THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Dragonite International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dragonite International Limited

叁龍國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 329)

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF CERTAIN ASSETS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 30/F, China United Centre, 28 Marble Road, North Point, Hong Kong at 4:00 p.m. on 16 October 2013 is set out on pages 40 to 42 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event the proxy shall be deemed to be revoked.

26 September 2013

CONTENTS

In this circular, including the cover page and the appendices to it, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

"Affiliates"	means, in relation to any person, any subsidiary or holding company of such person and any subsidiary of such holding company.
"Assets"	means the benefit (subject to the burden) of the Contract; the Business Intellectual Property Rights; the Information; the benefit of the Claims (and any settlement agreement in relation thereto); and all records and other documents relating to the Assets.
"Asset Sale Agreement"	means the sale of assets agreement dated 14 August 2013 entered into by the Company, the Sellers, the Purchaser and the Purchaser Guarantor.
"Board"	means the board of directors of the Company.
"Break Fee"	has the meaning ascribed to it in the section of this circular headed "Break Fee".
"Business"	means the E-Vapour Business carried on by the Sellers as at the date of the Asset Sale Agreement.
"Business Day"	means a day, other than Saturday, Sunday or other day on which commercial banks in Hong Kong, London, New York and Amsterdam are authorised or required by applicable law to close.
"Business Intellectual Property Rights"	means all Intellectual Property Rights owned by the Sellers and used in connection with the Business, including but not limited to the Intellectual Property Rights listed out or defined in the Asset Sale Agreement.
"Claims"	means any proceedings relating to the Business Intellectual Property Rights, including but not limited to the proceedings listed in the Asset Sale Agreement.
"Closing"	means the completion of the Disposal pursuant to the Asset Sale Agreement.
"Closing Date"	means the date on which Closing takes place.
"Company"	means Dragonite International Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange.

"Company's Market Capitalisation"	means the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the Asset Sale Agreement, as described in rule 14.07(4) of the Listing Rules.
"connected persons"	has the meaning ascribed to it under the Listing Rules.
"Consideration"	means the aggregate of the Initial Purchase Price and the Deferred Purchase Price.
"Contract"	means the agreement referred to as such in the Asset Sale Agreement.
"Deferred Purchase Price"	means the additional amounts payable to the Sellers upon the first and second anniversaries of the Closing Date, as described in the section of this circular headed "Consideration".
"Directors"	means the directors of the Company.
"Disposal"	means the sale of the Assets by the Sellers to the Purchaser on the terms and subject to the conditions set out in the Asset Sale Agreement.
"Drop Dead Date"	means 31 December 2013.
"EGM"	means the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Asset Sale Agreement and the transactions contemplated thereunder.
"EGM Resolution"	means the resolution to be proposed at the EGM for the purposes of approving, in compliance with the Listing Rules, the Asset Sale Agreement and the transactions contemplated thereunder.
"Encumbrance"	means any charge (fixed or floating), mortgage, lien, option, pledge, hypothecation, retention of title, right of pre-emption, right of first refusal or other third party right or security interest of any kind.
"E-Vapour Business"	means any business carried on by any party of (i) designing, developing, producing, manufacturing and distributing electronic smoking devices and E-Vapour Products; and (ii) developing Intellectual Property Rights for licensing to and enforcement against third party manufacturers of electronic smoking devices and E-Vapour Products.

"E-Vapour Products"	means any and all electronic smoking devices including, but not limited to, electronic cigarettes, electronic cigars, electronic pipes and all associated refills and cartridges, e-smoking atomisers, cartomisers, vaporisers, accessories, charging and loading devices and cleaning products.
"Group"	means the Company and its subsidiaries.
"HKFRS"	means the Hong Kong Financial Reporting Standards, the generally accepted accounting principles of accounting in Hong Kong.
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC.
"ITG"	means Imperial Tobacco Group PLC.
"Independent Third Parties"	means persons who are independent of and not connected persons of the Company and its connected persons.
"Information"	means (i) all information relating to the Business insofar as it relates to the Contract, Business Intellectual Property Rights (and E-Vapour Products derived therefrom) and the Claims including industrial and commercial information and techniques including drawings, PCB chip design and manufacturing materials, formulae, test reports, operating and testing procedures, shop practices, instruction manuals and tables of operating conditions and including all information relating to the supply of any materials to the Business insofar as it relates to the Contract, Business Intellectual Property Rights (and E-Vapour Products derived therefrom) and the Claims and to the marketing of any products or services supplied by the Business insofar as it relates to the Contract, Business Intellectual Property Rights (and E-Vapour Products derived therefrom) and the Claims, including customer names and lists, sales targets, sales statistics, market share statistics, marketing surveys and reports, marketing research and any advertising or other promotional materials; (ii) the Product Liability Documents and (iii) all information relating to the Business in so far as it relates to sales and/or distribution of E-Vapour Products in the United States of America including all advertising and sales-related materials.
"Initial Purchase Price"	means the sum of US$50 million (approximately HK$387,500,000).

