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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)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

The board of directors (the “Board”) of Dragonite International Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2011 (the “Year”) together with the comparative figures for the corresponding year in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	<i>NOTES</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Turnover			
Sales of goods		19,878	21,786
Less: Cost of goods sold		<u>(42,854)</u>	<u>(84,615)</u>
		(22,976)	(62,829)
Change in fair value of financial assets			
at fair value through profit or loss		(214,408)	1,404
Dividend income		2,806	—
Rental income		<u>1,671</u>	<u>—</u>
		(232,907)	(61,425)
Other income		3,119	795
Other gains and losses		(4,986)	(9,750)
Distribution costs		(14,005)	(40,708)
Administrative expenses		(47,536)	(43,705)
Other expenses		(4,565)	(82,004)
(Loss) gain on disposal of subsidiaries		(9,967)	21,903
Finance costs		<u>(2,635)</u>	<u>(17,945)</u>
Loss before tax		(313,482)	(232,839)
Income tax expense	4	<u>(599)</u>	<u>(492)</u>
Loss for the year	5	<u>(314,081)</u>	<u>(233,331)</u>
Other comprehensive income			
Reclassification adjustment for			
exchange difference upon disposal of			
foreign operation		—	(368)
Exchange differences arising on			
translation to presentation currency		<u>767</u>	<u>6,719</u>
Other comprehensive income for the year		<u>767</u>	<u>6,351</u>
Total comprehensive expense for the year		<u><u>(313,314)</u></u>	<u><u>(226,980)</u></u>
			(restated)
Loss per share			
Basic and diluted	7	<u>HK(14.51) cents</u>	<u>HK(57.04) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	<i>NOTES</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		25,799	30,413
Investment property		145,000	—
Available-for-sale investments		—	—
Financial assets at fair value through profit or loss		9,730	20,000
Intangible assets		—	—
Prepaid lease payments		2,690	2,678
		<u>183,219</u>	<u>53,091</u>
Current assets			
Inventories		8,487	35,378
Financial assets at fair value through profit or loss		114,924	15,563
Trade receivables	8	4,184	5,082
Deposits, prepayments and other receivables		6,878	5,736
Taxation recoverable		1,579	2,600
Prepaid lease payments		82	79
Bank balances and cash		55,970	11,681
		<u>192,104</u>	<u>76,119</u>
Current liabilities			
Trade payables	9	6,272	4,647
Accruals and other payables		33,665	41,269
Derivative financial instruments		5,689	377
Borrowings		92,342	5,000
Convertible bonds		—	4,136
Taxation payable		1,503	891
		<u>139,471</u>	<u>56,320</u>
Net current assets		<u>52,633</u>	<u>19,799</u>
Total assets less current liabilities		<u><u>235,852</u></u>	<u><u>72,890</u></u>
Capital and reserves			
Share capital		271,731	9,236
Reserves		<u>(35,879)</u>	<u>63,654</u>
Equity attributable to owners of the Company		<u><u>235,852</u></u>	<u><u>72,890</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Shareholders' contribution <i>HK\$'000</i> <i>(note a)</i>	Translation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Non- distributable reserves <i>HK\$'000</i> <i>(note b)</i>	Merger reserves <i>HK\$'000</i> <i>(note d)</i>	Special reserves <i>HK\$'000</i> <i>(note c)</i>	Accumulated losses <i>HK\$'000</i>	Attributable to owners of the Company <i>HK\$'000</i>
At 1 January 2010	151,336	1,182,410	21,780	86,873	9,612	24,737	(1,016,738)	3,142	(418,945)	44,207
Loss for the year	—	—	—	—	—	—	—	—	(233,331)	(233,331)
Other comprehensive income for the year	—	—	—	6,351	—	—	—	—	—	6,351
Total comprehensive income for the year	—	—	—	6,351	—	—	—	—	(233,331)	(226,980)
Issue of new shares	33,272	—	—	—	—	—	—	—	—	33,272
Issue of new shares upon conversion of convertible bonds	71,891	10,400	—	—	—	—	—	—	—	82,291
Issue of new shares upon exercise of share options	29,770	26,582	—	—	(11,984)	—	—	—	—	44,368
Issue of new shares upon rights issue	83,180	—	—	—	—	—	—	—	—	83,180
Capital Reorganisation	(360,213)	—	—	—	—	—	—	—	360,213	—
Recognition of equity-settled share-based payments	—	—	—	—	12,552	—	—	—	—	12,552
At 31 December 2010	9,236	1,219,392	21,780	93,224	10,180	24,737	(1,016,738)	3,142	(292,063)	72,890
Loss for the year	—	—	—	—	—	—	—	—	(314,081)	(314,081)
Other comprehensive income for the year	—	—	—	767	—	—	—	—	—	767
Total comprehensive income for the year	—	—	—	767	—	—	—	—	(314,081)	(313,314)
Issue of new shares upon rights issue	184,725	221,669	—	—	—	—	—	—	—	406,394
Issue of new shares upon subscription	1,847	1,109	—	—	—	—	—	—	—	2,956
Issue of new shares upon exercise of share options	923	1,540	—	—	(783)	—	—	—	—	1,680
Issue of new shares upon placing	75,000	—	—	—	—	—	—	—	—	75,000
Transaction costs attributable to issue of shares	—	(10,537)	—	—	—	—	—	—	—	(10,537)
Recognition of equity-settled share-based payments	—	—	—	—	783	—	—	—	—	783
Lapse of share options	—	—	—	—	(1,464)	—	—	—	1,464	—
At 31 December 2011	<u>271,731</u>	<u>1,433,173</u>	<u>21,780</u>	<u>93,991</u>	<u>8,716</u>	<u>24,737</u>	<u>(1,016,738)</u>	<u>3,142</u>	<u>(604,680)</u>	<u>235,852</u>

