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Dragonite International Limited

叁龍國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 329)

- (1) PROPOSED CAPITAL REORGANISATION;**
- (2) CHANGE IN BOARD LOT SIZE;**
- (3) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF TWO RIGHTS SHARES FOR EVERY ADJUSTED SHARE HELD ON THE RECORD DATE AT HK\$0.1 PER RIGHTS SHARE; AND**
- (4) RESUMPTION OF TRADING**

(1) PROPOSED CAPITAL REORGANISATION

The Board proposes to put forward to the Shareholders a proposal to effect the Capital Reorganisation which will comprise of:-

- (i) the proposed Share Consolidation whereby every 5 issued Shares of par value of HK\$0.10 each will be consolidated into one Consolidated Share of par value of HK\$0.50 each;
- (ii) immediately following the Share Consolidation, the nominal value of each issued Consolidated Share will be reduced from par value of HK\$0.50 each to par value of HK\$0.01 each by cancellation of the paid-up capital to the extent of HK\$0.49 on each issued Consolidated Share and the total number of Consolidated Shares in the issued share capital of the Company will be rounded down to a whole number;

- (iii) the proposed Share Premium Cancellation whereby upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company be cancelled;
- (iv) the application of the credit arising from the Capital Reduction and Share Premium Cancellation to cancel the accumulated deficit of the Company with the balance to be transferred to a distributable reserve account of the Company to be applied in such manner as the Directors consider appropriate; and
- (v) the proposed Share Subdivision whereby each of the authorised but unissued Shares of par value of HK\$0.10 each will be subdivided into 10 Adjusted Shares of par value of HK\$0.01 each.

The Capital Reorganisation is conditional upon, among other things, the approval by the Shareholders at the EGM and the confirmation of the Capital Reduction by the Court.

(2) PROPOSED CHANGE IN BOARD LOT SIZE

The Shares are currently traded in board lots of 10,000 Shares. The Company proposes to change the board lot size for trading on the Stock Exchange from 10,000 Shares to 20,000 Adjusted Shares upon the Capital Reorganisation becoming effective.

The Change in Board Lot Size is expected to bring about a corresponding upward adjustment in the trading price of the Adjusted Shares on the Stock Exchange, which will reduce the overall transaction costs for dealings in the Adjusted Shares.

(3) PROPOSED RIGHTS ISSUE

The Company proposes, subject to the Capital Reorganisation becoming effective, to implement the Rights Issue on the basis of two Rights Shares for every Adjusted Share held on the Record Date at the Subscription Price of HK\$0.10 per Rights Share, thereby raising approximately HK\$108.69 million before expenses (assuming (i) the Outstanding Share Options are not exercised; (ii) the Issue Mandate and the Scheme Mandate Limit are not utilised; and (iii) no other issue of Shares, on or before the Record Date) to approximately HK\$132.65 million before expenses (assuming (i) the Outstanding Share Options are fully exercised; (ii) the Issue Mandate and Scheme Mandate Limit are fully utilised; and (iii) no other issue of Shares, on or before the Record Date) by issuing not less than 1,086,923,000 Rights Shares and not more than 1,326,511,802 Rights Shares to the Qualifying Shareholders.

The Company will provisionally allot to the Qualifying Shareholders two Rights Shares in nil-paid form for every Consolidated Share in issue and held on the Record Date. The Rights Issue will not be available to the Non-Qualifying Shareholders.

The net proceeds of the Rights Issue is estimated to be approximately HK\$102.9 million (assuming (i) the Outstanding Share Options are not exercised; (ii) the Issue Mandate and the Scheme Mandate Limit are not utilised; and (iii) no other issue of Shares, on or before the Record Date) to approximately HK\$126.1 million (assuming (i) the Outstanding Share Options are fully exercised; (ii) the Issue Mandate and Scheme Mandate Limit are fully utilised; and (iii) no other issue of Shares, on or before the Record Date). The Company intends to apply such net proceeds from the Rights Issue as to (i) approximately HK\$25 million to HK\$50 million for electronic cigarette business; (ii) approximately HK\$25 million to HK\$65 million for health care products business; (iii) approximately HK\$25 million to HK\$50 million for additional working capital and/ or for retirement of debts. If and when there is surplus cash available, up to HK\$50 million will be used for securities trading with a view of immediate liquidation when funds are called for.

The Rights Issue is conditional, inter alia, upon fulfillment of the conditions set out below under the section headed “Conditions of the Rights Issue”. In particular, the Rights Issue is subject to the Capital Reorganisation becoming effective and the Underwriter not terminating the Underwriting Agreement in accordance with the terms set out therein. Accordingly, the Rights Issue may or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or Adjusted Shares (as the case may be) and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) will bear the risk that the Rights Issue could not become unconditional and may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

In accordance with Rule 7.19(6) of the Listing Rules, the Rights Issue must be made conditional on approval by Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue. As at the date of this

announcement, Absolute Target held 167,265,000 Shares (being approximately of 6.16% of the issued share capital of the Company). Absolute Target is controlled as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin. Both Mr. Wong Yin Sen and Mr. Hon Lik are executive Directors. Accordingly, Absolute Target is an associate of Mr. Wong Yin Sen and Mr. Hon Lik and they and their respective associates are required to abstain from voting in favour of the Rights Issue at the EGM.

Save as disclosed above, none of the Directors nor the chief executive of the Company and their respective associates, hold any Shares and none of the Shareholders are required to abstain from voting in favour of the Rights Issue at the EGM pursuant to the Listing Rules and/or the articles of association of the Company.

An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of the Rights Issue. An independent financial adviser will be appointed to advise the independent board committee of the Company and the Shareholders in this regard.

GENERAL

An EGM will be convened and held for the Shareholders/Independent Shareholders (as the case may be) to consider and if thought fits to approve the proposed Capital Reorganisation as well as the proposed Rights Issue. A circular containing, among other things, (i) further details about the proposed Capital Reorganisation, Change in Board Lot Size and the proposed Rights Issue; (ii) a letter of recommendation from the independent board committee of the Company to the Independent Shareholders in respects of the Rights Issue; (iii) a letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders on the Rights Issue; and (iv) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable.

Upon approval of the Rights Issue by the Independent Shareholders at the EGM and the Capital Reorganisation becoming effective, the Prospectus Documents setting out details of the Rights Issue will be despatched to the Qualifying Shareholders as soon as practicable and the Prospectus will be despatched to the Non-Qualifying Shareholders for information only.

(4) RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 10 October 2011 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 4 November 2011.

1. PROPOSED CAPITAL REORGANISATION

The Board proposes to put forward to the Shareholders a proposal to effect the Capital Reorganisation which will comprise of:-

- (i) the proposed Share Consolidation whereby every 5 issued Shares of par value of HK\$0.10 each will be consolidated into one Consolidated Share of par value of HK\$0.50 each;
- (ii) immediately following the Share Consolidation, the nominal value of each issued Consolidated Share will be reduced from par value of HK\$0.50 each to par value of HK\$0.01 each by cancellation of the paid-up capital to the extent of HK\$0.49 on each issued Consolidated Share and the total number of Consolidated Shares in the issued share capital of the Company will be rounded down to a whole number;
- (iii) the proposed Share Premium Cancellation whereby upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company be cancelled;
- (iv) the application of the credit arising from the Capital Reduction and Share Premium Cancellation to cancel the accumulated deficit of the Company with the balance to be transferred to a distributable reserve account of the Company to be applied in such manner as the Directors consider appropriate; and
- (v) the proposed Share Subdivision whereby each of the authorised but unissued Shares of par value of HK\$0.10 each will be subdivided into 10 Adjusted Shares of par value of HK\$0.01 each.

Any fraction of Consolidated Shares arising from the Capital Reorganisation will not be issued to the Shareholders but will be aggregated and, if possible, sold (if a premium, net of expenses, can be obtained) for the benefit of the Company.

The Capital Reorganisation is conditional upon, among other things, the approval by the Shareholders at the EGM and the confirmation of the Capital Reduction by the Court.