"Intellectual Property Rights"	means (i) copyright, patents, database rights and rights in trade marks (including all goodwill associated with such marks), designs, know-how, domain names and confidential information (whether registered or unregistered); (ii) applications for registration, and rights to apply for registration, of any of the foregoing rights; (iii) any renewals, reissues, extensions, continuations or divisions of any registered right or application specified in (i) or (ii); (iv) rights to use such assets listed in (i) and (ii) under licences, consents, orders, statutes, or otherwise; and (v) all other intellectual property rights and equivalent or similar forms of protection existing anywhere in the world.
"Latest Practicable Date"	means 24 September 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein.
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange.
"Material Adverse Effect"	means a material adverse effect on the condition of the Assets, taken as a whole, excluding any effect arising or resulting from (A) changes in HKFRS, the Hong Kong Standards on Auditing or changes in the regulatory accounting requirements applicable to any industry in which the Business operates, (B) changes in general economic or political conditions (whether global, national or local), or in the conditions affecting the financial, banking or securities markets generally, (C) changes (including changes of applicable law) or conditions generally affecting the industry or markets in which the Business operates, (D) acts of war, sabotage or terrorism or natural disasters, (E) any act of God or other force majeure, (F) the announcement or consummation of the transactions contemplated by the Asset Sale Agreement, (G) any action taken (or omitted to be taken) by or at the written request of the Purchaser, (H) any existing event or occurrence or circumstance of which the Purchaser has knowledge as of the date of the Asset Sale Agreement and (I) any action taken by the Sellers that is required, expressly contemplated or permitted pursuant to the Asset Sale Agreement.
"Permitted Encumbrances"	means Encumbrances arising under applicable law (including restrictions on transfer and intellectual property counsels' fees) which are, in each case and in aggregate, immaterial to the value and use of the applicable Asset.
PRC	means the People's Republic of China.

"Product Liability Documents"	means questionnaires, compliance reports, test reports, safety reports, or clinical reports, toxicology reviews, purity certificates, clinical studies and data, animal test data, clearances, permissions or certification and other analogous documentation relating to the safety, health consequences and use of the products produced, either now or in the past, by the Sellers in relation to the Business.
"Purchaser"	means Fontem Holdings 1 B.V., a company established and existing in accordance with the laws of The Netherlands and a wholly-owned subsidiary of the Purchaser Guarantor.
"Purchaser's Group"	means the Purchaser and its Affiliates from time to time.
"Purchaser Guarantor"	means Fontem Ventures B.V., a company established and existing in accordance with the laws of The Netherlands and a wholly-owned subsidiary of ITG.
"Remaining Group"	means the Group following Closing and after giving effect to the Disposal.
"Sellers"	means Ruyan Investment (Holdings) Limited, Shenyang SBT Technology & Development Co. Ltd., Beijing Ruyan Technology & Development Co. Ltd. and Beijing SBT Ruyan Technology & Development Co. Ltd., each of which is a wholly-owned subsidiary of the Company.
SFO	means the Securities and Futures Ordinance (Cap. 571) of Hong Kong.
"Shareholders"	means the holders of Shares.
"Shares"	means ordinary shares of HK$0.01 each in the issued share capital of the Company.
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited.
"Transitional Services Agreement"	means the transitional services agreement dated 14 August 2013 entered into between the Company and the Purchaser.
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong.
"£"	means pounds sterling, the lawful currency of the United Kingdom of Great Britain and Northern Ireland.
"US$"	means United States dollars, the lawful currency of the United States of America.
"%"	means per cent.

For the sake of convenience, amounts shown in US$ in this circular have been converted into their HK$ equivalent at the rate of US$1 = HK$7.75.

Dragonite International Limited
叁龍國際有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 329)

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

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

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 1101, 11th Floor
China United Centre,
28 Marble Road, North Point,
Hong Kong

26 September 2013

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF CERTAIN ASSETS

We refer to the announcement of the Company dated 21 August 2013 in relation to the proposed disposal by the Group of certain assets.

On 14 August 2013, the Company, the Sellers (wholly-owned subsidiaries of the Company), the Purchaser and the Purchaser Guarantor entered into the Asset Sale Agreement, pursuant to which, among other things: (a) the Sellers conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Assets free from Encumbrances (except Permitted Encumbrances), (b) the Company agreed to guarantee to the Purchaser the payment when due of all amounts payable by the Sellers, and to ensure the performance by the Sellers of all of their obligations, under or pursuant to the Asset Sale Agreement, and (c) the Purchaser Guarantor agreed to guarantee to the Sellers the payment when due of all amounts payable by the Purchaser, and to ensure the performance by the Purchaser of all of its obligations, under or pursuant to the Asset Sale Agreement. The purchase price of US$75 million (approximately HK$581,250,000) payable for the Assets is the aggregate of (a) the Initial Purchase Price of US$50 million (approximately HK$387,500,000) and (b) the Deferred Purchase Price of US$25 million (approximately HK$193,750,000) in aggregate.

The purpose of this circular is to provide you with more information on the Disposal and to give you notice of the EGM.

A summary of the principal terms of the Asset Sale Agreement is set out below.