Notes:

- (a) Shareholders' contribution represents the amounts contributed by shareholders of Ruyan Investment (Holdings) Limited ("RIHL").
- (b) The non-distributable reserve represents statutory reserves appropriated from profit after tax of the Company's PRC subsidiary under the PRC laws and regulations.
- (c) The special reserve of the Group represents reserve arising pursuant to Group Reorganisation on the basis that the Group Reorganisation had been effected on 1 January 2000.
- (d) The merger reserve represents (i) the share capital of RIHL; (ii) the carrying amount of equity interest in RIHL held by the non-controlling parties; and (iii) the fair value of the considerations paid for acquisition of RIHL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands and Room 1101, 11/F, China United Centre, 28 Marble Road, North Point, Hong Kong, respectively.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in production and sales of a series of health care products, pharmaceutical products, Ruyan atomizing cigarettes, securities trading and investments and property investment in Hong Kong.

In prior years, the Company’s functional currency was Renminbi (“RMB”). During the year, the directors had re-evaluated the underlying investment activities and strategy of the Company and have determined that the functional currency of the Company changed from RMB to Hong Kong dollars (“HKD”). The effects of the change of the functional currency of the Company had been accounted for prospectively during the year.

For the purposes of presenting the consolidated financial statements, the Group adopted HKD as its presentation currency for the convenience of the readers. The directors consider HKD can provide more meaningful information to the Company’s shareholders.

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

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

Amendments to HKFRSs HKAS 24 (as revised in 2009)	Improvement to HKFRSs issued in 2010 Related party disclosures
Amendments to HK(IFRIC) - INT 14 HK(IFRIC) - INT 19	Prepayments of a minimum funding requirement Extinguishing financial liabilities with equity instruments

The adoption of the new and revised HKFRSs has had no material effect on consolidated financial statements of the Group for current or prior accounting periods.

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

HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets ¹ Disclosures - Offsetting financial assets and financial liabilities ²
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HKFRS 9	Financial instruments ³
HKFRS 9 & HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ³
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 13	Fair value measurement ²
HKAS 1 (Amendments)	Presentation of items of other comprehensive income ⁵
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ⁴
HKAS 19 (Revised 2011)	Employee benefits ²
HKAS 27 (as revised in 2011)	Separate financial statements ²
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures ²
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ⁶
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

(3) SEGMENT INFORMATION

The Group's executive directors are the chief operation decision makers as they collectively make strategic decisions towards the Group's operations. During the year ended 31 December 2011, securities trading and investments has become a substantial operating activity to the Group, therefore it is reported in a new reportable and operating segment. Also, the Group acquired Central Town Limited ("CTL") which includes a subsidiary principally engaged in property investment in Hong Kong. Thus, the executive directors consider property investment in Hong Kong is another new reportable and operating segment upon the acquisition. Figures in the segment information for the year ended 31 December 2010 have been restated for comparative purposes only.

