ruyan atomizing cigarettes business and corporate headquarters respectively with reference to the result of the value in use assessment.

The recoverable amount for the property, plant and equipment other than buildings was determined based on the value in use calculations covering a detailed five-year financial budget plan approved by the Group's executive directors. There are a number of key assumptions and estimates involved in the preparation of the cash flow projections for the period covered by the Group's executive directors approved financial budget plan.

Value in use is derived by discounting the expected future cash flow projection at a 17% discount rate. The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The Group's executive directors have assumed zero growth rate in its budget revenues. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

The directors of the Company assessed the recoverable amount of buildings of the Group by reference to recent market prices for similar properties and similar locations and considered that there is no impairment indication on buildings as at 31 December, 2009 and 2010.

For the year ended 31 December, 2009, impairment loss of HK$20,000,000 was provided on the plant and machinery related to Ruyan atomizing cigarettes business with reference to the result of the value in use assessment. The discount rate in measuring the amounts of value in use was 12%.

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the terms of the lease or 50 years
Leasehold improvement	Over the shorter of the terms of the lease or 50 years
Plant and machinery	9%-20%
Furniture, fixtures and equipment	18%-20%
Motor vehicles	9%-20%

17. GOODWILL

	HK$'000
COST	
At 1 January and 31 December, 2009 and 31 December, 2010	3,934
IMPAIRMENT	
At 1 January, 2009	–
Impairment loss recognised in the year	3,934
At 31 December, 2009 and 2010	3,934
CARRYING VALUES	
At 31 December, 2009 and 2010	–

For the purpose of impairment testing, goodwill of HK$3,934,000 has been allocated to an individual cash generating unit ("CGU") in the year ended 31 December, 2009, which represents a subsidiary engaged in the health care products business.

For the year ended 31 December, 2009, the Group has performed impairment review for goodwill, based on cash flow forecasts derived from the most recent financial budgets for the next three years using the discount rate of 12%, while the remaining forecast beyond that three year period has been extrapolated with reference to annual growth rate of zero. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

At 31 December, 2009, the Group assessed the recoverable amount of the goodwill and considered the goodwill was fully impaired.

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2010	2009
	HK$'000	HK$'000
Unlisted equity securities in Hong Kong (note) – at cost	**1,000**	1,000
Less: Impairment loss	**(1,000)**	(1,000)
	–	–

Note: The amount represents unlisted equity investment in Archnet Technology Limited (the "Archnet"), a company incorporated in Hong Kong, which is stated at cost less impairment loss. The Group's investment represents a holding of 20% of the ordinary shares of Archnet. Archnet is not regarded as an associate of the Group because the Group is unable to appoint directors to sit on the board of Archnet and hence not in a position to exercise significant influence over its financial and operating policy decisions.

The investment has been fully impaired in prior periods.

19. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated as at fair value through profit or loss comprise:

	2010	2009
	HK$'000	HK$'000
Unlisted debt investments (note)	**24,450**	–
Analysed for reporting purpose as:		
Non-current portion	**20,000**	–
Current portion	**4,450**	–
	24,450	–

Note: The amounts represented the convertible bond instruments in ABC Communications (Holdings) Limited (the "ABC"), a Hong Kong listed company incorporated in Bermuda, and Fulbond Holdings Limited (the "Fulbond"), a Hong Kong listed company incorporated in Bermuda.

Pursuant to the Subscription Agreement between the Group and ABC, on 13 December 2010 (the "Subscription Agreement"), the Company subscribed the one-year 4% Convertible Bonds in a principal amount of HK$4,750,000 at the conversion price of HK$0.95 per conversion share of par value of HK$0.01 each in the capital of ABC.

The debt securities bear coupon interest at 4% per annum, both principal and accrued interests will be repayable on 13 December, 2011. The Company has the right to convert the debt securities and the accrued interests into shares of ABC at any time before 13 December, 2011. The convertible bond issuer, ABC, may early redeem the outstanding convertible bonds at a redemption premium of 104% of the principal amount of such convertible bond at any time until maturity.

Pursuant to the Subscription Agreement between the Group and Fulbond, on 10 August, 2010, the Company subscribed the zero coupon Convertible Bonds in a principal amount of HK$10,000,000 at the conversion price of HK$0.01 per conversion share of par value of US$0.001 each in the capital of Fulbond.

The principal will be repayable on 28 December, 2012. The Company has the right to convert the debt securities into shares of Fulbond at any time before 28 December, 2012. The convertible bond issuer, Fulbond, may early redeem the outstanding convertible bonds at par of the principal amount of such convertible bond at any time until maturity.

19. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Valuation of conversion option and redemption option

(i) For ABC Convertible Bonds

Binomial model is used for valuation of conversion option and early redemption option of the ABC Convertible Bonds. The inputs into the model were as follows:

	13 December 2010	31 December 2010
Stock price	HK$0.89	HK$0.71
Exercise price	HK$0.95	HK$0.95
Volatility	50%	53%
Option life	1 year	0.95 years
Risk free rate	0.38%	0.34%

(ii) For Fulbond Convertible Bonds

Binomial model is used for valuation of conversion option and early redemption option of the Fulbond Convertible Bonds. The inputs into the model were as follows:

	10 August 2010	31 December 2010
Stock price	HK$0.02	HK$0.02
Exercise price	HK$0.01	HK$0.01
Volatility	31%	58%
Option life	2.4 years	2 years
Risk free rate	0.45%	0.58%

Notes:

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the remaining life of the respective options.

(c) The risk free is determined by reference to the Hong Kong Government Bond Yield.

During the year, HK$9,700,000 (2009: nil) was recognised in profit or loss as change in fair value of financial assets designated at fair value through profit or loss.

20. INTANGIBLE ASSETS

The intangible assets represent technology know-hows for the production of pharmaceutical product which were acquired from third parties and are amortised on a straight-line basis over their estimated useful lives of 3 to 5 years from the date on which the technology know-hows were available for use by the Group.

	Technical know-hows HK$'000
COST	
At 1 January, 2009	12,386
Exchange adjustments	(28)
At 31 December, 2009	12,358
Exchange adjustments	466
At 31 December, 2010	12,824
AMORTISATION	
At 1 January, 2009	10,563
Exchange adjustments	(25)
Charge for the year	1,090
At 31 December, 2009	11,628
Exchange adjustments	443
Charge for the year	753
At 31 December, 2010	12,824
CARRYING VALUES	
At 31 December, 2010	–
At 31 December, 2009	730

21. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise:

	2010 HK$'000	2009 HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**2,757**	2,741
Analysed for reporting purposes as:		
Current portion	**79**	77
Non-current portion	**2,678**	2,664
	2,757	2,741

During the year ended 31 December, 2009, the Group disposed prepaid lease payments with carrying amount of approximately HK$24,773,000.

The leasehold land is amortised on a straight-line basis over the remaining term of the lease.

22. INVENTORIES

	2010 HK$'000	2009 HK$'000
Raw materials	**26,650**	72,166
Work in progress	**–**	4,597
Finished goods	**8,728**	22,514
	35,378	99,277

23. TRADE RECEIVABLES

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

23. TRADE RECEIVABLES (CONTINUED)

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

The Group has policy of allowance for bad and doubtful debts which is based on the evaluation of collectibility and age of accounts and on management's judgement including credit worthiness and past collection history of each customer.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

The receivables with a carrying amount of HK$5,082,000 (2009: HK$46,042,000) which are neither past due nor impaired at the end of the reporting date for which the Group believes that the amounts are considered recoverable because the receivables are related to a number of independent customers that have good repayment records with the Group.

At 31 December, 2009 and 2010, there is no trade receivable balance is past due at the reporting date for which the Group has not provided for impairment loss.

In determining the recoverability of the trade receivables, the Group considers any changes in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

Movement in the allowance for doubtful debts

	2010	2009
	HK$'000	HK$'000
Balance at beginning of the year	**125,132**	48,902
Impairment losses recognised	**13,229**	81,213
Amounts written off as uncollectible	**–**	(2,477)
Amounts recovered during the year	**(4,167)**	(2,309)
Exchange adjustments	**4,710**	(197)
Balance at end of the year	**138,904**	125,132

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full allowance on these receivables and considered that they are generally not recoverable.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2010 **HK$'000**	2009 HK$'000
Deposits (note i)	**1,659**	1,498
Prepayments (note ii)	**2,531**	21,968
Other receivables (note iii)	**1,546**	25,235
	5,736	48,701

Notes:

(i) During the year ended 31 December, 2009, impairment loss of HK$9,090,000 was fully provided for the security deposit paid to a PRC retail store chain which had been bankrupted during the year.

(ii) During the year 31 December, 2009, provision of onerous contracts related to the prepayments of HK$7,974,000 was fully provided for those moulds for the production of certain models of Ruyan atomizing cigarettes were considered obsolescence.

(iii) Other receivables are unsecured, interest-free and repayable on demand.

	2010 **HK$'000**	2009 HK$'000
Other receivables	**36,182**	31,299
Less: Allowance	**(34,636)**	(6,064)
Other receivables (net of provision)	**1,546**	25,235

Movement in the allowance for bad and doubtful debts for other receivables

	2010 **HK$'000**	2009 HK$'000
Balance at beginning of the year	**6,064**	4,016
Charged for the year	**28,344**	2,644
Amounts recovered during the year	**–**	(583)
Exchange adjustments	**228**	(13)
Balance at end of the year	**34,636**	6,064

Included in the allowance for doubtful debts are individually impaired other receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full allowance on these other receivables and considered that they are generally not recoverable.