ASSET SALE AGREEMENT

Date

14 August 2013

Parties

Sellers:	Ruyan Investment (Holdings) Limited, Shenyang SBT Technology & Development Co. Ltd., Beijing Ruyan Technology & Development Co. Ltd. and Beijing SBT Ruyan Technology & Development Co. Ltd.
Purchaser:	Fontem Holdings 1 B.V.
Seller Guarantor:	The Company
Purchaser Guarantor:	Fontem Ventures B.V.

The Purchaser Guarantor is a company established and existing in accordance with the laws of The Netherlands and is a wholly-owned subsidiary of ITG a global tobacco company with international strength in cigarettes and world leadership in fine cut tobacco, papers and premium cigars listed on the London Stock Exchange. The Purchaser Guarantor was established by ITG to develop non-tobacco products, including electronic vapour products. ITG employs approximately 36,000 staff and sells its products in more than 160 countries around the world with turnover of £28,574 million in 2012.

The Purchaser is a company established and existing in accordance with the laws of The Netherlands. To the best of the Directors' knowledge, information and belief, the Purchaser is principally engaged in the development of non-tobacco initiatives including electronic vapour products.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

The Assets

The Sellers have agreed to sell and the Purchaser has agreed to purchase:

(a) the benefit (subject to the burden) of the Contract (meaning that as well as receiving the benefits of the Contract the Purchaser will, with effect from Closing, carry out, perform and complete all the obligations and liabilities to be discharged by the Sellers under the Contract);

(b) the Business Intellectual Property Rights;

(c) the Information;

(d) the benefit of the Claims (including any settlement agreements in relation thereto); and

(e) all records and other documents relating to the Assets,

free from Encumbrances (other than Permitted Encumbrances) on the terms and subject to the conditions set out in the Asset Sale Agreement.

The Business Intellectual Property Rights comprise all of the Intellectual Property Rights owned by the Sellers and used in connection with the Business, including but not limited to a wide range of patents and patent applications, registered trade marks and trade mark applications (in each case in a number of different jurisdictions around the world) and registered domain names. The Claims are any legal proceedings relating to the Business Intellectual Property Rights, including but not limited to the proceedings listed in the Asset Sale Agreement. The proceedings listed in the Asset Sale Agreement are proceedings brought by the Sellers in the United States and China, mostly for infringement of the Group's patents included in the Business Intellectual Property Rights. The Claims listed in the Asset Sale Agreement include those mentioned in the announcements of the Company dated 13 January 2011 (which relates to a claim for infringement of United States Patent No. 7,832,410 brought in the United States District Court of the Central District of California against Smoking Everywhere Inc.), 28 January 2011 (which relates to a claim for infringement of United States Patent No. 7,832,410 brought in the United States District Court of the Central District of California against certain defendants, including Sottera, Inc.), 1 August 2011 (which relates to a claim for infringement of United States Patent No. 7,832,410 brought against a number of defendants, including Vapor Corp, Magic Puffer, NU1S, Janty, CN Creative Limited and Intellicig USA LLC), 18 April 2012 (in which it was announced that certain of the defendants to the aforementioned claims had defaulted, certain others had consented to judgment in favour of the plaintiff and that a further defendant, BLEC LLC, had entered into a settlement agreement providing for the payment of monetary compensation to the plaintiff), 26 June 2012 (which relates to ten claims for infringement of United States Patent No. 8,156,944 brought in the United States District Court of the Central District of California against: (i) Barjan LLC; (ii) CB Distributors, Inc.; (iii) Finiti Branding Group, LLC; (iv) Loec, Inc.; (v) Logic Technology Development LLC; (vi) Nicotek LLC; (vii) The Safe Cig, LLC; (viii) Sottera, Inc.; (ix) Spark Industries, LLC; and (x) Vapor Corp) and a number of petitions to the Chinese Patent Office and a number of courts in the PRC for the invalidation or infringement of certain Chinese patents.

The Assets did not form part of the assets included in the Ruyan atomizing cigarettes segment as shown in the Company's annual report for the year ended 31 December 2012. The assets included in that segment, such as inventory, receivables and advance payments, are not being disposed of pursuant to the Asset Sale Agreement and are therefore not included within the Disposal.

Consideration

The Consideration of US$75 million (approximately HK$581,250,000) payable for the Assets is the aggregate of (a) the Initial Purchase Price of US$50 million (approximately HK$387,500,000), and (b) the Deferred Purchase Price of US$25 million (approximately HK$193,750,000) in aggregate.

In addition to the Initial Purchase Price, which is to be paid at Closing, the Purchaser shall pay to the Sellers by way of additional consideration for the sale of the Assets:

(a) US$15 million (approximately HK$116,250,000) on the first anniversary of the Closing Date; and

(b) US$10 million (approximately HK$77,500,000) on the second anniversary of the Closing Date.