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

- (a) health care products, which are mainly represented by ginseng products
- (b) pharmaceutical products, which are mainly represented by licensed medicines
- (c) Ruyan atomizing cigarettes
- (d) securities trading and investments
- (e) property investment in Hong Kong

Segment turnover and results

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

For the year ended 31 December 2011

	Health care products	Pharmaceutical products	Ruyan atomizing cigarettes	Securities trading and investment	Property investments in Hong Kong	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover						
Sales of goods	96	14,419	5,363	—	—	19,878
Change in fair value of financial assets at fair value through profit or loss	—	—	—	(214,408)	—	(214,408)
Dividend income	—	—	—	2,806	—	2,806
Rental income	—	—	—	—	1,671	1,671
	<u>96</u>	<u>14,419</u>	<u>5,363</u>	<u>(211,602)</u>	<u>1,671</u>	<u>(190,053)</u>
Segment loss	<u>(15,894)</u>	<u>(10,515)</u>	<u>(32,509)</u>	<u>(211,607)</u>	<u>(4,881)</u>	(275,406)
Other income						3,119
Change in fair value of derivative financial instruments						958
Loss on disposal of subsidiaries						(9,967)
Share-based payment expenses						(783)
Unallocated corporate expenses						(29,144)
Finance costs						<u>(2,259)</u>
Loss before taxation						<u>(313,482)</u>

For the year ended 31 December 2010

	Health care products <i>HK\$'000</i>	Pharmaceutical products <i>HK\$'000</i>	Ruyan atomizing cigarettes <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment turnover					
Sales of goods	6,202	18,543	(2,959)	—	21,786
Change in fair value of financial assets at fair value through profit or loss	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,404</u>	<u>1,404</u>
	<u>6,202</u>	<u>18,543</u>	<u>(2,959)</u>	<u>1,404</u>	<u>23,190</u>
Segment (loss) profit	<u>(55,195)</u>	<u>(12,116)</u>	<u>(123,856)</u>	<u>1,404</u>	(189,763)
Other income					795
Change in fair value of derivative financial instruments					912
Gain on disposal of subsidiaries					21,903
Share-based payment expenses					(12,552)
Unallocated corporate expenses					(36,189)
Finance costs					<u>(17,945)</u>
Loss before taxation					<u>(232,839)</u>

Segment (loss) profit represents the loss from/profit earned by each segment without allocation of other income, change in fair value of derivative financial instruments, loss/gain on disposal of subsidiaries, share-based payment expenses, unallocated corporate expenses and certain finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31 December 2011

	Health care products <i>HK\$'000</i>	Pharmaceutical products <i>HK\$'000</i>	Ruyan atomizing cigarettes <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Property investments in Hong Kong <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS						
Segment assets	<u>21,519</u>	<u>14,738</u>	<u>9,159</u>	<u>125,332</u>	<u>145,350</u>	316,098
Bank balances and cash						55,970
Taxation recoverable						1,579
Other receivables						<u>1,676</u>
Consolidated total assets						<u>375,323</u>
LIABILITIES						
Segment liabilities	<u>8,374</u>	<u>10,490</u>	<u>13,949</u>	<u>—</u>	<u>28,169</u>	60,982
Other payables						6,297
Taxation payable						1,503
Derivative financial instruments						5,689
Borrowings						<u>65,000</u>
Consolidated total liabilities						<u>139,471</u>