EFFECTS OF THE CAPITAL REORGANISATION

Assuming that no further Shares are issued until the effective date of the Capital Reorganisation, the share capital of the Company immediately before the Capital Reorganisation becoming effective will consist of 2,717,307,502 Shares in issue and the aggregate nominal value of the issued share capital of the Company will be approximately HK\$271.73 million. As such, a credit of approximately HK\$266.3 million will arise in the books of the Company as a result of the Capital Reduction. Such credit will be applied to set-off the accumulated deficit of the Company and the balance (if any) will be transferred to a distributable reserve account of the Company. The existing authorised share capital of the Company is HK\$1,000,000,000 divided into 10,000,000,000 Shares. The existing issued share capital is HK\$271,730,750.20 divided into 2,717,307,502 Shares. The authorised share capital of the Company after the Capital Reorganisation becoming effective will be HK\$1,000,000,000 divided into 100,000,000,000 Adjusted Shares, of which approximately 543,461,500 Adjusted Shares will be in issue (assuming (i) the Outstanding Share Options are not exercised; (ii) the Issue Mandate and the Scheme Mandate Limit are not utilised; and (iii) no other issue of Shares, on or before the Record Date) and the aggregate nominal value of the issued share capital of the Company will become HK\$5,434,615.

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders. The Directors believe that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group.

The Adjusted Shares will rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

OUTSTANDING SHARE OPTIONS

As at the date of this announcement, there are Outstanding Share Options entitling the holders thereof to subscribe for 8,779,755 Shares. The exercise price and the number of the Share Options may have to be adjusted in accordance with the rules of the Share Option Scheme and in compliance with Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005. The Company will instruct its auditors to certify the adjustments, if any, to the Share Options and will inform the holders of the Share Options of the adjustments, if any, accordingly. Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

Save as the aforesaid, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the date of this announcement.

STATUS OF THE ADJUSTED SHARES

The Adjusted Shares will rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

REASONS FOR THE CAPITAL REORGANISATION

The Shares have been trading below their par value of HK\$0.10 per Share lately. The Companies Law does not permit the Company to issue any Share at a price below its par value unless, amongst other things, it is sanctioned by the Court. Therefore, unless the par value of each Share is reduced, it will be very difficult for the Company to raise new capital by issuing new Shares. As a result of the Capital Reorganisation, unless otherwise directed by the Court, the credit arising from the Capital Reduction and Share Premium Cancellation will be applied to offset the accumulated deficit of the Company. Accordingly, the Company's capital and reserves will more closely reflect the available net assets of the Company. Furthermore, the Capital Reorganisation will provide flexibility for equity fund raising of the Company in the future and to facilitate the proposed Rights Issue.

In addition, it is expected that the Share Consolidation would bring about a corresponding increase in the trading price of the Adjusted Shares, which will reduce the overall transaction costs of dealing in the Adjusted Shares.

In view of the above, the Board considers that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

CONDITIONS OF THE CAPITAL REORGANISATION

The Capital Reorganisation is conditional upon the following:

- (a) the passing of a special resolution to approve the Capital Reorganisation by the Shareholders at the EGM;
- (b) approval of the Capital Reduction by the Court;
- (c) the registration by the Registrar of Companies in the Cayman Islands of a copy of the Court order in respect of the Capital Reduction and the minutes approved by the Court pursuant to the Companies Law;

- (d) compliance with any conditions which the Court may impose; and
- (e) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Adjusted Shares.

Trading Arrangement

Subject to the Capital Reorganisation becoming effective, the Shareholders may, during a period to be specified in the circular, submit certificates for the Shares to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for exchange, at the expense of the company, for certificates for the Adjusted Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of the higher of HK\$2.50 or such other amount as may from time to time be allowed by the Stock Exchange for each certificate issued or cancelled. Certificates for the Shares will continue to be good evidence of legal title and may be exchanged for certificates for Adjusted Shares at any time at the expense of the Shareholders.

Odd Lots Arrangements and Matching Services

In order to alleviate difficulties arising from the existence of odd lots of Adjusted Shares, the Company will procure an arrangement with an agent to stand in the market to provide matching services for the odd lots of Adjusted Shares on a best effort basis. Further details in respect of the odd lots arrangement and the new share certificates will be set out in the circular.

EXPECTED EFFECTIVE DATE OF THE CAPITAL REORGANISATION

Upon the conditions mentioned above being fulfilled, the Capital Reorganisation will become effective immediately after the registration of the Court order and the minutes as referred to in condition (c) above. An application will be made to the Court for the approval of the Capital Reduction as soon as practicable after the Capital Reorganisation is approved by the Shareholders by way of a special resolution or relevant resolutions (as appropriate) at the EGM.

As advised by the legal advisers to the Company on the laws of Cayman Islands and subject to the availability of the Court, it may take two to three months to complete the Capital Reduction (which forms part of the Capital Reorganisation) after the Capital Reorganisation is approved by the Shareholders.

Further announcement(s) (if any) will be made to inform the Shareholders of the progress of the matter as and when appropriate.

2. PROPOSED CHANGE IN BOARD LOT SIZE

The Shares are currently traded in board lots of 10,000 Shares. The Company proposes to change the board lot size for trading on the Stock Exchange from 10,000 Shares to 20,000 Adjusted Shares upon the Capital Reorganisation becoming effective.

Assuming the Capital Reorganisation and the Change in Board Lot Size become effective, the Adjusted Shares will be traded in board lots of 20,000 Adjusted Shares and the estimated market value per board lot of the Adjusted Shares will be HK\$6,400, based on the closing price of HK\$0.32 per Adjusted Share (based on the closing price of HK\$0.064 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation). The Change in Board Lot Size is conditional on the Capital Reorganisation becoming effective.

The Change in Board Lot Size is expected to bring about a corresponding upward adjustment in the trading price of the Adjusted Shares on the Stock Exchange, which will reduce the overall transaction costs for dealings in the Adjusted Shares.

3. PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after and is conditional upon the Capital Reorganisation becoming effective.

ISSUE STATISTICS

Basis of the Rights Issue	:	Two Rights Shares for every Adjusted Share held on the Record Date
Number of Shares in issue as at the date of this announcement	:	2,717,307,502 Shares
Number of Adjusted Shares in issue assuming the Capital Reorganisation has become effective	:	543,461,500 Adjusted Shares (assuming no further issue of the Shares up to the effective date of the Capital Reorganisation)
Number of Rights Shares	:	Not less than 1,086,923,000 Rights Shares (assuming (i) the Outstanding Share Options are not exercised; (ii) the Issue Mandate and the Scheme Mandate Limit are not utilised; and (iii) no other issue of Shares, on or before the Record Date); and

Not more than 1,326,511,802 Rights Shares (assuming (i) the Outstanding Share Options are fully exercised; (ii) the Issue Mandate and Scheme Mandate Limit are fully utilised; and (iii) no other issue of Shares, on or before the Record Date)

Subscription Price : HK\$0.10 per Rights Share with nominal value of HK\$0.01 each

As at the date of this announcement:

- (1) there are Outstanding Share Options to subscribe for an aggregate of 8,779,755 Shares. Assuming full exercise of the subscription rights attaching to the Share Options on or before the Record Date, an additional 3,511,902 Rights Shares will be issued; and
- (2) Before the proposed Shares Consolidation, there are unutilised Shares from the Issue Mandate and Scheme Mandate Limit for 393,461,500 Shares and 196,730,750 Shares, respectively. Assuming the Issue Mandate and Scheme Mandate Limit are fully utilised on or before the Record Date, an additional 157,384,600 Rights Shares and 78,692,300 Rights Shares will be issued, respectively.

Based on the above, the maximum number of Rights Shares that may be issued under the Rights Issue would be 1,326,511,802.

Save for the Outstanding Share Options, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

As at the date of this announcement, the Directors do not intend to utilise the Issue Mandate and Scheme Mandate Limit. Assuming no Outstanding Share Options being exercised and both the Issue Mandate and the Scheme Mandate Limit not being utilised on or before the Record Date, the 1,086,923,000 nil-paid Rights Shares proposed to be provisionally allotted represent approximately 200.00% (assuming that the Capital Reorganisation becomes effective) of the Company's issued share capital as at the date of this announcement and approximately 66.67% of the Company's issued share capital as enlarged by the issue of the 1,086,923,000 Rights Shares.

QUALIFYING SHAREHOLDERS

To qualify for the Rights Issue, a Shareholder must:

1. be registered as a member of the Company at the close of business on the Record Date; and
2. be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, owners of Shares must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 23 March 2012.

Holders of the Share Options who wish to participate in the Rights Issue should exercise the subscription rights attaching to their Share Options in accordance with the terms of the Share Option Scheme on or before 4:30 p.m. on 23 March 2012 so as to enable them to be registered as members of the Company on or before the Record Date.