25. HELD-FOR-TRADING INVESTMENTS

	2010 HK$'000	2009 HK$'000
Equity securities listed in Hong Kong	**11,113**	–

Fair value of listed investments held-for-trading are based on quoted market bid price.

26. BANK BALANCES AND CASH

At 31 December, 2010, there were bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK$7,121,000 (2009: HK$22,092,000) and carry interest at market rates which range from 0.36% to 0.72% (2009: 0.2% to 0.8%) per annum. RMB is not freely convertible into other currencies. Other bank balances and cash are denominated in Hong Kong dollars which carry interest at market rates which range from 0.001% to 0.06% (2009: 0.001% to 0.06%) per annum.

27. 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 HK$'000	2009 HK$'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

28. ACCRUALS AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Other payables	**22,009**	25,222
Accruals	**16,134**	8,387
Customer deposits	**3,126**	1,988
	41,269	35,597

29. BORROWINGS

	2010 HK$'000	2009 HK$'000
Other borrowings-unsecured (note)	5.000	–
Carrying amounts repayable:		
Within one year	5.000	–
	5.000	–
Less: Amounts due within one year shown under current liabilities	(5.000)	–
	–	–
Borrowings comprise:		
Fixed-rate borrowings	5.000	–

The range of effective rate (which are also equal to contracted interest rates) on the Group's borrowing are as follows:

	2010	2009
Effective interest rate per annum:		
Fixed-rate borrowings	24%	–

Note: Other borrowings are unsecured and repayable in full on 22 March, 2011.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

On 31 July, 2007, the Company issued HK$151,000,000 convertible bonds (the "First Convertible Bonds") bearing coupons of 2.5% per annum payable semi-annually in arrear and matures on 31 July, 2012.

Restructuring of the First Convertible Bonds

On 7 August, 2009, the bondholders and the Company came to an agreement to amend the terms of the First Convertible Bonds (thereafter the First Convertible Bonds with amended terms are referred as the "Second Convertible Bonds"). The approval of amendment was granted by the Stock Exchange on 14 August, 2009 and the restructuring of First Convertible Bonds was completed on 28 August, 2009.

As at 28 August, 2009, the aggregate fair value of the First Convertible Bonds, which included the fair value of the liability component and derivative components, amounted to HK$154,400,000. The First Convertible Bonds was derecognized on 28 August, 2009

The key terms of the Second Convertible Bonds are summarised below:

- the principal bearing coupon was amended from 2.5% to 4% per annum payable semi-annually in arrears.
- the maturity date was amended from 31 July, 2012 to 31 July, 2010 (the "Amended Maturity Date").
- the Second Convertible Bonds could be converted into the Company's shares at: HK$0.75 per share if the conversion right was exercised during the period from the date of restructuring of the First Convertible Bonds to 30 October, 2009; HK$0.7 per share if the conversion right was exercised during the period from 1 November, 2009 to 31 December, 2009; and HK$0.65 per share if the conversion right was exercised during 1 January, 2010 to the Amended Maturity Date.
- unless previously redeemed or converted into the Company's shares, the Company shall redeem the Second Convertible Bonds at 147.47% of the principal amount of the Second Convertible Bonds on the Amended Maturity Date.
- the Company may redeem the Second Convertible Bonds, in whole or in part, at any time at early redemption price calculated based on redemption yields ("Redemption Yields"). The Redemption Yields for the period from 1 August, 2009 to 30 September, 2009, 1 October, 2009 to 31 December, 2009 and 1 January, 2010 to the Amended Maturity Date are 20%, 22.5% and 25% per annum respectively.
- The bondholder would have the right to early redeem the outstanding convertible bonds at a premium of the principal amount of such convertible bond at anytime prior to maturity.

Second Convertible Bonds

On 28 August, 2009 (date of restructuring of the First Convertible Bonds), the liability component and the derivative components of the Second Convertible Bonds of HK$145,000,000 and nil respectively were recognised at fair value. The difference between the aggregate carrying value of the First Convertible Bonds derecognised and fair value of the Second Convertible Bonds recognised amounting to HK$9,400,000 is credited to the profit or loss as gain on restructuring of convertible bonds.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Second Convertible Bonds (continued)

First redemption

On 30 September, 2009, the Company and the bondholders came to an agreement to redeem certain portion of the Second Convertible Bonds with principal amount of HK$4,800,000.