As at 31 December 2010

	Health care products <i>HK\$'000</i>	Pharmaceutical products <i>HK\$'000</i>	Ruyan atomizing cigarettes <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	<u>46,348</u>	<u>23,375</u>	<u>7,595</u>	<u>35,563</u>	112,881
Bank balances and cash					11,681
Taxation recoverable					2,600
Other receivables					<u>2,048</u>
Consolidated total assets					<u>129,210</u>
LIABILITIES					
Segment liabilities	<u>8,777</u>	<u>7,617</u>	<u>14,421</u>	<u>—</u>	30,815
Other payables					15,101
Taxation payable					891
Convertible bonds					4,136
Derivative financial instruments					377
Borrowings					<u>5,000</u>
Consolidated total liabilities					<u>56,320</u>

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

- all assets are allocated to reportable and operating segments, other than certain other receivables, taxation recoverable and bank balances and cash.
- all liabilities are allocated to reportable and operating segments, other than derivative financial instruments, certain other payables, certain borrowings, taxation payable and convertible bonds.

Other segment information

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

For the year ended 31 December 2011

	Health care products HK\$'000	Pharmaceutical products HK\$'000	Ruyan atomizing cigarettes HK\$'000	Securities trading and investment HK\$'000	Property investments in Hong Kong HK\$'000	Consolidated HK\$'000
Addition to property, plant and equipment	—	339	66	—	—	405
Depreciation of property, plant and equipment	1,802	700	3,513	—	—	6,015
Amortisation of prepaid lease payments	88	—	—	—	—	88
Change in fair value of investment property	—	—	—	—	6,009	6,009
Allowance for obsolescence inventory	13,341	11,025	7,430	—	—	31,796
Allowance for bad and doubtful debts, net	192	1,225	56	—	—	1,473
Gain on disposal of property, plant and equipment	—	—	(65)	—	—	(65)

For the year ended 31 December 2010

	Health care products HK\$'000	Pharmaceutical products HK\$'000	Ruyan atomizing cigarettes HK\$'000	Securities trading and investment HK\$'000	Consolidated HK\$'000
Addition to property, plant and equipment	694	753	1,931	—	3,378
Depreciation of property, plant and equipment	1,965	683	6,515	—	9,163
Amortisation of prepaid lease payments	85	—	—	—	85
Amortisation of intangible assets	—	753	—	—	753
Allowance for obsolescence inventory	7,105	5,977	52,317	—	65,399
Allowance for bad and doubtful debts, net	9,801	8,107	19,498	—	37,406
Loss on disposal of property, plant and equipment	37	17	1,280	—	1,334
Impairment loss on property, plant and equipment	4,051	94	5,183	—	9,328

Turnover from major products

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Health care products	96	6,202
Pharmaceutical products	14,419	18,543
Ruyan atomizing cigarettes	<u>5,363</u>	<u>(2,959)</u>
	<u>19,878</u>	<u>21,786</u>

Information about major customers

There is no single customer contributing over 10% of total sales of the Group for the year ended 31 December 2011 and 2010.

Geographical information

The Group's non-current assets by geographical location of the assets are detailed below:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
The People's Republic of China ("PRC")	28,489	33,091
Hong Kong	<u>145,000</u>	<u>—</u>
	<u>173,489</u>	<u>33,091</u>

Note: The non-current assets exclude financial assets at fair value through profit or loss.

(4) INCOME TAX EXPENSE

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
PRC Enterprise Income Tax	<u>599</u>	<u>492</u>

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

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

(5) LOSS FOR THE YEAR

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments		
- fees and other emoluments	5,443	3,874
Other staff costs		
- salaries, allowances and bonus	8,838	8,872
- share-based payment expenses (note ii)	783	12,552
- retirement benefits scheme contributions	837	463
	<u>15,901</u>	<u>25,761</u>
Amortisation of intangible assets (included in cost of sales)	—	753
Amortisation of prepaid lease payments	88	85
Cost of inventories recognised as expense (note i)	42,854	84,615
Auditor's remuneration	1,600	957
Depreciation of property, plant and equipment	6,015	9,163
Operating lease rentals in respect of land and buildings	5,109	8,070
Allowance for bad and doubtful debts, net (included in other expenses)	1,473	37,406
Research and development expenses (included in other expenses)	2,309	6,354
Interest income (included in other income)	(8)	(13)
Gross rental income from investment property	(1,671)	—
Less: direct operating expenses from investment property that generate rental income for the year	145	—
	<u>(1,526)</u>	<u>—</u>

Notes:

- (i) Included in the cost of inventories recognised as expense for the year ended 31 December 2011 and 2010 is an allowance for inventory obsolescence of HK\$31,796,000 (2010: HK\$65,399,000). The allowance was provided for certain slow-moving raw materials and finished goods of HK\$18,331,000 (2010: HK\$46,551,000) including health care products, pharmaceutical products and Ruyan atomizing cigarettes.