The Purchaser shall be entitled to set-off against the Deferred Purchase Price any sum due to it or any member of the Purchaser's Group under the Asset Sale Agreement, provided that the Sellers agree such amount or a final arbitral award has been made in respect of such amount in accordance with the dispute resolution provisions of the Asset Sale Agreement. However, the liability of the Sellers in respect of such amounts is not limited to the amount of the Deferred Purchase Price. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date no sum has been agreed by the Sellers to be due to the Purchaser or any member of the Purchaser's Group under the Asset Sale Agreement, nor has either of the Sellers received notice of any claim by the Purchaser against the Sellers under the Asset Sale Agreement that is likely to lead to any final arbitral award being made.

The Consideration was determined after arm's length negotiations between the Sellers and the Purchaser.

In arriving at the Consideration, the Board considered that the value of the Assets lies primarily in the patents comprised in the Business Intellectual Property Rights. The Board believes that these patents could provide the basis for further development of novel technology related to electronic vapour products and the building of sales of these products in worldwide markets. However, the Board also took into account the need for further investment and development of the business prior to this potential being realised.

In addition, the Board took into account the fact that the Business Intellectual Property Rights, which account for virtually all of the value ascribed to the Assets, have a book value of nil, as the associated development and amortization costs were recorded as expenses in the consolidated statement of comprehensive income of the Group in accordance with Hong Kong Accounting Standards, as well as the fact that the Group did not derive any revenue from the Business Intellectual Property Rights in the year ended 31 December 2012.

The revenues attributed to the Ruyan atomizing cigarettes segment as shown in the Company's annual report for the year ended 31 December 2012 were attributable to sales of electronic cigarette products and the asset value attributed to that segment as at 31 December 2012 represented the value of inventory, receivables and advance payments in respect of the electronic cigarettes business, which are not part of the Disposal. The Assets which are the subject of the Disposal did not generate any patent or trademark licensing royalties or fees or other revenues in the year ended 31 December 2012.

The Company conducted a competitive sale process over a period of several months in which offers for the acquisition of the Business were solicited from several different potential purchasers. The Board carefully considered the results of this process, including the apparent level of interest in such a transaction from the potential purchasers which were approached and the terms and conditions of the offers to acquire the Business that the Company received. Given the results of this process, in particular the fact that the Purchaser's offer was the most favourable proposal in terms of price from the Company's perspective that the process elicited (which was the predominant consideration that the Board took into account), the Board believes that the consideration to be received by the Company under the terms of the Disposal represents a fair and reasonable price for the Assets negotiated on arms-length, commercial terms between a willing buyer and a willing seller.

Based on the above, the Board unanimously considers that the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

In light of the consultancy arrangements referred to below between members of the Purchaser's Group and each of Mr. Hon Lik and Mr. Gary Drew Douglas, neither Mr. Hon Lik nor Mr. Gary Drew Douglas has voted on any resolution of the Board to approve the Disposal nor has either of them been counted in the quorum at any meeting of the Board at which such a resolution was approved.

Conditions Precedent

The obligation of the Purchaser and the Sellers to consummate the Closing is conditional upon the satisfaction of the following conditions:

(a) the passing of the EGM Resolution at the EGM; and

(b) no provision of applicable law prohibiting the consummation of the Closing.

The obligation of the Purchaser to consummate the Closing is conditional upon the satisfaction of the following conditions:

(a) the Sellers having performed in all material respects the obligations required to be performed by them on or prior to the Closing under the Asset Sale Agreement and the Purchaser having received a certificate signed by an authorized signatory of the Sellers to that effect;

(b) the warranties given by, or in respect of, the Sellers and the Company under the Asset Sale Agreement being true and accurate in all material respects as of the Closing Date, as if made at and as of such date;

(c) the Sellers having received all requisite governmental, regulatory or administrative consents, authorisations or approvals, and no such consent, authorisation or approval having been revoked;

(d) a Material Adverse Effect not having occurred prior to Closing; and

(e) a notice having been given in relation to the transfer of the Assets on the terms of the Asset Sale Agreement in accordance with the Transfer of Businesses (Protection of Creditors) Ordinance (Cap 49) and such notice having become complete for all purposes under that Ordinance.

The Purchaser may at any time waive in whole or in part and conditionally or unconditionally any of the conditions set out in paragraphs (a) to (e) above by notice in writing to the Sellers. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date the Purchaser has no current intention to waive in whole or in part and conditionally or unconditionally any of the conditions set out in paragraphs (a) to (e) above.

The obligation of the Sellers to consummate the Closing is conditional upon satisfaction of the following conditions:

(a) the Purchaser having performed in all material respects all of the obligations to be performed by it at or prior to the Closing under the Asset Sale Agreement and the Sellers having received a certificate signed by an authorized signatory of the Purchaser to that effect;

(b) the warranties given by, or in respect of, the Purchaser and the Purchaser Guarantor under the Asset Sale Agreement being true and accurate in all material respects as of the Closing Date, as if made at and as of such date; and

(c) the Purchaser having received all requisite governmental, regulatory or administrative consents, authorisations or approvals, and no such consent, authorisation or approval having been revoked.