CLOSURE OF REGISTER OF MEMBER

The register of members of the Company will be closed from 26 March 2012 to 2 April 2012, both dates inclusive. No transfer of Shares or Adjusted Shares (as the case may be) will be registered during this period.

RIGHTS OF OVERSEAS SHAREHOLDERS

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

In compliance with Rule 13.36(2)(a) of the Listing Rules, the Company will make enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. If, based on legal advice, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus Documents containing, among other

things, details of the Rights Issue, to be despatched to the Qualifying Shareholders on the Posting Date. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL and EAF to them on the Posting Date.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for the benefits of the Company. Any unsold entitlement of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

SUBSCRIPTION PRICE

The Subscription Price for the Rights Shares is HK\$0.10 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (a) a discount of approximately 68.75% to the closing price of HK\$0.064 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 42.31% to the theoretical ex-rights price of approximately HK\$0.1733 per Adjusted Share based on the closing price of HK\$0.064 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted taking into account the effect of the Capital Reorganisation; and
- (c) a discount of approximately 71.26% to the average closing price of approximately HK\$0.348 per Consolidated Share, based on the average closing price of HK\$0.0696 per Share as quoted on the Stock Exchange from 27 September 2011 to 6 October 2011, both dates inclusive, being the last five consecutive trading days up to the Last Trading Date and adjusted taking into account the effect of the Capital Reorganisation.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the market price of the Shares prior to the Last Trading Day and the current market condition.

Although the Subscription Price is substantially below the current traded prices of the Shares, the Directors consider that the terms of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In particular, taking into account that (i) the Group had recorded continued losses in recent years; (ii) the downward trend in the price of the Shares; and (iii) the Shares have been traded below par value recently, the Directors (excluding the independent non-executive Directors who will give their view on the Rights Issue after taking into account the advice of the independent financial adviser) consider that the discount of the Subscription Price would encourage the Shareholders to participate in the Rights Issue, to maintain their pro-rata shareholdings in the Company and to be able to participate in the future growth of the Group.

Further, since the Rights Issue will allow the Qualifying Shareholders to maintain their shareholdings in the Company, the executive Directors consider raising capital through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Due to the continuing worries over the euro zone debt crisis in addition to a gloomy forecast on global growth, the Directors conservatively assume that (i) the securities market will not rebound to a significant level and turnaround from the downward trend within the forthcoming six months; (ii) there may be a possible breakdown in the global banking system; and (iii) financial institution will tighten conditions in granting banking facilities.

To conclude, the Directors (excluding the independent non-executive Directors who will give their view on the Rights Issue after taking into account the advice of the independent financial adviser) consider the terms of the Rights Issue, including the Subscription Price, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole. The net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares (assuming (i) none of the Outstanding Share Options has been exercised; (ii) the Issue Mandate and the Scheme Mandate Limit are not utilised; and (iii) no other issue of Shares, on or before the Record Date) will be approximately HK\$0.095.

BASIS OF PROVISIONAL ALLOTMENT

The basis of the provisional allotment shall be two Rights Shares for every Adjusted Share in issue and held on Record Date, being not less than 1,086,923,000 Rights Shares (assuming (i) the Outstanding Share Options are not exercised; (ii) the Issue Mandate and the Scheme Mandate Limit are not utilised; and (iii) no other issue of Shares, on or before the Record Date) and not more than 1,326,511,802 Rights Shares (assuming (i) the Outstanding Share Options are fully exercised; (ii) the Issue Mandate and Scheme Mandate Limit are fully utilised; and (iii) no other issue of

Shares, on or before the Record Date) at the Subscription Price payable in full on acceptance and otherwise on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for.

FRACTIONS OF RIGHTS SHARES

On the basis of provisional allotment of two Rights Shares for every Adjusted Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

STATUS OF THE RIGHTS SHARES

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

APPLICATION FOR EXCESS RIGHTS SHARES

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares may be made by completing the EAFs for application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and
- (2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated on pro-rata basis to the number of excess Rights Shares applied for and round down to the nearest whole number of Rights Share.

Investors with their Shares or Adjusted Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder

according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. Investors with their Shares or Adjusted Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares or Adjusted Shares in the name of the beneficial owner(s) prior to the Record Date.

Investors whose Shares or Adjusted Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company, must lodge all necessary documents with the Registrar for completion of the relevant registration by 4:30 p.m. on 23 March 2012.

SHARE CERTIFICATES AND REFUND CHEQUES FOR RIGHTS ISSUE

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before 2 May 2012. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before 2 May 2012 by ordinary post to the applicants at their own risk.

APPLICATION FOR LISTING

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms (both in board lots of 20,000), which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (a) the passing of relevant resolutions to approve the proposed Capital Reorganisation and the proposed Rights Issue by the Shareholders at the EGM;
- (b) the Capital Reorganisation becoming effective;
- (c) the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong of one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by a resolution of the Directors (and all other documents required to be attached thereto) not later than the Posting Date and otherwise in compliance with the Listing Rules and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
- (d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Posting Date;
- (e) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting, to the extent reasonably practicable, of the Prospectus for information purposes only to the Non-Qualifying Shareholders; and
- (f) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement.

Neither the Company nor the Underwriter may waive the above conditions (a) to (e) (both inclusive). The Underwriter may waive the condition (f) in whole or in part by written notice to the Company. In the event that the above conditions have not been satisfied and/or waived in whole or in part by the Underwriter on or before 4:00 p.m. on 31 August 2012 (or such later date or dates as the Underwriter and the Company may agree), the Underwriting Agreement shall terminate and no party shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

THE UNDERWRITING AGREEMENT

- Date : 7 October 2011
- Underwriter : Chung Nam Securities Limited, to the best of the Directors' knowledge and information, Chung Nam Securities Limited is a third party independent of and not connected with the Company and its connected persons
- Total number of Rights Shares being underwritten by the Underwriter : The Underwriter has conditionally agreed pursuant to the Underwriting Agreement to underwrite the Rights Shares not subscribed by the Qualifying Shareholders on a fully underwritten basis, being not less than 1,086,923,000 Rights Shares (assuming (i) the Outstanding Share Options are not exercised; (ii) the Issue Mandate and the Scheme Mandate Limit are not utilised; and (iii) no other issue of Shares, on or before the Record Date); and not more than 1,326,511,802 Rights Shares (assuming (i) the Outstanding Share Options are fully exercised; (ii) the Issue Mandate and Scheme Mandate Limit are fully utilised; and (iii) no other issue of Shares, on or before the Record Date), subject to the terms and conditions of the Underwriting Agreement
- Commission : 3% of the aggregate Subscription Price of the Underwritten Shares as determined on the Record Date

The commission rate was determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Board considers the terms of the Underwriting Agreement including the commission rate are fair and reasonable so far as the Company and the Shareholders are concerned.

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company by the Underwriter at any time prior to 4:00 p.m. on the Settlement Date if:-

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:-
1. the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 2. the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, financial, economic, currency market or other nature (whether or not ejusdem generis with any of the foregoing) or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 3. any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
 4. any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 5. there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 6. the commencement or taking by any third party of any litigation or claim or other action against any member of the Group which is or might be material to the Group taken as a whole; or

- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the Group or any member of the Group and a change in currency conditions for the purpose of this clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue;
- (c) the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which in the absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it;
- (d) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement.

If, at or prior to 4:00 p.m. on the Settlement Date:

- (i) any material breach of any of the warranties or undertakings of the Company contained under the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (ii) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to 4:00 p.m. on the Settlement Date which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties of the Company contained under the Underwriting Agreement untrue or incorrect in any material respect comes to the knowledge of the Underwriter,

the Underwriter shall also be entitled by notice in writing to the Company prior to 4:00 p.m. on the Settlement Date to elect to rescind the Underwriting Agreement.

Upon giving any of such notice, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and the Company shall, save for reasonable legal fees and other reasonable out-of-pocket expenses of the Underwriter, not be liable to pay to the Underwriter any fees under the Underwriting

Agreement. Rescission or termination of the Underwriting Agreement shall be without prejudice to any rights of any party in respect of any breach by the other party prior to such rescission or termination of the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Adjusted Shares will be dealt in on an ex-rights basis from 22 March 2012. Dealings in the Rights Shares in the nil-paid form will take place from 11 April 2012 to 18 April 2012 (both dates inclusive). If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Rights Shares in their nil-paid form during the period from 11 April 2012 to 18 April 2012 (both dates inclusive) who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in the Adjusted Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from 11 April 2012 to 18 April 2012 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation, Change in Board Lot Size and the Rights Issue is set out below:

2011

Despatch of circular and proxy form of EGM	On or before, Wednesday, 30 November
Latest time for return of proxy form of EGM (not less than 48 hours prior to time of EGM).....	9:00 a.m., Wednesday, 21 December
Expected date and time of EGM	9:00 a.m., Friday, on 23 December
Announcement of results of EGM	Friday, 23 December

The following events are conditional on the results of the EGM and the relevant Court hearings. The dates are therefore tentative.