During the year ended 31 December 2011, certain health care products are spoiled and no longer sellable, and an allowance for inventories of HK\$13,465,000 was provided. During the year ended 31 December 2010, certain models of Ruyan atomizing cigarettes had quality problems and an allowance for inventories of HK\$18,848,000 was provided.

- (ii) The share-based payment expenses of HK\$783,000 granted to an eligible participant during the year ended 31 December 2011 were related to the Group's trading securities business. The share-based payment expenses of HK\$11,905,000 presented to certain eligible participants during the year ended 31 December 2010 were related to, among others, the Group's corporate exercises.

(6) DIVIDEND

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

(7) LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the parent is based on the following data:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purposes of basic and diluted earnings per share (loss for the year attributable to owners of the Company)	<u>(314,081)</u>	<u>(233,331)</u>

2011	2010
<i>'000</i>	<i>'000</i>
	(restated)

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,165,182</u>	<u>409,082</u>
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The computation of diluted loss per share does not assume the conversion of the Company's share options and outstanding convertible bonds since their assumed conversion would result in a decrease in loss per share.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted loss per share for the years of 2011 and 2010 have been adjusted to reflect the impact of issue of new shares, including rights issue, share consolidation, subscription of new shares, placement and exercise of options effected during the year ended 31 December 2011.

(8) TRADE RECEIVABLES

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	149,792	143,986
Less: Allowance for doubtful debts	(145,608)	<u>(138,904)</u>
	<u>4,184</u>	<u>5,082</u>

The Group allows an average credit period from 60 to 270 days to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 60 days	1,258	822
61 to 90 days	42	1,361
91 to 180 days	<u>2,884</u>	<u>2,899</u>
	<u>4,184</u>	<u>5,082</u>

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

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

The receivables with a carrying amount of HK\$4,184,000 (2010: HK\$5,082,000) which are neither past due nor impaired at the end of the reporting date for which the Group believes that the amounts are considered recoverable because the receivables are related to a number of independent customers that have good repayment records with the Group.

At 31 December 2011 and 2010, there is no trade receivable balance is past due at the reporting date for which the Group has not provided for impairment loss.

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

(9) TRADE PAYABLES

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
0 to 30 days	51	51
31 to 60 days	1,006	—
61 to 90 days	65	—
Over 90 days but less than 1 year	1,226	517
Over 1 year	<u>3,924</u>	<u>4,079</u>
	<u><u>6,272</u></u>	<u><u>4,647</u></u>

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2011 (year ended 31 December 2010: HK\$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded an audited consolidated net loss of approximately HK\$314,081,000 for the Year (2010: HK\$233,331,000). Due to the realized and unrealized losses on financial assets at fair value through profit or loss (“FAFVPL”), there was a negative turnover of approximately HK\$232,907,000 for the Year (2010: negative turnover of approximately HK\$61,425,000 (restated)). The net asset value of the Group increased from HK\$72,890,000 as at 31 December 2010 to HK\$235,852,000 as at 31 December 2011, representing a 223.6% increment.

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

1. As a result of the market turbulence in the stock market during the Year, the Group recorded net realized and unrealized losses of approximately HK\$214,408,000 (2010: net gain of approximately HK\$1,404,000 (restated)) on change in fair value of FAFVPL in the income statement.
2. The sales of electronic cigarette products were very minimal during the first half of 2011 as the Group had been revamping its products.

3. Due to technical or commercial obsolescence, a provision for impairment of inventory at about HK\$31,796,000 (2010: HK\$ 65,399,000) was made for the Year.
4. The temporary suspension of the sales and production of health care products caused substantial decrease in sales as compared to 2011.