The Sellers may at any time waive in whole or in part and conditionally or unconditionally any of the conditions set out in paragraphs (a) to (c) above by notice in writing to the Purchaser. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date the Sellers have no current intention to waive in whole or in part and conditionally or unconditionally any of the conditions set out in paragraphs (a) to (c) above.

Closing

Closing shall take place as soon as reasonably practicable, but in no event later than five Business Days, after satisfaction or waiver of the conditions set forth in the section headed “Conditions Precedent” in this circular (other than those that by their nature can only be satisfied at Closing), or at such other time as the Purchaser and the Sellers may agree in writing.

If for any reason the Sellers do not perform the obligations to be performed by them at Closing under the Asset Sale Agreement, the Purchaser may elect (in addition and without prejudice to all other rights or remedies available to it) to fix a new time and date for Closing, being no later than the Drop Dead Date, by giving written notice to the Sellers. If the Sellers do not perform such obligations at the revised time and date for Closing, the Purchaser may elect (in addition and without prejudice to all other rights or remedies available to it) to rescind the Asset Sale Agreement or fix a new time and date for Closing, being no later than the Drop Dead Date, by giving written notice to the Sellers.

If for any reason the Purchaser does not perform the obligations to be performed by it at Closing under the Asset Sale Agreement, the Sellers may elect (in addition and without prejudice to all other rights or remedies available to them) to fix a new time and date for Closing, being no later than the Drop Dead Date, by giving written notice to the Purchaser. If the Purchaser does not perform such obligations at the revised time and date for Closing, the Sellers may unanimously elect (in addition and without prejudice to all other rights or remedies available to them) to rescind the Asset Sale Agreement or fix a new time and date for Closing, being no later than the Drop Dead Date, by giving written notice to the Purchaser.

Neither the Purchaser nor the Sellers are obliged to complete the purchase and sale of any of the Assets unless the purchase and sale of all the Assets is completed simultaneously.

Undertakings of Sellers

Until Closing or the termination of the Asset Sale Agreement in accordance with its terms, whichever is earlier, each member of the Group shall not, and the directors, officers, employees, agents, representatives, counsel, accountants or other advisors of each member of the Group or any person representing or acting on behalf of any such member shall not, enter into, continue, initiate or solicit discussions or negotiations with, knowingly encourage, or provide any information to or otherwise assist or facilitate any enquiries or proposals from, any third party who may be interested in acquiring (i) the Assets (or any material portion of them) or (ii) any person who directly or indirectly owns the Assets, in any such case in connection therewith.

Break Fee

If:

(a) the Sellers and the Company fail to fulfill certain of their obligations under the Asset Sale Agreement relating to obtaining the consent of the Shareholders to the EGM Resolution at the EGM;

(b) the Board (excluding any Director who is not permitted to vote on a resolution of the Board approving the Disposal by virtue of having a material interest therein) does not unanimously recommend that the Shareholders pass the EGM Resolution or withdraws or modifies its recommendation (including such recommendation ceasing to be unanimously recommended (excluding any such Director with a material interest in the Disposal)); or

(c) the Shareholders shall not have passed the EGM Resolution by 31 December 2013,

and Closing does not occur on or prior to the Drop Dead Date, the Sellers shall be liable to pay upon demand an amount equal to the lesser of (i) US$5 million (approximately HK$38,750,000) and (ii) a sum equal to 24.9% of the Company's Market Capitalisation to the Purchaser (the "**Break Fee**").

The Break Fee, including the terms of payment and the amount, was negotiated on arms length terms between the Company and the Purchaser. The Purchaser insisted on the Break Fee as a key term of the overall transaction. ITG is a public company which is listed on the London Stock Exchange and its management believed that, in fulfilling their obligations to ITG's shareholders, it was necessary to insist on the inclusion of the Break Fee in the Asset Sale Agreement as part of the overall commercial terms. From the perspective of the Company, the other terms of the Disposal are believed by the Directors to be attractive and in the best interests of the Company and its Shareholders. It was necessary for the Company to agree to the Break Fee in order to ensure that the Disposal could be implemented on such terms. If the Company had not agreed to pay the Break Fee, it is unlikely that the Purchaser would have agreed to the other terms of the Disposal that are favourable to the Company and its Shareholders. The Company notes that the payment of break fees in circumstances similar to those in which the Break Fee may become payable is not unusual in other markets, for example the United States, and also notes that ITG is an international business.

The Board believes that the Disposal is beneficial to the Company and its Shareholders as a whole, and that the Break Fee is an integral part of the commercial agreement reached between the Company and the Purchaser.

Payment of the Break Fee to the Purchaser shall, provided that Closing does not occur, be in full and final settlement of all of the Sellers' and the Company's obligations under the Asset Sale Agreement (subject to certain limited exceptions), and following such payment the Asset Sale Agreement shall immediately terminate and, with certain limited exceptions, be of no further force or effect.

Drop Dead Date

If any of the conditions set out in the section headed "Conditions Precedent" in this circular is not satisfied or, if applicable, waived on or before the Drop Dead Date, all of the provisions of the Asset Sale Agreement (with certain limited exceptions) shall lapse and cease to have effect. Such lapse and ceasing to have effect shall not affect any accrued rights or liabilities of any party to the Asset Sale Agreement for non-performance of any obligation under the Asset Sale Agreement falling due for performance at or prior to such lapse and cessation.