Effective date of the Capital Reorganisation . . .	After 4:00 p.m. Monday, 19 March
Commencement of dealings in the Adjusted Shares	9:00 a.m., Tuesday, 20 March
Original counter for trading in Shares (in board lots of 10,000 Shares) to be closed	9:00 a.m., Tuesday, 20 March
Temporary counter for trading in Adjusted Shares in board lots of 2,000 Consolidated Shares (in form of existing share certificates) to be opened	9:00 a.m., Tuesday, 20 March
First day of free exchange of existing share certificates for new share certificates for the Adjusted Shares commences	Tuesday, 20 March
Last day of dealings in Adjusted Shares on a cum-rights basis	Wednesday, 21 March
First day of dealings in Adjusted Shares on a ex-rights basis	9:00 a.m., Thursday, 22 March
Latest time for lodging transfers of Adjusted Shares in order to qualify for Rights Issue	4:30 p.m., Friday, 23 March
Register of members to be closed	Monday, 26 March to Monday, 2 April (both dates inclusive)
Record Date	Monday, 2 April
Register of members to be re-opened	Tuesday, 3 April
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of Adjusted Shares	Tuesday, 3 April
Original counter for trading in Adjusted Shares in board lots of new board lots of 20,000 Adjusted Shares (in the form of new share certificates re-opens)	9:00 a.m., Tuesday, 3 April

Parallel trading in Adjusted Shares
(in form of new and existing share
certificates) begins9:00 a.m., Tuesday, 3 April

Prospectus Documents to be postedThursday, 5 April

First day of dealings in nil-paid Rights SharesWednesday, 11 April

Latest time for splitting of nil-paid
Rights Shares4:30 p.m., Friday, 13 April

Last day of dealings in nil-paid Rights Shares.....Wednesday, 18 April

Latest time for acceptance of, and payment for,
the Rights Shares and the applications for
excess Rights Shares4:00 p.m., Monday, 23 April

Rights Issue expected to become unconditionalWednesday, 25 April

Temporary counter for trading in Adjusted Shares
in board lots of 2,000 Adjusted Shares
(in form of existing share certificates)
to be closed4:00 p.m., Thursday, 26 April

Parallel trading in Adjusted Shares
(in the form of both existing
and new certificates) ends 4:00 p.m., Thursday, 26 April

Designed broker ceases to stand in the market to
provide matching services for the sale and
purchase of oddlots of Adjusted Shares4:00 p.m., Thursday, 26 April

Free exchange of existing share certificates for
new share certificates endsMonday, 30 April

Announcement of results of acceptance and
excess application of the Rights IssueMonday, 30 April

Refund cheques for wholly and partially
unsuccessful applications for excess Rights
Shares expected to be posted on or beforeWednesday, 2 May

Certificates for fully-paid Rights Shares expected
to be despatched on or before.....Wednesday, 2 May

First day of dealings in the fully-paid
Rights Shares.....9:00 a.m., Friday, 4 May

All times and dates in this announcement refer to Hong Kong local times and dates. Dates or deadlines specified in expected timetable above are indicative only. Any changes to the expected timetable will be published or notified to Shareholders as and when appropriate. Prior to the effective date of the Capital Reorganisation, the Company will make further announcement to draw Shareholders' attention on the trading arrangement.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company from the date of this announcement to immediately after completion of the Rights Issue:

Scenario 1:

Assuming the Issue Mandate is not utilised and no Share Options are granted or exercised on or before the Record Date:

	As at the date of this announcement		Immediately after the Capital Reorganisation but before completion of the Rights Issue		Immediately after completion of the Rights Issue			
					All Shareholders take up all the Rights Shares at HK\$0.1 each		Underwriter underwrite the public Shareholders' portion of the Rights Shares at HK\$0.1 each	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Adjusted Shares</i>	<i>%</i>	<i>Number of Adjusted Shares</i>	<i>%</i>	<i>Number of Adjusted Shares</i>	<i>%</i>
Absolute Target (<i>Note 1</i>)	167,265,000	6.16	33,453,000	6.16	100,359,000	6.16	33,453,000	2.05
The Underwriter	—	—	—	—	—	—	1,086,923,000	66.67
Other public Shareholders	<u>2,550,042,502</u>	<u>93.84</u>	<u>510,008,500</u>	<u>93.84</u>	<u>1,530,025,500</u>	<u>93.84</u>	<u>510,008,500</u>	<u>31.28</u>
Total	<u><u>2,717,307,502</u></u>	<u><u>100.00</u></u>	<u><u>543,461,500</u></u>	<u><u>100.00</u></u>	<u><u>1,630,384,500</u></u>	<u><u>100.00</u></u>	<u><u>1,630,384,500</u></u>	<u><u>100.00</u></u>

Scenario 2:

Assuming (i) the Outstanding Share Options are fully exercised; (ii) the Issue Mandate and Scheme Mandate Limit are fully utilised; and (iii) no other issue of Shares, on or before the Record Date:

	Immediately after completion of the Rights Issue									
	Before Shares Consolidation but after the Issue Mandate and Scheme Mandate Limit being fully utilized and the Outstanding Options granted being exercised in full				Immediately after the Capital Reorganisation but before completion of the Rights Issue		All Shareholders take up all the Rights Shares at HK\$0.1 each		Underwriter underwrite the public Shareholders' portion of the Rights Shares at HK\$0.1 each	
	As at the date of this announcement		Number of Shares		Number of Adjusted Shares		Number of Adjusted Shares		Number of Adjusted Shares	
	Number of Shares	%	Number of Shares	%	Number of Adjusted Shares	%	Number of Adjusted Shares	%	Number of Adjusted Shares	%
Absolute Target (<i>Note 1</i>)	167,265,000	6.16	167,265,000	5.04	33,453,000	5.04	100,359,000	5.04	33,453,000	1.68
The Underwriter	—	—	—	—	—	—	—	—	1,326,511,802	66.67
Other public Shareholders										
New Shares issued under the Issue Mandate (<i>Note 2</i>)	—	—	393,461,500	11.87	78,692,300	11.87	236,076,900	11.87	78,692,300	3.95
Scheme Mandate Limit being fully utilised and Share Options granted thereafter fully exercised (<i>Note 2</i>)	—	—	196,730,750	5.93	39,346,150	5.93	118,038,450	5.93	39,346,150	1.98
Outstanding Share Options being fully exercised (<i>Note 2</i>)	—	—	8,779,755	0.26	1,755,951	0.26	5,267,853	0.26	1,755,951	0.09
Others	2,550,042,502	93.84	2,550,042,502	76.90	510,008,500	76.90	1,530,025,500	76.90	510,008,500	25.63
Total	<u>2,717,307,502</u>	<u>100.00</u>	<u>3,316,279,507</u>	<u>100.00</u>	<u>663,255,901</u>	<u>100.00</u>	<u>1,989,767,703</u>	<u>100.00</u>	<u>1,989,767,703</u>	<u>100.00</u>

Notes:

1. According to the filing made under the SFO, Absolute Target Limited is controlled as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin. Both of Mr. Wong Yin Sen and Mr. Hon Lik are Directors.
2. Assuming (i) the Issue Mandate being fully utilised and 393,461,500 new Shares have been issued and assuming 196,730,750 new Shares have been issued upon the grant of Scheme Mandate Limit being fully utilised and fully exercised by the respective grantees; (ii) the Outstanding Share Options has been exercised in full and 8,779,755 new Shares would be issued accordingly; and (iii) save as aforementioned, the total number of issued share capital of the Company will not change during the period from the date of this announcement to the completion of the Rights Issue.