As for the pharmaceutical business, Azithromycin Granules (II) (「阿奇霉素顆粒 (II)」) and Rosiglitazone Hydrochloride Capsules (「鹽酸吡格列酮膠囊」) remained as two key products of the Group for the sales during the Year. The continued increase in prices of raw materials and energy, continued strategic price reduction of medicine and irrational price competition have adversely affected the performance of trading of pharmaceutical products. Turnover of pharmaceutical products for the Year was approximately HK\$14,419,000, representing a decrease of 22.24% from approximately HK\$18,543,000 as compared to the previous year.

In the fourth quarter of 2011, nine newly designed electronic cigarette models across three new product lines were launched, resulting in an increase in turnover of electronic cigarette from HK\$4,063,000 in 2010 to HK\$5,363,000 in 2011. The Group will continue to focus on research and development of new products and plans to launch new products in the People's Republic of China (the "PRC") and overseas markets in the coming year.

The Company's continued creation and acquisition of intellectual property in the United States and elsewhere around the globe has enabled the Company to strengthen and expand its strategic partnerships in recent years. As previously announced, the Group filed two civil actions for infringement of United States Patent No. 7,832,410 in the United States District Court for the Central District of California. During 2011, new patents were granted in Australia, Canada, China, Japan, Korea, and New Zealand.

Trading of Securities

The Group has further expanded its principal business in securities trading and as a treasury function invest its surplus cash in the Hong Kong securities market with an aim to capture future appreciation of share price. However, due to the European sovereign debt crisis and weak global growth, securities market was highly volatile and the Hang Seng Index dropped by approximately 20% in 2011. Market value of the Group's securities portfolio had declined and the net loss on the change in fair value of FAFVPL for the Year amounted to approximately HK\$214,408,000 (2010: net gain on the change in fair value of FAFVPL approximately HK\$1,404,000). The Group incurred realized and unrealized losses from its securities trading and investments.

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

Property Investment

The Company holds a positive view towards the prospects of the real estate market in Hong Kong, particularly in commercial and retail sectors. On 4 May 2011, the Group acquired the entire issued share capital of Central Town Limited for the interests of a property situated at the Basement, China United Centre, 28 Marble Road, North Point, Hong Kong. Upon completion of the aforesaid acquisition in August 2011, a large portion of the said premises has been leased to a Chinese medicine clinic at a monthly rent of HK\$350,000 for a term of 5 years. Attributable to such rental income, the Group recorded a segment turnover of approximately HK\$1,671,000 for the Year (2010: nil).

Research & Development

Ruyan's research and development team recently achieved a major technical breakthrough advancing the vapor yield of the electronic cigarette. In addition, the Company has greatly improved the taste and quality of its electronic cigarettes. Positive responses from distributors of all regions across the PRC and various letters of intent were received during the trade conference held in Beijing in early August 2011. Newly designed products with the implementation of the new technology were launched in China in late 2011.

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

Intellectual Property

The Company is a leader in the area of electronic cigarette technology and is developing an extensive portfolio of issued patents and additional pending patent applications. In 2012, the Company anticipates obtaining additional intellectual property coverage with the grant of at least one other Electronic Cigarette patent in

the United States, Europe and other key markets. The Company is in the process of filing national phase applications for a core patent (“Improved Atomizing Electronic Cigarette” - PCT/CN2010/000125) in countries including the United States, Canada, Japan, Brazil, Egypt, Israel, and Singapore. The Company also recently applied for a patent on a novel capacitive sensor, which is an internal component in an electronic cigarette. The Company continues to actively monitor and enforce its intellectual property rights, which provide broad protection for its innovative electronic cigarettes.

As previously announced, the Company’s wholly-owned subsidiary, Ruyan Investment (Holdings) Limited, has filed two civil actions for infringement of United States Patent No. 7,832,410 in the United States District Court for the Central District of California against a total of 11 defendants. Consistent with its strong intellectual property position, the Company may institute additional litigation based on newly-acquired rights.