Warranties and Limitations on Liability

The Company and the Sellers have given certain customary warranties relating to each of them and to the Assets to the Purchaser in the Asset Sale Agreement. These warranties cover matters such as the corporate existence, solvency and authorization to enter into the Asset Sale Agreement of the Sellers, the non-contravention of the Sellers' constitutional documents, applicable law or any agreement or instrument binding on them of the Sellers' execution and performance of the Asset Sale Agreement, their ownership of the Assets, certain matters relating to the Contract, including its binding nature and no Seller being in material breach of it, the Sellers' compliance with applicable laws, litigation relating to the Assets, the Sellers not having any interest in any E-Vapour Business other than the Business, matters relating to the liability of the Sellers in respect of products manufactured or sold in relation to the Business, certain matters in respect of Intellectual Property Rights (such as whether the Sellers' activities in respect of the Business infringe the Intellectual Property Rights of any third party, whether any claims of such infringement have been made against the Sellers by any third party, the accuracy of information contained in the Asset Sale Agreement relating to the Business Intellectual Property Rights, whether there have been any material breaches of licences or agreements relating to the Business Intellectual Property Rights, the subsistence of the Business Intellectual Property Rights listed in the Asset Sale Agreement and of licences and agreements relating thereto and whether any of the Business Intellectual Property Rights or any licences or agreements in respect thereof is subject to or contains any restriction which adversely affects the Sellers' ability to make use of the Business Intellectual Property Rights or such licences or agreements), the names used by the Sellers to carry on the Business, the Information, matters relating to the employees of the Business and the liability of the Sellers in respect of pension and similar benefits of their employees.

If any of these warranties is untrue when given as at the date of the Asset Sale Agreement or when they are repeated as at Closing, the Sellers may incur liability to compensate the Purchaser for such a breach of warranty. As is customary in transactions of this nature, the warranties have been given to the Purchaser by the Sellers subject to matters disclosed to the Purchaser prior to the entry into of the Asset Sale Agreement that are necessary to qualify the warranties. Such matters include but are not limited to intellectual property rights which are still in the application process or subject to perfection of transfer. In addition, the liability of the Sellers in respect of these warranties (with limited exceptions in respect of certain fundamental warranties relating to matters such as the Sellers' corporate existence, solvency and authorization to enter into the Asset Sale Agreement) is subject to customary limitations. In particular, the Sellers will not be liable for a claim under the warranties (other than under such fundamental warranties) unless written notice of the claim is given, in the case of warranties in respect of intellectual property matters, within three years of the Closing Date, or, in the case of claims under other warranties, within twelve months of the Closing Date. Save in the case of fraud or fraudulent misrepresentation, the maximum liability of the Sellers under the warranties (other than under the fundamental warranties and warranties in respect of intellectual property matters) shall be US$5 million (approximately HK$38,750,000) and under the warranties in respect of intellectual property matters (when aggregated with liability under other warranties, other than fundamental warranties) shall be US$20 million (approximately HK$155,000,000).

Seller Guarantee

The Company has agreed to guarantee to the Purchaser the payment (for example, any amounts due to the Purchaser in respect of a valid warranty claim) when due of all amounts payable by the Sellers, and to ensure that the Sellers perform when due all of their obligations, under or pursuant to the Asset Sale Agreement and certain related documents. In the event that any Seller fails to make any payment when due under or pursuant to the Asset Sale Agreement or any of such other related documents, the Company shall pay that amount to the Purchaser as if the Company were the principal obligor in respect of that amount. In addition, the Company has agreed to indemnify the Purchaser against all losses and damages sustained by it flowing from any non-payment or default of any kind by any of the Sellers under or pursuant to the Asset Sale Agreement.

Purchaser Guarantee

The Purchaser Guarantor has agreed to guarantee to the Sellers the payment (for example, payment of the Deferred Purchase Price) when due of all amounts payable by the Purchaser, and to ensure that the Purchaser performs when due all of its obligations, under or pursuant to the Asset Sale Agreement and certain related documents. In the event that the Purchaser fails to make any payment when due under or pursuant to the Asset Sale Agreement or any of such other related documents, the Purchaser Guarantor shall pay that amount to the Sellers as if the Purchaser Guarantor were the principal obligor in respect of that amount. In addition, the Purchaser Guarantor has agreed to indemnify the Sellers against all losses and damages sustained by them flowing from any non-payment or default of any kind by the Purchaser under or pursuant to the Asset Sale Agreement.