The Underwriter has sub-underwritten its underwriting obligations under the Underwriting Agreement to sub-underwriters such that each of the Underwriter and the sub-underwriters (together with their respective parties acting in concert as defined in The Hong Kong Code on Takeovers and Mergers) will not own 30% or more of the issued share capital of the Company immediately after completion of the Rights Issue. Each of the Underwriter and the sub-underwriters (and their respective ultimate beneficial owners) is not a party acting in concert with each other. Each of the Underwriter and the sub-underwriters and their respective ultimate beneficial owners are third parties independent of and not connected with the Company and its connected person.

As stipulated in the Underwriting Agreement, in the event that the Underwriter or any of the sub-underwriters mentioned above is required to take up the Rights Shares pursuant to their underwriting/sub-underwriting obligations, (i) the Underwriter will not and shall procure that the sub-underwriters will not own 29.9% or more of the issued share capital of the Company immediately after the Rights Issue and will not immediately after the Rights Issue own or control 20% or more of the voting rights of the Company; and (ii) the Underwriter shall and shall cause the sub-underwriters to procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with. Each of the Underwriter and the sub-underwriters (and their respective ultimate beneficial owners) is not a party acting in concert with each other.

REASONS FOR THE RIGHTS ISSUE

The Company acts as an investment holding company. Its subsidiaries are principally engaged in securities trading and investment, production and sales of a series of health care products, pharmaceutical products and Ruyan atomizing cigarettes. The Company intends to continue the existing principal businesses.

During the past year, the company has, amongst others, commenced legal action against various electronic cigarette importers/ distributors for patent infringement, conducted research into product improvement and quality control, and explored potential marketing and distribution opportunities of other health products. The Company is now in a position to commence new marketing campaigns. In future, the Company would look for the opportunities to develop the product mix of ginseng products and would also look for other alternative medicines investments. Hence, Shareholders have the possibility of participating in the future benefits which may be brought about by business development of the Group and the improvement of the financial position of the Group from the Rights Issue. Without the net proceeds from the proposed Rights Issue, the aforesaid future business development may be negatively impacted or aborted, and consequently it would be much more difficult for the Group to improve its performance.

Strengthening financial position

The Directors consider that it is prudent and essential for the Group to have a sound financial position and working capital base in order to increase its bargaining power and equip the Group with sufficient financial resources to pursue business opportunities when they arise. As the Directors evaluate potential acquisitions or investments, the Company would also be subject to assessment by counterparties. The success of potential investments would be compromised without a strong balance sheet upon which counterparties may derive comfort. The proposed Rights Issue will increase working capital and thereby strengthen the Company's financial performance and to fund future business expansion. Without the aforementioned financial resources, it would not be realistic to explore new business or investment opportunities with other parties.

Raising funds in a timely manner

The Company would be unable to seize investment opportunities in a timely manner for the following reasons:

- (i) market volatility — in view of recent market volatility, it would be more difficult to obtain funding as and when required in the coming year;
- (ii) timing — conducting a rights issue requires at least 2 months to complete (reference to the “Guide On Trading Arrangements For Selected Types Of Corporate Actions” issued by the Hong Kong Exchanges Clearing Limited), and completion is subject to the possible termination of underwriting agreement by the underwriter. As advised by the legal advisers of the Company, 2 to 3 months is required for the company to complete the Capital Reduction after the Capital Reorganisation is approved by the Shareholders.

In addition, as Shares have been recently traded below its par value, fund raising activity in any form at below par value would require Capital Reorganisation unless the issue of new shares below par value is sanctioned by the Court. Therefore, irrespective of the method of fund raising activities, the time required for going through the Court sanction is unavoidable. Indeed, to carry out the Rights Issue with the Capital Reorganisation in parallel is considerably an efficient way to raise funds.

Taking into account the time required to obtain court sanction as well as the prevailing market volatility, five months is a reasonable time frame to complete the Capital Reorganisation and Rights Issue and therefore the Company has entered into the Underwriting Agreement prior to the Capital Reorganisation becoming effective.

For the time being, the Company intends to utilise the proceeds from the Rights Issue mainly in developing its existing principal businesses and, to the best knowledge of the Directors at this time but not for any other specific investment opportunity. The Directors believe that there is sufficient information for Shareholders to consider the Rights Issue prior to the Capital Reorganisation becoming effective.

Capital market analysis

The Board considers that given that the euro zone debt crisis and weak global growth may continue for some time, prevailing market sentiment in capital market may continue weak. As a result, difficulty in raising funds or establishing new banking facilities in the coming year may well continue. In order for the Group to take advantage of new business opportunities in a timely manner, as and when they arise, the Directors consider it is in the interests of the Company and the Shareholders as a whole if the Company can agree with the Underwriter to carry out the Rights Issue at this stage.

Following the previous rights issue in early 2011, as disclosed in the 2011 interim report, the current ratio of the Company as at 30 June 2011 was 6.04, representing a substantial improvement from 31 December 2010 at 1.35. Moreover, the cash ratio (defined as cash and marketable securities to current liabilities) increased from 0.48 as at 31 December 2010 to 5.5 as at 30 June 2011. The Board considers that the Rights Issue will enable the Group to replenish and strengthen the capital base and to enhance its financial position. Further, the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and, hence the Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Financing methods

The Company has considered other financing methods such as placing and banking facilities.

(a) Placing

In regard to placing, the Directors are of the view that given the substantial amount of the Adjusted Shares to be issued, a placing would cause material dilution effect to the shareholding of the existing Shareholders. As fund raising through placing would deprive the pre-emptive rights of Shareholders, and not all Shareholders would be offered the opportunity to participate, the Directors are of the view that it would not be in the interests of the Shareholders as a whole.

(b) Banking facilities

In regard of banking facilities, in view of the continued tightening of credit markets, the Directors note that obtaining bank borrowings has become increasingly difficult. The ability to obtain external financing in a timely manner and/or on terms acceptable to the Company depends on a variety of factors, including the overall market conditions, the Group's financial condition, operating results, share price and net assets value. The Directors therefore considers that banking facilities on acceptable terms may not be possible if and when the Group requires funding to finance business development and working capital requirements. In addition, the Directors consider that banking facilities might give rise to a pledge of assets and/or negative impact to the gearing ratio of the Group.

(c) Rights Issue

In regard to Rights Issue, the Directors do note the potential dilution effect of the Shareholders' interests, however, the Directors consider the foregoing factors would offset this consideration:

- (i) Shareholders are offered the opportunity to express their views on the Rights Issue through their votes at the EGM;
- (ii) Qualifying Shareholders have the option whether or not to subscribe the Rights Shares;
- (iii) Qualifying Shareholders who do not take up their entitlements can sell the nil-paid Rights Shares in the market in return for cash;
- (iv) the Rights Issue offers Qualifying Shareholders the opportunity to subscribe for their pro-rata Rights Shares and to maintain their respective shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market price of the Shares; and
- (v) the Rights Issue will not negatively impact the gearing ratio of the Group.

Taking into consideration the pre-emptive rights of the Qualifying Shareholders, the Directors selected the Rights Issue as a more preferred source of financing over other alternative fund-raising methods such as a share placement.

Under current capital market conditions, the Board considers that the Rights Issue is the best method for the Company to raise fund and is in the best interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS FOR THE RIGHTS ISSUE

The gross proceeds of the Rights Issue will be approximately HK\$108.7 million to approximately HK\$132.7 million. The net proceeds of the Rights Issue is estimated to be approximately HK\$102.9 million to approximately HK\$126.1 million and the Company intends to apply such net proceeds from the Rights Issue as to (i) HK\$25 million to HK\$50 million for electronic cigarette business; (ii) HK\$25 million to HK\$65 million for health care products business; and (iii) HK\$25 million to HK\$50 million for additional working capital and/ or for retirement of debts. The allocation priority of the aforesaid uses is on a first-come, first-served basis, depending on availability of funds. If and when there is surplus cash available, up to HK\$50 million will be used for securities trading with a view of immediate liquidation when funds are called for.

It is expected that working capital requirements and other expenses, such as marketing campaign and professional fee for intellectual property rights protection, will increase with expansion of the Group's business. The proceeds would be utilised for the lawsuits against the patent infringers and in marketing the electronic cigarettes, product innovation, raw materials procurement and production.

In the coming year, the Company will utilise its existing financial resources and net proceeds from the Rights Issue as general working capital mainly in the areas of (i) marketing campaign; (ii) materials and production costs; (iii) professional expenses in intellectual property rights protection; (iv) administrative expenses and finance costs; and (v) investment in securities (if any).