Progress in Overseas Markets

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

LIQUIDITY, FINANCIAL ANALYSIS AND CAPITAL STRUCTURE

As at 31 December 2011, the Group’s net borrowing was approximately HK\$92,342,000 (31 December 2010: HK\$9,136,000), consisting of secured bank borrowings and unsecured other borrowings. Such borrowings were denominated in HKD, and thus, there was no exposure to fluctuations in exchange rate. Gearing ratio of the Group increased from approximately 12.53% as at 31 December 2010 to approximately 39.15% as at 31 December 2011. This calculation is based on net borrowings mentioned above and shareholders’ funds of approximately HK\$235,852,000 (31 December 2010: HK\$72,890,000). Cash and bank balances amounted to approximately HK\$55,970,000 (31 December 2010: HK\$11,681,000) and total assets were approximately HK\$375,323,000 (31 December 2010: HK\$129,210,000). Net current assets of the Group on the same date amounted to approximately HK\$52,633,000 (31 December 2010: HK\$19,799,000). As at 31

December 2011, inventories amounted to approximately HK\$8,487,000, representing a significant decrease of approximately HK\$26,891,000 when compared with the amount as at 31 December 2010. The Group had no material capital commitment as at 31 December 2011.

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

- 1) Subsequent to the capital reorganization in 2010 which involved, among other things, share consolidation and capital reduction, the Company allotted and issued 1,847,245,240 shares on 28 January 2011, by way of rights issue at a subscription price of HK\$0.22 per rights share on the basis of twenty rights shares for every share held on 7 January 2011. Net proceeds of approximately HK\$390,650,000 were raised.
- 2) On 30 March 2011, an independent investor subscribed for 18,470,000 shares of the Company which was issued under general mandate at the subscription price of HK\$0.16 per share. The share subscription was completed on 12 April 2011 and the Company received net proceeds of approximately HK\$2,856,000.
- 3) On 4 August 2011, the Company completed a placement of 750,000,000 ordinary shares to independent investors at the placing price of HK\$0.1 per share and the Company received net proceeds of approximately HK\$73,000,000.

These fund raising activities during the Year placed the Group in a far stronger financial position to equip itself with additional funding for future expansion. The management is of the view that the Group's incoming cash flow from various financing activities can provide working capital and thereby to fund future business expansion and to pursue business opportunities when they arise. As at 31 December 2011, the issued share capital of the Company was 2,717,307,502 shares of HK\$0.10 each.

FOREIGN EXCHANGE RISKS

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

PROSPECTS FOR THE YEAR 2012 AND DEVELOPMENT PLAN

Electronic Cigarette

The Company will continue to accelerate its marketing efforts. The marketing strategy of RUYAN products will evolve from a product oriented approach, which primarily focused on the product itself, to a market oriented approach which will focus more on the appeal or social status the product provided. The Group will continue to focus on products launched in late 2011. In addition, four new products are planned to be launched in the first half of 2012.

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

In the PRC, market conditions have changed from previous years. As the objectives of anti-smoking and tobacco control are now clearly stated in the “12th Five Year Plan”, we are increasingly optimistic about our future development and the industry. Looking forward, the Company plans to continue to invest in research and development and to define the global market for the electronic cigarette. The Company is confident that by ramping up its research and development, intellectual property, marketing strategies and regulatory work in concert, the market demand for RUYAN products will grow rapidly in the near future.

Internationally, during 2011, the regulatory environment for the electronic cigarette has become more transparent in leading markets such as the United States and the United Kingdom. The Company believes this trend will continue and regulators have agreed in principal to accept the electronic cigarette as a viable alternative to smoking traditional tobacco cigarettes. Together with its overseas partners, the Company intends to work closely with regulatory officials in key markets and hopes to play a role in the creation of guidelines for safety, efficacy, and quality of electronic cigarettes.

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

Pharmaceuticals and health care products

The operating results of pharmaceuticals products are generally not satisfactory due to increasing material costs and price competition. The Group will attempt to develop more sales channels and focus on exploring new product lines to broaden the income stream.

The Company holds a positive view towards the prospects of the health care products business. In order to meet the latest GMP standard, the Group plans to complete the upgrade of the health care products manufacturing facilities in 2012 and that is expected to resume operations in the second half of 2012. In future, the Group will look for opportunities to expand the product mix of ginseng products and to invest in other alternative medicine.