First conversion

On 3 February, 2010, a bondholder served a conversion notice to the Company for the conversion of 18,910,000 shares of the Second Convertible Bonds at HK$0.65 per share at a carrying amount of HK$12,291,000.

Second redemption

On 10 June, 2010, the bondholders served a redemption notice to the Company for the fully redemption of the remaining Second Convertible Bonds at an agreed redemption consideration of HK$153,681,000 being the outstanding principal together with interest and redemption premium. The completion of the redemption took place on 17 June, 2010.

	Liability component	**Derivative component**	**Total**
	HK$'000	HK$'000	HK$'000
As at 1 January, 2009	–	–	–
Restructuring of First convertible bonds	145,000	–	145,000
Interest charge	12,001	–	12,001
First redemption	(4,800)	–	(4,800)
Interest paid	(201)	–	(201)
As at 31 December, 2009	152,000	–	152,000
First conversion	(12,291)	–	(12,291)
Interest charge	13,972	–	13,972
Second redemption	(153,681)	–	(153,681)
As at 31 December, 2010	–	–	–

Third Convertible Bonds

On 22 June, 2010, the Company issued HK$75,000,000 zero-coupon convertible bonds (the "Third Convertible Bonds"). The Third Convertible Bonds are denominated in HKD. It entitled the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 21 June, 2012 at a conversion price of HK$0.10 per convertible loan note. If the notes have not been converted, they will be redeemed on 21 June, 2012 at par. The conversion price is adjusted to HK$0.692 per share after right issues and share consolidation.

The net proceeds received from the issue of the Third Convertible Bonds contain liability component and conversion option. The conversion option is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Third Convertible Bonds (continued)

Second conversion

On 22, 29 and 30 June, 2010, the bondholders served a conversion notice to the Company for conversion of 250,000,000, 100,000,000 and 350,000,000 ordinary shares of the Company, respectively, of the Third Convertible Bonds at HK$0.1 per share at a consideration of HK$70,000,000. The liability component of the Third Convertible Bonds was HK$51,949,000 which was stated at the amortised cost using the effective interest method and the fair value of the derivative components of the Third Convertible Bonds at the date of Conversion was HK$18,051,000.

The movement of the liability component and conversion option derivatives of the Third Convertible Bonds for the period is set out as below:

	Liability component HK$'000	Conversion option derivatives HK$'000	Total HK$'000
As at 22 June, 2010	55,660	19,340	75,000
Second conversion	(51,949)	(18,051)	(70,000)
Interest charged	425	–	425
Change in fair value	–	(912)	(912)
As at 31 December, 2010	4,136	377	4,513

The methods and assumptions applied for the valuation of the convertible bonds are as follows;

(1) Valuation of liability component

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of Second Convertible Bonds and Third Convertible Bonds are 24% and 16.1% respectively.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(2) Valuation of conversion option

(i) For Second Convertible Bonds

Binomial model is used for valuation of conversion option of the Second Convertible Bonds. The inputs into the model were as follows:

	28 August 2009	30 September 2009	31 December 2009	3 February 2010	10 June 2010
Stock price	HK$0.178	HK$0.154	HK$0.184	HK$0.25	HK$0.11
Exercise price	(note)	(note)	(note)	(note)	(note)
Volatility	41%	33%	35%	30%	30%
Option life	0.9 years	0.8 years	0.8 years	0.5 years	0 year
Risk free rate	21%	0.16%	0.17%	0.18%	0%

Note: HK$0.75 per share from 28 August, 2009 to 30 October, 2009; HK$0.7 per share from 1 November, 2009 to 31 December 2009; and HK$0.65 per share from 1 January, 2010 to the Amended Maturity Date.

(ii) For Third Convertible Bonds

Binomial model is used for valuation of conversion option of the Third Convertible Bonds. The inputs into the model were as follows:

	22 June 2010	31 December 2010
Stock price	HK$0.1	HK$0.46
Exercise price	HK$0.1	HK$0.692
Volatility	45%	51%
Option life	2 years	1.5 years
Risk free rate	0.62%	0.46%

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Valuation of issuer and bondholders early redemption options

(i) For second Convertible Bonds

Binomial model is used for valuation of early redemption options of the second Convertible Bonds. The inputs into the model were as follows:

	28 August 2009	30 September 2009	31 December 2009	3 February 2010	10 June 2010
Stock price	HK$0.178	HK$0.154	HK$0.184	HK$0.25	HK$0.11
Volatility (note a)	41%	33%	35%	33%	33%
Option life (note b)	0.9 years	0.8 years	0.8 years	0.5 years	0 year
Risk free rate (note c)	21%	0.16%	0.17%	0.18%	0%

Notes:

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the remaining life of the respective options.