Non-Competition

The Company and each of the Sellers has undertaken that after Closing neither it nor any other member of the Group shall:

(a) for a period of three years after Closing be concerned in any E-Vapour Business, subject to certain limited exceptions, including that members of the Group shall not be prevented from performing existing contractual obligations and obligations under the Asset Sale Agreement and related agreements, terminating contracts or employees related to the Business and winding up entities in the Group following Closing;

(b) for a period of three years after Closing employ or attempt to employ any employee of the Business who accepts employment, consulting or other services with a member of the Purchaser's Group from Closing, subject to certain exceptions, including that Mr. Hon Lik (see biography below), who will remain as a director of the Company after Closing and who is experienced in areas other than the E-Vapour Business, may spend up to 30 per cent. of his time (calculated on the basis that Mr. Hon Lik works an aggregate of forty (40) hours each week) working for members of the Group on matters not related to any E-Vapour Business or E-Vapour Product (or any similar business or products) following Closing;

(c) for a period of three years after Closing use the consulting or other services of Mr. Hon Lik for the purposes of any research and/or development work relating to E-Vapour Products or any E-Vapour Business (or any similar products or business); or

(d) after Closing use or allow to be used any trade name (including the name "Ruyan") used by the Business prior to Closing which forms part of the Assets or any name intended or likely to be confused with such a trade name, provided that until 31 December 2013 the Group may use any trade name that the Purchaser determines the Group requires in connection with its obligations and liabilities or the realizing of its rights and benefits in connection with an existing business arrangement with a third party, the benefit of which is being retained by the Group and which does not form part of the Disposal.

Mr. Hon Lik is a senior pharmacist, a co-founder and currently Chief Executive Officer of the Group. Mr. Hon Lik graduated from Liaoning College of Traditional Chinese Medicine in 1982 and began his career with Liaoning Academy of Traditional Chinese Medicine in the same year. Mr. Hon Lik was promoted to the position of vice superintendent of Liaoning Academy of Traditional Chinese Medicine in 1990, and was responsible for the Company's technology development. Mr. Hon Lik has approximately 27 years of experience in the medical field and invented and patented the technology used in Chenlong Baoling Longevity Ginseng and electronic cigarette products.

As with other provisions of the Asset Sale Agreement, a breach of the non-competition undertakings summarized above may amount to a breach of contract, under which the Purchaser may claim damages for any losses arising from such alleged breach or seek other remedies in respect of the alleged breach. As with any other contractual undertaking, the validity of any such claim would depend upon the particular facts and circumstances and would be determined on normal contractual principles.

Termination

The Asset Sale Agreement may be terminated at any time prior to the Closing:

(a) by mutual written agreement of the Sellers and the Purchaser;

(b) by either the Sellers or the Purchaser if the other party or parties has committed a material breach of the Asset Sale Agreement which is not cured within 15 days after notice thereof; and

(c) by either the Sellers or the Purchaser if consummation of the transactions contemplated by the Asset Sale Agreement would violate any non-appealable final order, decree or judgment of any relevant governmental, regulatory or administrative authority with competent jurisdiction.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the production and sale of electronic cigarettes, health care and pharmaceutical products and money lending, as well as property and securities investment. The Group is also engaged in an ongoing and rigorous research and development program focusing on a broad range of innovative healthcare, pharmaceutical, and electronic cigarette products.

The Group possesses novel technology related to electronic cigarettes and has a comprehensive patent portfolio registered worldwide. The Group has made considerable efforts to protect its intellectual property rights and as a result of legal action taken against patent infringers in the United States, injunctions have been granted in favour of the Group and in some cases such action has resulted in the payment of monetary compensation to the Group.

Examples of patents relevant to the E-Vapour Business which are included in the Disposal include the Group's patent for the "Emulation Aerosol Sucker," (U.S. Patent No. 8,365,742 and 8,375,957) and the patent for the "Aerosol Electronic Cigarette" (U.S. Patent No. 8,393,331). Please refer to the Company's announcement dated 20 March 2013 for details. In total, there are approximately 160 such patents registered in the United States and a wide range of countries around the world, including China, Korea, Malaysia, Russia, Taiwan, Australia, Thailand, Armenia, Austria, Azerbaijan, Belarus, Belgium, Brazil, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hong Kong, Hungary, India, Ireland, Israel, Italy, Kazakhstan, Luxembourg, Mexico, The Netherlands, Poland, Portugal, Romania, Singapore, Slovenia, Slovakia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and Argentina, all of which are included in the Disposal.The Business Intellectual Property Rights include all of the patents which are registered in the names of the Sellers and which are used in connection with the Business. Upon completion, the Group will still possess patents in the pharmaceutical area.

With a proven track record in research and development of technical innovations and intellectual property rights management (for example, the steps the Company has taken to protect its portfolio of Intellectual Property Rights, including the legal proceedings brought by members of the Group for infringement of the Group's patents referred to above), the Disposal will equip the Group with additional financial resources for future investments outside of the electronic vapour market in rigorous research and development of novel technologies of benefit to society, including but not limited to ginseng and other health care products and alternative medical healing options, and also for financing the enhancement and protection of the Group's intellectual property rights in relation to those technologies.

The Board believes that the further development of novel technology related to electronic vapour products and the building of sales of these products in worldwide markets will require significant investment and the industrial scale and strength of a major international group such as ITG. Having considered the resources available to the Group as well as the scale and strength of the market-leading international companies which are focused on the electronic vapour products markets, the Directors believe that the Disposal is a reasonable strategic decision for the Group in relation to these technologies.