Investment in securities

Pending the fulfillment of working capital requirements and other expenses or the identification of suitable business opportunity, given the current low interest rate environment, the Company may employ the proceeds raised from the Rights Issue for investment in securities which is one of the Group's principal businesses.

Due to the European sovereign debt crises as well as forecasts of weak global growth, the securities market has recently become volatile. It is widely anticipated that the local securities market may not significantly rebound in the short term. The Group may take this opportunity to diversify its investment portfolio at a lower cost in order to capture future appreciation of share price. Such investment may be financed by the surplus cash if available. Securities trading and investments are primarily based upon (i) technical analysis (such as the relative strength index and momentum); (ii) net asset value; and (iii) news available in the market. Generally speaking, the Group will exercise a cautious approach in securities trading.

Currently, bank deposit rates are as low as 0.01% per annum. The Company believes that investments in securities yield a higher rate of return than bank deposits. While this involves taking on more risk, the opportunity for better returns is significantly higher.

Approximately HK\$353.76 million raised from the previous rights issue in early 2011 was utilised for securities trading. Prior to materialisation of suitable business opportunities and pending official launch of new products, the Group utilised the surplus cash for securities trading and investments as treasury activity with an aim to capture higher return than bank deposits. The investment portfolio comprises securities in a variety of industries and is aligned with the Company's portfolio diversification objective. The Company believes that it is in the interests of the Company and the Shareholders to utilise its surplus cash for treasury activity (including stocks, convertible bonds, warrants, derivatives and etc.) before the Group commits to any specific plan. The following table sets out the unaudited results of securities trading carried out by the Group for the past 12 months as at 31 October 2011.

Stock Code	Name of Company	Principal Activities	Total Amount Invested HK\$'000 (Unaudited)	Realised Gain/ (Loss) HK\$'000 (Unaudited)	Unrealised Gain/ (Loss) HK\$'000 (Unaudited)
Stocks					
30	ABC Communications (Holdings) Ltd	Providing financial information services, wireless applications development, securities trading system licensing.	5,849	(636)	
64	Get Nice Holdings Ltd.	Broking, securities margin financing, money lending, corporate finance, property development, investments, hotel and entertainment.	2,639	(193)	
136	Mascotte Holdings Ltd.	Loan financing, trading of investments, manufacture and sale of accessories for photographic, electrical and multimedia products and property investment.	23,667	835	
209	China Tycoon Beverage Holdings Ltd.	Manufacturing and trading of hard and stuffed toys and the manufacturing and sales of beverage products.	43,177		(32,447)
263	China Yunnan Tin Minerals Group Co. Ltd.	Trading of goods, provision of finance, brokerage and securities investment and exploitation and sales of minerals.	40,141	(9,703)	(3,201)
273	Willie International Holdings Ltd.	Property investment, investment in securities trading, money lending and investment holding.	37,562	(13,289)	(318)

Stock Code	Name of Company	Principal Activities	Total Amount Invested HK\$'000 (Unaudited)	Realised Gain/ (Loss) HK\$'000 (Unaudited)	Unrealised Gain/ (Loss) HK\$'000 (Unaudited)
Stocks					
279	Freeman Financial Corporation Ltd.	Trading of securities, provision of finance, property holding and investment, insurance agency and brokerage business, securities brokerage, investment advisory and investment holding.	31,495	(19,090)	
412	Heritage International Holdings Ltd.	Property investment, investments in securities, money lending, and investment holding.	32,311	(727)	7,431
692	Bao Yuan Holdings Ltd.	Trading of the fabrics, garments and other related accessories. Exploration, development and mining of iron and titanium ores and trading of securities.	17,128	(609)	(12,296)
720	Wo Kee Hong (Holdings) Ltd.	Import, marketing and distribution of cars, electrical appliances and fashion apparels and accessories.	8,575	67	3,365
736	China Properties Investment Holdings Ltd.	Properties investment and investing in mining activities.	2,074	(989)	
885	Forefront Group Ltd.	Selling and distribution of motor vehicles, provision of heavy motor vehicle repair and maintenance services; provision of logistic services; investment in forest interest, properties investments; securities trading and money lending.	28,943	(1,027)	(3,851)
901	Radford Capital Investment Ltd.	Investments in listed securities in Hong Kong.	13,096	(2,146)	(3,203)
913	Unity Investments Holdings Ltd.	Investment in listed securities in Hong Kong and other main stock markets around the world and also in unlisted companies.	4,579		(1,963)
928	Tack Fat Group International Ltd.	Retail and concessionaire sales of garments.	4,018		(235)
985	CST Mining Group Ltd.	Copper mining, property investment and investments in financial instruments.	24,588	(9,543)	
986	China Environmental Energy Investment Ltd.	Trading of laminates, manufacture and trading of printed circuit boards.	14,403	(4,196)	(2,219)

Stock Code	Name of Company	Principal Activities	Total Amount Invested HK\$'000 (Unaudited)	Realised Gain/ (Loss) HK\$'000 (Unaudited)	Unrealised Gain/ (Loss) HK\$'000 (Unaudited)
Stocks					
1031	Kingston Financial Group Ltd.	Operation of restaurants; casino in hotels and provision of hotel management services and trading of listed securities.	12,580		(1,510)
1051	G-Resources Group Ltd.	Mining business, provision of financial information services, trading of electronic goods and accessories, and securities trading.	44,156	(310)	
1063	Suncorp Technologies Ltd.	Provision of assembly service of telephone and related products and the sales and marketing of residential telephone products under its licence arrangements under the Motorola brand.	5,335		(4,650)
1141	Beijing Yu Sheng Tang Pharmaceutical Group Ltd.	Supply and procurement, pharmaceutical, provision of finance and securities investment.	48,004	(3,365)	(26,718)
1224	C C Land Holdings Ltd.	Property development and investment, manufacture and trading of watch boxes, gift boxes, spectacle cases, bags and pouches and display units, soft luggage, travel bags, backpacks and brief cases and treasury investments.	6,436		(2,122)
1227	National Investments Fund Ltd.	Investment in listed and unlisted companies.	6,346		(3,736)
1248	Heritage International Holdings Ltd.- Warrant 2013	Property investment, investments in securities, money lending, and investment holding.			1,975
1387	Renhe Commercial Holdings Co. Ltd.	Development, lease and management of underground shopping mall in the PRC.	38,316	(1,129)	

Stock Code	Name of Company	Principal Activities	Total Amount Invested HK\$'000 (Unaudited)	Realised Gain/ (Loss) HK\$'000 (Unaudited)	Unrealised Gain/ (Loss) HK\$'000 (Unaudited)
Stocks					
8202	Inno-Tech Holdings Ltd.	Development and sale of intelligent home electronic application system, outdoor advertising operations in the PRC.	10,508	(4,238)	
Convertible Bonds					
30	ABC Communications (Holdings) Ltd	Providing financial information services, wireless applications development, securities trading system licensing.	4,750	1,295	
1004	Rising Development Holdings Ltd.	Investment holding and trading in securities, manufacture and sale of fur garments, trading of fur skins and business of mining natural resources.	10,025		(25)
1041	China New Energy Power Group Ltd.	Manufacture of and trading in wooden products including blockboard and particle board, door skin and other wooden products; trading of securities; development of properties.	10,000	10,000	
8212	Hong Kong Life Group Holdings Ltd.	Trading of edible oil and mineral materials, provision of shrine for memorial ancestor and paper-offering business.	20,000		(7,700) (note 1)
Total			550,701	(58,993)	(93,423)

Note 1: Based on the valuation conducted by an independent valuer, the market value was approximately HK\$12.3 million as at 30 June 2011.

As at the date of this announcement, there is no relationship between the Directors/ management of the Company and the directors/ management of the above companies being invested in save that:

1. Mr. Chung Yuk Lun, an independent non-executive Director of the Company, has served as an executive director of Radford Capital Investment Limited since 16 October 2002. He has also served as an independent non-executive director of Forefront Group Limited since 26 April 2007. He was appointed as a non-executive director of Heritage International Holdings Limited on 24 December 2001 and has been re-designated as an independent non-executive director since 28 February 2006.

2. Mr. Gary Drew Douglas, the managing Director of the Company has served as an independent non-executive director of (i) Freeman Financial Corporation Limited since 10 February 2006; and (ii) Willie International Holdings Limited since 1 June 2011.