(c) The risk free is determined by reference to the Hong Kong Government Bond Yield.

During the year, HK$912,000 (2009: HK$9,643,000) was recognized in profit or loss as change in fair value of derivative financial instruments.

31. AMOUNT DUE TO A SHAREHOLDER/AMOUNT DUE TO A NON-CONTROLLING INTEREST

The amounts are non-trade nature, unsecured, non-interest bearing and repayable on demand.

32. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January, 2009, 31 December, 2009 and 1 January, 2010	2,000,000	200,000
Increase in authorised share capital (note i)	8,000,000	800,000
As 31 December, 2010	10,000,000	1,000,000
Issued:		
At 1 January, 2009, 31 December, 2009 and 1 January, 2010	1,513,360	151,336
Issue of subscription shares (note ii)	332,721	33,272
Exercise of share options (note iii)	297,696	29,770
Conversion of convertible bonds (note iv)	718,910	71,891
Right issue (note v)	831,803	83,180
Share Consolidation (note vi)	(3,602,128)	(360,213)
As 31 December, 2010	92,362	9,236

Notes:

(i) On 5 May, 2010, the authorized share capital of the Company was increased from HK$200,000,000 divided into 2,000,000,000 shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares by creation of an additional 8,000,000,000 shares.

On 15 December, 2010, the Company performed a share capital re-organization involving every 40 issued and unissued shares of par value of HK$0.1 each be consolidated into 1 consolidated share by cancelling a sum of HK$3.9 per consolidated share in issue. Moreover, authorised share capital of the Company is then being 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.

(ii) On 11 June, 2010, 332,721,000 new ordinary shares of the Company of HK$0.10 each were issued by subscription pursuant to the subscription agreement dated 11 June, 2010 entered into between the Company and an individual investor of the Company, at a price of HK$0.10 per share.

(iii) On 2 March, 2010, 29 April, 2010 and 15 June, 2010, share options for 1,000,000, 130,336,000 and 166,360,583 of HK$0.10 each were exercised at the exercised price of HK$0.167, HK$0.200 and HK$0.109 respectively. Details of options outstanding and movements during the year are out in note 33.

(iv) On 3 February, 2010, 18,910,000 new ordinary shares of the Company of HK$0.10 each were issued upon the partial conversion of Second Convertible Bonds (as defined in note 30) pursuant to the Subscription Agreement. Convertible Bonds with aggregate principal amount of HK$12,291,000 were converted into 18,910,000 ordinary shares of the Company at a conversion price of HK$0.65 per share.

On 22, 29 and 30 June, 2010, 250,000,000, 100,000,000 and 350,000,000 new ordinary shares of the Company of HK$0.10 each were issued upon the partial conversion of Third Convertible Bonds (as defined in note 30) pursuant to the Subscription Agreement, respectively. Convertible Bonds with aggregate principal amount of HK$70,000,000 were converted into 700,000,000 ordinary shares of the Company at a conversion price of HK$0.10 per share.

32. SHARE CAPITAL (CONTINUED)

Notes: (continued)

(v) On 3 June, 2010, the Company allotted and issued 831,803,000 shares by way of rights issue at a subscription price of HK$0.01 per rights share on the basis of one rights share for every two shares then held.

(vi) On 15 December, 2010, the Company has a share consolidation involving every 40 shares of par value of HK$0.10 each be consolidated into 1 consolidated share of par value of HK$4 each (the "Consolidated Share").

A capital reduction whereby upon the Share Consolidation becoming effective, the nominal value of all the issued Consolidated Share shall be reduced from HK$4 each to HK$0.1 each, and the issued and paid up capital of the Company shall be cancelled to the extent of HK$3.9 per Consolidated Share in issue.

All the shares issued during the year ended 31 December, 2010 rank pari passu with the existing shares of the Company in all respect.

33. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company's share option scheme (the Scheme), was adopted pursuant to a resolution passes on 30 May, 2003 for the primary purpose of providing incentives to participants, including executive directors of the Company and its subsidiaries. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The following table discloses movements in the Company's share options during the year:

Category of participants	Date of share options granted (note i)	No. of share options granted during year 2008 and as at 1 January 2009	No. of share options granted during the period	No. of share options lapsed during the period	No. of share options as at 1 January, 2010	No. of share options granted during the period	No. of share options exercised during the period	No. of share options adjusted during the period (note iv)	No. of share options outstanding as at 31 December, 2010	Exercise period	Exercise price per share option (note iv)
Directors											
Wong Yin Sen	9 January, 2008	1,500,000	–	–	1,500,000	–	–	(1,456,088)	43,912	11 January, 2008 to 10 January, 2013	20.48
Hon Lik	9 January, 2008	1,500,000	–	–	1,500,000	–	–	(1,456,088)	43,912	4 February, 2008 to 3 February, 2013	20.48
Wong Hei Lin	9 January, 2008	1,500,000	–	–	1,500,000	–`	–	(1,456,088)	43,912	4 February, 2008 to 3 February, 2013	20.48
Lee Kim Hung	9 January, 2008	15,000,000	–	(15,000,000)	–	–	–	–	–	N/A	N/A
Pang Hong	9 January, 2008	1,000,000	–	–	1,000,000	–	–	(970,725)	29,275	14 January, 2008 to 13 January, 2013	20.48
Cheung Kwan Hung (note ii)	9 January, 2008	1,000,000	–	–	1,000,000	–	–	(970,725)	29,275	11 January, 2008 to 10 January, 2013	20.48
Ding Xun (note ii)	9 January, 2008	1,000,000	–	–	1,000,000	–	–	(970,725)	29,275	22 January, 2008 to 21 January, 2013	20.48
		22,500,000			7,500,000				219,561		

33. SHARE-BASED PAYMENTS (CONTINUED)

Equity-settled share option scheme (continued)

Category of participants	Date of share options granted (note i)	No. of share options granted during year 2008 and as at 1 January 2009	No. of share options granted during the period	No. of share options lapsed during the period	No. of share options as at 1 January, 2010	No. of share options granted during the period	No. of share options exercised during the period	No. of share options adjusted during the period (note iv)	No. of share options outstanding as at 31 December, 2010	Exercise period	Exercise price per share option (note iv)
Employees (in aggregate)	9 January, 2008	22,600,000	–	–	22,600,000	–	–	(21,938,385)	661,616	6 February, 2008 to 5 February, 2013	20.48
	18 February, 2008	1,000,000	–	–	1,000,000	–	–	(970,725)	29,275	17 March, 2008 to 16 March, 2013	23.92
	28 February, 2008	6,000,000	–	(2,000,000)	4,000,000	–	–	(3,882,900)	117,100	27 March, 2008 to 26 March, 2013	23.92
	5 June, 2008	2,000,000	–	–	2,000,000	–	–	(1,941,450)	58,550	3 July, 2008 to 2 July, 2013	21.16
	20 November, 2009 (note v)	–	6,000,000	–	6,000,000	–	(1,000,000)	(4,853,625)	146,375	20 November, 2009 to 19 November, 2013	5.72
		31,600,000			35,600,000				1,012,916		
Others (note iii)											
	6 May, 2008	2,000,000	–	–	2,000,000	–	–	(1,941,450)	58,550	3 June, 2008 to 2 June, 2013	20.84
	30 March, 2009	–	15,000,000	–	15,000,000	–	–	(14,560,875)	439,125	30 March, 2009 to 29 March, 2013	13.68
	28 April, 2010 (note vi)	–	–	–	–	130,336,000	(130,336,000)	–	–	28 April, 2010 to 27 April, 2015	0.2
	10 June, 2010 (note vii)	–	–	–	–	166,360,583	(166,360,583)	–	–	10 June, 2010 to 9 June, 2015	0.109
		2,000,000			17,000,000				497,675		
Total		56,100,000			60,100,000				1,730,151		
Exercisable at the end of the year					60,100,000				1,730,152		
Weighted average exercise price (HK$)		0.61	0.33	0.61	0.52	0.15	0.15	0.52	17.83		

33. SHARE-BASED PAYMENTS (CONTINUED)

Equity-settled share option scheme (continued)

Notes:

(i) There is no vesting period for the share options granted except for 21,600,000 share options granted during 2008 are subject to a vesting period of three stages with 33.33% of such options granted becoming exercisable on the first anniversary, another 33.33% becoming exercisable on the second anniversary and the remaining 33.34% becoming exercisable on the third anniversary of the respective dates on which the options were accepted.

(ii) Mr. Cheung Kwan Hung and Mr. Ding Xun were resigned as an independent non-executive director on 28 June, 2010.

(iii) These are individuals who rendered consultancy services in respect of management of the Ruyan atomizing cigarettes to the Group. The Group granted share options to them for recognizing their services similar to those rendered by other employees. The consultancy services rendered by the consultants include coordination of potential investment projects and advise on potential acquisition. In the opinion of the directors, the consultancy services rendered by the consultants are similar to those rendered by the employees. Therefore, the fair value of the share options granted to the consultants was measured by the same accounting policies as that of the employees in accordance with HKFRS 2.

(iv) The number of share options and exercise price per share option were adjusted immediately after the completion of the rights issue on 3 June, 2010 and share consolidation on 15 December, 2010.

(v) The weighted average closing price of the shares immediately before 2 March, 2010 on which the options were exercised was HK$0.21 per share.