DETAILS OF MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the Year, Ruyan International Limited, a wholly-owned subsidiary of the Company, acquired the entire interests in Charm Action Group Limited and its subsidiary (“Charm Action Group”) from an independent third party for future market development of electronic cigarette in North America at a cash consideration of HK\$10,000,000. The acquisition was duly completed in February 2011. Taking into account the weak financial position of Charm Action Group, the Group subsequently disposed of its entire interests in Charm Action Group to an independent third party at a cash consideration of HK\$100 on 31 October 2011 so as to streamline the corporate structure.

On 4 May 2011, the Company through its wholly-owned subsidiary, acquired the entire issued share capital of and the related shareholder’s loan extended to Central Town Limited for the interests of a premises at an aggregate consideration of HK\$117,000,000. In August 2011, the transaction was completed and a large portion of such premises has been leased to HON Chinese Medicine Company Limited (the “Clinic”) at a monthly rent of HK\$350,000 for 5 years. Upon completion, the Group has entered into an option agreement for the possible acquisition of Apex Corporate Investments Limited (“Apex”), the holding company of the Clinic. Such call / put options, stated at fair value, have been disclosed as Derivative Financial Instruments in the Consolidated Statement of Financial Position. The exercise price of such call / put options is capped at HK\$75 million and the minimum is HK\$25 million. The Group is under no obligation to further invest in either the Clinic or Apex pursuant to the said option agreement. However, the Company will keep itself apprised of any future fund raising opportunities for developing Apex and the Clinic if and when the Group acquires Apex.

Save as disclosed herein this announcement, there were no other material acquisitions or disposals of subsidiaries during the Year.

PLEDGE OF ASSETS

At 31 December 2011, the Group pledged its investment property to secure its bank borrowing of approximately HK\$27,342,000.

At 31 December 2011, margin facilities of approximately HK\$51,486,000 (31 December 2010: HK\$4,809,000) from regulated securities brokers were granted to the Group which were secured by the Group's FAFVPL with the carrying amount of approximately HK\$124,654,000 (31 December 2010: HK\$15,563,000).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not provide any form of guarantees for any external party and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EMPLOYEE POLICY

As at 31 December 2011, the Group employed approximately 278 employees in the PRC and Hong Kong. The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group.

EVENTS AFTER THE REPORTING PERIOD

As announced by the Company on 3 November 2011, the Company proposed the capital reorganization (the "Capital Reorganization") involving (i) every 5 issued shares of par value of HK\$0.10 each be consolidated into one consolidated share of par value of HK\$0.50 each; (ii) the nominal value of each issued consolidated shares 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; (iii) rounding down the total number of consolidated share in the issued share capital of the Company to the nearest whole number; (iv) the entire amount standing to the credit of the share premium account of the Company be cancelled; (v) 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; and (vi) each of the authorized 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 Grand Court of the Cayman Islands granted the approval of the aforesaid capital reduction on 9 March 2012 (Cayman time) and it is expected that the Capital Reorganization will become effective after 4:00 p.m. on 19 March 2012 (Hong Kong time).

Upon the Capital Reorganization becoming effective, the Company will carry out a rights issue (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. Assuming the Rights Issue will become unconditional and not terminated by the underwriter, it is expected that the Rights Issue will complete in May 2012 and net proceeds of not less than approximately HK\$108.7 million will be raised thereby.

DISCLOSURE OF OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the Year, with deviation from A.4.1 of the Code as summaries below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the required standard set out in the Model Code during the Year.

AUDIT COMMITTEE

The annual financial results for the Year have been reviewed by the audit committee of the Company. The audit committee comprises four independent non-executive directors of the Company, namely Mr. Chung Yuk Lun, Mr. Lam Man Sum, Albert, Mr. Liu Kwong Sang and Mr. Ho Tak Fun.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2011 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.dragonite.com.hk. The 2011 annual report will also be published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.dragonite.com.hk and will be despatched to the shareholders of the Company in due course.

APPRECIATION

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

By order of the Board
Dragonite International Limited
Wong Yin Sen
Chairman

Hong Kong, 16 March 2012

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

Executive Directors

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

Independent non-executive Directors

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