The Board has delegated the investment decisions to Mr. Au Yeung Kai Chor (a former executive Director of the Company) and Mr. Lam Suk Ping (an executive Director of the Company) as they have demonstrated experience in securities trading and investment for listed company. While the Company incurred some realised losses from its securities trading activities, these results were not substantially out of line with share price performance of most publicly listed companies, including many of the companies included within the Hang Seng Index. The Board believes that Mr. Au Yeung Kai Chor and Mr. Lam Suk Ping have discharged their fiduciary duties and duty of care and they are competent to be Directors.

In order to improve the performance of its securities trading business, the Company has officially engaged an investment adviser who shall provide professional advices to the Board regarding investment decisions. The investment adviser is a corporation licensed under the SFO for the regulated activities of (i) advising on securities and (ii) asset management. There is no relationship between the investment adviser and the Company, the Directors and senior management of the Company. Under the mandate with the Company, the investment advisor's services include the provision of research reports, verbal market commentary and regular meetings with the Company. The investment adviser is a team of professionals with financial advisory and asset management experience. Since it is the legitimate and established role of an external investment adviser to provide professional advice to assist the Company in making investment decisions, the Directors consider it in the best interests of the Company to continue to engage the investment adviser and to pursue a securities investment portfolio. The engagement of an investment adviser is intended to garner additional professional advice and analysis to assist the responsible Directors in making investment decisions.

Health care and pharmaceuticals products

The Company's health care products business is a loss making segment. In order to improve profitability, the Group is in the course of identifying opportunities to diversify the product portfolio. The Directors expects that the net proceeds raised from the Rights Issue may be utilised to finance the development of new health care products and/or health care businesses, including but not limited to acquisition costs, working capital, capital expenditure and expenses related to marketing, product development and general administration expenses.

The Company's health care business (the sales and production of ginseng products in mainland China) has been the core business of the Group. As the Company's ginseng product line has reached a declining stage in its product life cycle, and sales of health care products have been declining in recent years, the operating results have not been satisfactory in the recent years. The Company has therefore strived to explore new business opportunities. Since the Group has focused more on the development of electronic cigarette technology and business in the recent years, the Group has allocated fewer resources and effort to the health care products business. The Group is now formulating ideas to develop a ginseng beverage and to distribute it in China. The Company has evaluated the success of Coca Cola and other beverage players in China as a basis for its focus on the food and beverages market in China. The Group believes that the food and beverages market in China is prosperous as the consumer market in China has been growing rapidly. As no detailed investment plan or potential acquisition target has been identified, it is premature for the Group to project expected return. However, the Group believes that the returns in the Chinese mainland consumer market would be fruitful. With the existing working capital and proceeds from the Rights Issue, the Company will continue to formulate its strategies and make investments, that in the opinions and best efforts of the Directors, will result in positive earnings for the Company.

The Company is in the course of identifying opportunities to diversify the product line of health care products. In addition to its existing traditional ginseng products, the Company will consider other non-traditional health care products. For instance, cordyceps and lingzhi are also widely accepted as healing products in traditional Chinese medicine and may represent good business development opportunities for the Group. As there is wide acceptance, and increasing popularity of naturopathy and health care products as alternative medicines, as well as alternative healing options, the Company holds a positive view towards the prospects of the health care products business. It is expected that sales of health care products will resume in early 2012. In future, the Group will seize every opportunity to diversify its line of ginseng products and other non-traditional alternative medicines.

The sales and production of health care products have been temporarily suspended in order to upgrade the production plants for improving the sanitary standards and product quality and for future business development. The new facility will meet the latest GMP standards and is expected to begin operations in early 2012.

The pharmaceuticals products business of the Group consists primarily of the production and sales of medicines, mainly Azithromycin Granules and Rosiglitazone Hydrochloride Capsules. The target customer base is limited to residents of mainland China. The production facility is located in Shenyang, the PRC. The operating results of pharmaceuticals products are generally not satisfactory due to increasing material costs and price competition.

Since the PRC Government is now imposing more stringent regulatory requirements regarding the sales and production of pharmaceuticals and health care products, it is expected that some smaller-sized companies will be closed down resulting in reduced market competition. The Board believes the Company's pharmaceuticals and health care products will improve from recent sales weakness in China.

Electronic cigarette products

In addition to health care related products, the Group has revamped its electronic cigarette product line and the Group will remain focused on this business. The electronic cigarette (with or without nicotine), which can emulate the taste and behavior of smoking, is not only an effective alternative to cigarettes but also generates less damaging chemicals. As people are increasingly conscious about health issues and the objectives of anti-smoking and tobacco control care clearly state in China's "12th Five Year Plan", the Company believes the electronic cigarette market represents an excellent growth opportunity. Therefore, the Company will continue to focus on and intends to allocate more resources to the development and marketing of electronic cigarettes.

The electronic cigarette business is in the early stages of development. The sales of electronic cigarette products were very minimal during the first six months of 2011 as the Group has been revamping its products. The Directors believe that the current level of turnover is acceptable. Prior to the official launch of the new products with the new technology, the Company needed to go through the process of new product development and devote extensive resources to research and development of these new products. Therefore, it is quite reasonable to allocate resources to this segment to build up the turnover.

In the electronic cigarette trade conference held by the Company in early August 2011, the Group enjoyed an encouraging results as the responses from the distributors were very positive and various letters of intent ("LOIs") were received. 63 LOIs from various districts in the PRC in an aggregate amount of approximately RMB 22.38 million were received from new potential distributors. The LOIs include 15 formal sales orders in an aggregate amount of approximately RMB5.36 million. As at the date of this announcement, the Group has received approximately RMB3.90 million as deposits and approximately RMB4.72 million will be recognized as revenue from the LOIs.

In respect of overseas markets, patents were granted in Canada, Japan, and Malaysia during the first half of 2011 and the Group is attempting to expand the distribution of electronic cigarettes in many overseas markets. In the first six months of 2011, the Group strived to revamp its products so as to expand its product portfolio to include all tiers of the market in the second half of 2011. As stated in the Company's 2011

interim report, nine newly designed electronic cigarette models across three new product lines will be or are planned to be launched in the second half of 2011. Given the significant resources and risk involved with any new product launch, the Company is implementing a prudent phased approach to the introduction of these new product lines. Phase one will be focused exclusively on the PRC market and phase one will be launched with a broad-based marketing campaign. Phase two and three, to be implemented in 2012, will focus on other identified high priority overseas markets. The sales and distribution strategies require the recruitment of distributors and merchants across all major distribution channels at the provincial, country, and city levels as well as online merchants and the development of Ruyan website. A Ruyan flagship store and satellite shops will also need to be established and will also serve as regional sales support centres.

The Group has three invention patents and five utility model patents. The Group is vigorously pursuing a patent portfolio in the United States and other countries to protect its electronic cigarette market and has begun enforcement of its patents in the United States this year with a patent suit against 11 defendants. This litigation is proceeding successfully and according to the plan. The Group's patents issued prior to 2010 provided only limited coverage against competitive products and therefore in previous years litigation costs were much less and limited to actions in the PRC. Assuming a successful outcome of the litigation, the Group's market share is expected to increase and operating performance to improve significantly.

In the forthcoming year, electronic cigarette will remain the core business segment of the Group and the Group will continue to focus on product development and protection of intellectual property right. The Directors expect that the net proceeds raised from the Rights Issue may be utilised to finance marketing campaigns, research and development, product innovation and the professional fees incurred in protecting the intellectual property rights.

As at the date of this announcement, the Directors were not aware of any material adverse change in the financial and cash flow position of the Group since 30 June 2011, being the date to which the latest published unaudited interim financial statements of the Company were made up.

As at the date of this announcement, the Company has no current intention to dispose of any existing businesses/ and or other fund raising plan.

FUND RAISING EXERCISES OF THE COMPANY IN THE PAST TWELVE MONTHS

Date of announcement	Fund raising activity	Net proceeds raised (approximately)	Proposed use of the net proceeds	Actual use of the net proceeds
4 May 2011 (and terms amended on 28 June 2011)	Placing of 750,000,000 placing shares, on a fully underwritten basis, at a price of HK\$0.1 per placing share, which was completed on 4 August 2011.	HK\$73 million	It was intended to use for working capital of the Group and/or allocated for the Group's future investments, including the proposed acquisition of Central Town Limited	The entire amount was utilised for the acquisition of Central Town Limited.
30 March 2011	Subscription of 18,470,000 new shares at a price of HK\$0.16 per subscription share, which was completed on 12 April 2011.	HK\$2.86 million	It was intended to use for working capital.	The entire amount was utilised for general working capital, in particular, securities trading.
21 July 2010	Rights issue of not less than 1,847,245,240 rights shares and not more than 2,478,902,780 rights shares at a price of HK\$0.22 per rights share on the basis of twenty rights share for every share held on the record date, which became unconditional on 26 January 2011	HK\$390.65 million	It was intended to use (i) for general working capital and strengthening the financial position of the Company; and (ii) to pursue any opportunities which may arise as a result of the patent application for electronic atomization cigarette approved in the United States.	The entire amount was utilised for general working capital, in which approximately HK\$353.76 million was utilised for securities investment and the balance of approximately HK\$36.89 million was utilised for administrative costs and operating activities such as pharmaceutical products and health care products.