(vi) The weighted average fair value of all options granted on 28 April, 2010 was HK$0.0525 per share. The fair value of the share options granted is calculated on 28 April, 2010, using the Binominal model with the following assumptions: expected dividend yield of 0%, expected life of five years, expected volatility of 94% and risk-free interest rate of 2.026%. The weighted average closing price of the shares immediately before 28 April, 2010 on which the options were exercised was HK$0.162 per share.

(vii) The weighted average fair value of all options granted on 10 June, 2010 was HK$0.0304 per share. The fair value of the share options granted is calculated on 10 June, 2010, using the Binominal model with the following assumptions: expected dividend yield of 0%, expected life of five years, expected volatility of 91% and risk-free interest rate of 1.594%. The weighted average closing price of the shares immediately before 10 June, 2010 on which the options were exercised was HK$0.115 per share.

The closing prices of the Company's shares immediately before 28 April, 2010 and 10 June, 2010, the dates of grant of the 2010 options, were HK$0.165 and HK$0.101 respectively (closing prices of the Company's shares immediately before 30 March, 2009, 20 November, 2009, the dates of grant of the 2009 options, were HK$0.17 and HK$0.167 respectively).

In the current year, share options were granted on 28 April, 2010 and 10 June, 2010. The fair values of the options determined at the dates of grant using the Binominal model approximately were HK$6,843,000 and HK$5,057,000 respectively (fair values of share options granted on 30 March, 2009 and 20 November, 2009, determined at the dates of grant using the Binominal model, were approximately HK$853,000 and HK$475,000 respectively.)

The following assumptions were used to calculate the fair values of share options:

	28.4.2010	10.6.2010	30.3.2009	20.11.2009
Grant date share price	HK$0.193	HK$0.108	HK$0.17	HK$0.167
Exercise price	HK$0.200	HK$0.109	HK$0.12	HK$0.167
Option life	5 years	5 years	3 years	3 years
Expected volatility	94%	91%	91%	92%
Dividend yield	–	–	–	–
Risk-free interest rate	2.026%	1.594%	1.48%	1.29%

33. SHARE-BASED PAYMENTS (CONTINUED)

Equity-settled share option scheme (continued)

The Binominal has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the profit and loss, with a corresponding adjustment to the share options reserve.

In the current year, an amount of share-based payment expenses in respect of its share options of HK$12,552,000 (2009: HK$2,976,000) has been recognised in the consolidated statement of comprehensive income with a corresponding adjustment recognised in the Group's share option reserve.

34. DISPOSAL OF SUBSIDIARIES

On 23 April, 2010, the Group has disposed of its entire shareholding of Charm Action Group Limited and its subsidiary (the "Charm Action Group") at the consideration of US$1. The net liabilities of the Charm Action Group at the date of disposal were as follows:

	HK$'000
Net liabilities disposed of	
Property, plant and equipment	3
Inventories	13
Trade receivables	164
Bank balances and cash	389
Trade payables	(1,647)
Amount due to non-controlling interest	(20,457)
	(21,535)
Cash consideration	–
Release of translation reserve	(368)
Gain on disposal of subsidiaries	(21,903)
Net cash outflow arising on disposal	
Cash consideration	–
Bank balances and cash disposed of	(389)
	(389)

35. CAPITAL COMMITMENTS

	2010	2009
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of intangible assets	**305**	295

36. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of rented premises which fall due as follows:

	2010	2009
	HK$'000	HK$'000
Within one year	**2,169**	1,241
In the second to fifth year	**523**	–
	2,692	1,241

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for two years and rentals are fixed for two years.

37. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of the trustees. During the year, contributions made by the Group to the Scheme amounted HK$276,000 (2009: HK$109,000).

The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on certain percentage of the monthly salaries of their current employees to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specific contributions.

During the year, contributions made by the Group to the state retirement schemes amounted HK$239,000 (2009: HK$727,000).

The contributions made by the Group to the Scheme and state retirement schemes are charged to the consolidated statement of comprehensive income when employees have rendered service to the Group.

38. RELATED PARTY TRANSACTIONS

The balances with the related parties have been disclosed in note 31 to the consolidated financial statements and the consolidated statement of financial positions.

The remuneration of directors and other members of key management during the year was as follows:

	2010 HK$'000	2009 HK$'000
Short-term benefits	3,822	4,990
Post employment benefits	52	43
	3,874	5,033

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2010 %	2009 %	Principal activities
Chenlong Group Limited	BVI/Hong Kong	US$20,000	100	100	Investment holding
集安新華龍參業有限公司 Jian New Wellon Ginseng Industry Co., Ltd. ("Jian New Wellon")	PRC	RMB7,000,000 (note a)	100	100	Purchase and sales of raw ginseng
新華龍有限公司 New Wellon Limited	Hong Kong	HK$10,000	100	100	Investment holding
瀋陽辰龍保齡參有限公司 Shenyang Chenlong Longerity Ginseng Co., Ltd. ("Shenyang Chenlong")	PRC	US$3,705,000 (note b)	100	100	Processing and sales of a series of health care products
瀋陽金龍保健品有限公司 Shenyang Jinlong Health Care Products Co., Ltd. ("Shenyang Jinlong")	PRC	US$1,220,000 (note c)	100	100	Processing and sales of ginseng and related products
瀋陽金龍藥業有限公司 Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical")	PRC	HK$20,000,000 (note d)	100	100	Processing and sales of Pharmaceutical products and production of electronics cigarettes components

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			2010	2009	
			%	%	
Ruyan Group (Hong Kong) Limited	Hong Kong	HK$100	**100**	100	Investment holding
北京賽波特如烟科技發展有限公司 Beijing SBT Technology Development Co., Ltd. ("BJ SBT")	PRC	US$5,000,000 (note f)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
瀋陽賽波特科技發展有限公司 Shenyang SBT Technology Development Co., Ltd. ("Shenyang SBT")	PRC	US$500,000 (note f)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
天津賽波特如烟科技發展有限公司 Tianjian SBT Technology Development Co., Ltd. ("Tianjian SBT")	PRC	HK$56,000,000 (note f)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
北京埃迪歐亞商貿有限責任公司	PRC	RMB100,000 (note e)	**100**	100	Sales of Ruyan atomizing cigarettes

None of the subsidiaries had issued any debt securities at the end of the year.

Notes:

(a) Jian New Wellon is a wholly foreign-owned enterprise for a period of 15 years commencing from 22 June, 1998.

(b) Shenyang Chenlong is a wholly foreign-owned enterprise for a period of 15 years commencing from 7 May, 1999.

(c) Shenyang Jinlong is a sino-foreign equity joint venture for a period of 15 years commencing from 27 November, 1992 established under a joint venture agreement with another PRC party who is the former shareholder of Success Century holding the remaining 20% shareholding of Shenyang Jinlong.

Pursuant to an agreement made between the Group and the former shareholder of Success Century during the year 2004, the remaining 20% shareholding of Shenyang Jinlong was transferred to the Group by way of acquisition of Success Century and Shenyang Jinlong became the wholly foreign owned enterprise.

d) Jinlong Pharmaceutical is a wholly foreign-owned enterprise for a period of 15 years commencing from 8 June, 2001.

(e) 北京埃迪歐亞商貿有限責任公司 is a wholly foreign-owned enterprise for a period of 20 years commencing from 13 December, 2008.

(f) BJ SBT, Shenyang SBT and Tianjian SBT are wholly foreign-owned enterprises for a period of 15 years since year 2006.

40. EVENT AFTER THE REPORTING PERIOD

On 28 January, 2011, the Company issued 1,847,245,240 rights shares at a subscription price of HK$0.22 per rights share, on the basis of twenty rights shares for every share in issue on the record date (the "Right Issue"). The estimated proceeds from the Right Issue is approximately HK$406,394,000.

Financial Summary

	Year ended 31 December,				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(restated)
RESULTS					
Turnover	**21,786**	97,586	424,045	275,382	402,851
(Loss) profit before tax	**(232,839)**	(441,855)	(147,374)	38,734	84,289
Income tax expense	**(492)**	(2,052)	(17,270)	(4,495)	(2,023)
(Loss) profit for the year	**(233,331)**	(443,907)	(164,644)	34,239	82,266
Attributable to:					
Equity holders of the parent	**(233,331)**	(443,907)	(164,644)	26,116	51,894
Non-controlling interests	**–**	–	–	8,123	30,372
	(233,331)	(443,907)	(164,644)	34,239	82,266

	As at 31 December,				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)	(restated)
ASSETS AND LIABILITIES					
Total assets	**129,210**	271,412	769,861	885,527	604,605
Total liabilities	**(56,320)**	(227,205)	(286,654)	(280,710)	(203,303)
Preferred shares issued by a subsidiary	–	–	–	–	–
	72,890	44,207	483,207	604,817	401,302
Equity attributable to equity holders of the period	**72,890**	44,207	483,207	604,817	363,534
Non-controlling interests	–	–	–	–	37,768
	72,890	44,207	483,207	604,817	401,302

Note: During the year 31 December 2007, the Company has accounted for the Acquisition in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to prepare the consolidated financial statements, assuming that the current group structure had been in existence throughout the years presented. Accordingly, the prior year figures have been restated.