Save as abovementioned, the Company had not conducted any other fund raising exercise in the past twelve months immediately preceding the date of this announcement.

POSSIBLE ADJUSTMENTS TO THE OUTSTANDING SHARE OPTIONS

As a result of the Rights Issue, the exercise price and the number of Shares to be issued pursuant to the Share Options may be adjusted in accordance with the respective terms and conditions of the Share Option Scheme and the Listing Rules or guidelines issued by the Stock Exchange from time to time. The Company will instruct its auditors to certify the adjustments, if any, to the Share Options and will inform holders of the Share Options of the adjustments, if any, accordingly. Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

GENERAL

In accordance with Rule 7.19(6) of the Listing Rules, the Rights Issue must be made conditional on approval by Shareholders in a general meeting by a resolution in which any controlling Shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue. As at the date of this announcement, Absolute Target held 167,265,000 Shares (being approximately of 6.16% of the issued share capital of the Company). Absolute Target is controlled as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin. Both Mr. Wong Yin Sen and Mr. Hon Lik are executive Directors. Accordingly, Absolute Target is an associate of Mr. Wong Yin Sen and Mr. Hon Lik and they and their respective associates are required to abstain from voting in the EGM in compliance with the Rule 7.19(6)(a).

Save as disclosed above, none of the Directors nor the chief executive of the Company and their respective associates, hold any Shares and none of the Shareholders are required to abstain from voting in favour of the Rights Issue at the EGM pursuant to the Listing Rules and/or the articles of association of the Company.

An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of the Rights Issue. An independent financial adviser will be appointed to advise the independent board committee of the Company and the Independent Shareholders in this regard.

An EGM will be convened and held for the Shareholders/ Independent Shareholders (as the case may be) to consider and if thought fit to approve the proposed Capital Reorganisation as well as the proposed Rights Issue. A circular containing, among other things, (i) further details about the proposed Capital Reorganisation, Change in Board Lot Size and the proposed Rights Issue; (ii) a letter of recommendation from

the independent board committee of the Company to the Independent Shareholders in respects of the Rights Issue; (iii) a letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders on the Rights Issue; and (iv) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable.

Upon approval of the Rights Issue by the Independent Shareholders at the EGM and the Capital Reorganisation becoming effective, the Prospectus Documents setting out details of the Rights Issue will be despatched to the Qualifying Shareholders as soon as practicable and the Prospectus will be despatched to the Non-Qualifying Shareholders for information only.

4. RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:00 a.m. on 10 October 2011 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 4 November 2011.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Absolute Target”	Absolute Target Limited
“Acceptance Date”	23 April 2012 (or such other date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment for, Rights Shares and application and payment for excess Rights Shares)
“Adjusted Share(s)”	ordinary share(s) of HK\$0.01 each in the issued and unissued share capital of the Company upon the Capital Reorganisation becoming effective
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday and Sunday) on which licensed banks are generally open for business more than five hours in Hong Kong

“Capital Reduction”	the proposed reduction of the capital of the Company involving (i) the cancellation of the paid up capital to the extent of HK\$0.49 on each Consolidated Share in issue and (ii) a round down of the total number of Consolidated Shares in the issued share capital of the Company to a whole number
“Capital Reorganisation”	the proposed reorganisation of the capital of the Company by way of (i) the Shares Consolidation; (ii) the Capital Reduction; (iii) the Share Premium Cancellation; (iv) application of the credit arising from the Capital Reduction and Share Premium Cancellation to cancel the accumulated deficit of the Company and (v) the Share Subdivision as referred in this announcement
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 10,000 Shares to 20,000 Adjusted Shares
“Company”	Dragonite International Limited, a company incorporated in the Cayman Islands with limited liability and the Shares are listed on the main board of the Stock Exchange
“Companies Law”	The Companies Law, Cap. 22 (Laws of 1961, as consolidated and revised) of the Cayman Islands
“Consolidated Share(s)”	Shares of HK\$0.50 each in the issued share capital of the Company upon completion of the Share Consolidation and prior to the Capital Reduction
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Court”	the Grand Court of the Cayman Islands
“Director(s)”	director(s) of the Company
“EAF(s)”	the form(s) of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares in connection with the Rights Issue

“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the proposed Capital Reorganisation and the proposed Rights Issue
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	any Shareholders other than Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates
“Issue Mandate”	the general mandate granted at the annual general meeting of the Company held on 26 May 2011 pursuant to which the Directors have been authorised to allot, issue and deal with Shares not exceeding 20% of the issued share capital of the Company as at 26 May 2011
“Last Trading Day”	7 October 2011, being the last trading day immediately before the suspension of trading of the Shares, pending the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Qualifying Shareholders”	those Overseas Shareholders to whom the Directors, based on legal advice provided by the Company’s legal advisers, consider it necessary or expedient not to offer the Rights Issue to such shareholders on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is (are) outside Hong Kong

“Outstanding Share Options”	the outstanding share options to subscribe for an aggregate of 8,779,755 Shares under the Share Option Scheme, that are remain unexercised
“PAL(s)”	the renounceable provisional allotment letter(s) proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Posting Date”	5 April 2012 or such other date as the Underwriter may agree in writing with the Company, as the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus for information only (as the case may be) to the Non-Qualifying Shareholders
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus to be despatched to Shareholders containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholders”	Shareholders, other than the Non-Qualifying Shareholders
“Record Date”	2 April 2012 (or such other date as the Underwriter may agree in writing with the Company), as the date by reference to which entitlements to the Rights Issue are expected to be determined
“Registrar”	the branch share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rights Issue”	the proposed issue by way of rights of two Rights Shares for every Adjusted Share in issue and held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
“Rights Shares”	Adjusted Shares to be issued and allotted under the Rights Issue, being not less than 1,086,923,000 Adjusted Shares but not more than 1,326,511,802 Adjusted Shares

“RMB”	Renminbi, the lawful currency of the PRC
“Scheme Mandate Limit”	The maximum number of Shares which may be issued upon the exercise of all Share Options to be granted under the Share Option Scheme and any other share option schemes of the Company
“Settlement Date”	25 April 2012, being the second Business Day following the Acceptance Date (or such other time or date as the Underwriter and the Company may agree in writing)
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the issued and unissued capital of the Company, the par value of which being HK\$0.10 each prior to the Capital Reorganisation
“Shareholder(s)”	holder(s) of Shares or Consolidated Shares or Adjusted Shares, as the case may be
“Share Options”	the share options to subscribe for Shares under the Share Option Scheme
“Share Option Scheme”	the share option scheme of the Company adopted on 30 May 2003
“Share Premium Cancellation”	the proposed cancellation of the entire amount standing to the credit of the share premium account of the Company
“Share Subdivision”	the proposed subdivision of every authorised but unissued Share of par value of HK\$0.10 each into ten Adjusted Shares of HK\$0.01 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.1 per Rights Share
“Underwriter”	Chung Nam Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activities within the meaning of the SFO

“Underwriting Agreement”	the underwriting agreement dated 7 October 2011 entered into between the Company and the Underwriter in relation to the underwriting arrangement in respect of the Rights Issue (as supplemented by the supplemental agreement dated 3 November 2011 between the same parties)
“Underwritten Shares”	not less than 1,086,923,000 and not more than 1,326,511,802 Rights Shares underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
“%” or “per cent.”	percentage or per centum

On behalf of the Board
Dragonite International Limited
Gary Drew Douglas
Managing Director

Hong Kong, 3 November 2011

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

Executive Directors

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

Independent non-executive Directors

Mr. Pang Hong
Mr. Chung Yuk Lun
Mr. Liu Kwong Sang
Mr. Lam Man Sum, Albert
Mr. Ho Tak Fun