In addition to the above, the Board considers that the Disposal represents a good opportunity for the Group on the following grounds:

(a) the book value of the Business Intellectual Property Rights, which account for virtually all of the value ascribed to the Assets, is nil;

(b) the Group's expected gain from the Disposal, subject to audit, is approximately US$72.3 million (approximately HK$560,325,000);

(c) the operating results of the Group for the periods ending 31 December 2012 and 31 December 2011 included losses of HK$30,767,000 and HK$32,509,000 respectively in relation to the Ruyan atomising cigarettes segment (in which the Assets were utilized); and

(d) the Disposal provides an opportunity to generate considerable cash inflow to the Group to increase its working capital and to provide funding for the exploration of other business and investment opportunities outside of the electronic vapour market and to enhance and protect the Group's intellectual property rights.

Based on the above, the Board unanimously considers that the terms of the Asset Sale Agreement are fair and reasonable and that the Disposal is in the interests of the Company and the Shareholders as a whole.

As noted above, in light of the consultancy arrangements referred to below between members of the Purchaser's Group and each of Mr. Hon Lik and Mr. Gary Drew Douglas, neither Mr. Hon Lik nor Mr. Gary Drew Douglas has voted on any resolution of the Board to approve the Disposal nor has either of them been counted in the quorum at any meeting of the Board at which such a resolution was approved.

Following Closing, the Group does not intend to be concerned in any E-Vapour Business and will discontinue this aspect of its operations. As noted above, the Assets did not form part, of the assets included in the Ruyan atomizing cigarettes segment as shown in the Company's annual report for the year ended 31 December 2012. The assets included in that segment, such as inventory, receivables and advance payments, are not being disposed of pursuant to the Asset Sale Agreement and are therefore not included within the Disposal. Any remaining inventory will be liquidated by the Group once it is certain that the Disposal will proceed, i.e. after Closing, and the Group will discontinue the production and sale of electronic cigarettes after liquidation of any such remaining inventory. After Closing, the Group will continue with its other principal activities, including but not limited to health care, money lending, securities and property investment, but excluding any E-Vapour Business.

EXPECTED GAIN FROM THE DISPOSAL

The expected gain from the Disposal, subject to audit, is approximately US$72.3 million (approximately HK$560,325,000), representing the amount by which the Consideration exceeds the aggregate of (i) the unaudited book value of the Assets as at 30 June 2013 of nil; and (ii) the estimated transaction costs of the Disposal.

USE OF PROCEEDS FROM THE DISPOSAL

As the Consideration comprises the Initial Purchase Price of US$50 million (approximately HK$387,500,000) and the Deferred Purchase Price of US$25 million (approximately HK$193,750,000) in aggregate, the gross proceeds of the Disposal are US$75 million (approximately HK$581,250,000). The amount of the net proceeds of US$72.3 million (approximately HK$560,325,000) to be received by the Group is arrived at after deducting estimated transaction costs.

The net proceeds of the Disposal will be used to provide working capital for the existing principal activities of the Group, including but not limited to the development of the Group's health care, money lending, securities and property investment businesses but excluding any E-Vapour Business. The Company expects to utilize approximately HK$20 million of the net proceeds of the Disposal to fund research and development of novel technologies, principally in the areas of alternative pharmaceutical solutions and health care options. The Board intends to seek to identify suitable projects in the health care sector and to consider utilizing the net proceeds of the Disposal for new investment opportunities in the sector and its subsequent long-term development if and when suitable opportunities arise. The Board also intends to take advantage of opportunities which may arise in any other industries if and when there are any suitable projects. As at the Latest Practicable Date, the Board has not identified any specific new investment opportunities in the health care or other sectors on which the net proceeds of the Disposal may be utilized. The Company will comply with the applicable notification and other requirements of the Listing Rules as and when such projects and investment opportunities materialise.

CONSULTANCY ARRANGEMENTS AND TRANSITIONAL SERVICES

Mr. Hon Lik and Mr. Gary Drew Douglas have entered into consultancy agreements with members of the Purchaser's Group, the effectiveness of which is conditional upon the occurrence of Closing, pursuant to which each of them will provide certain consultancy services to the Purchaser's Group following Closing and will receive consultancy fees for the provision of such services.

The Company has entered into the Transitional Services Agreement with the Purchaser, the effectiveness of which is conditional upon the occurrence of Closing, pursuant to which members of the Group will provide certain technical, administrative and other support services to members of the Purchaser's Group for a transitional period of up to nine months following Closing. The services to be provided under the Transitional Services Agreement include the provision of back office and human resources support and payroll services in relation to certain employees and the use and benefit of plant, machinery, equipment and other facilities of the Group that may reasonably be required by the Purchaser for the day-to-day running of the Business, in each case in the same manner as the equivalent services were provided to the Business in the twelve month period prior to the Closing Date, the manufacture of parts and products as required by the Purchaser (and as so requested at the sole discretion of the Purchaser) on a case-by-case basis and to be agreed and negotiated in good faith between the Company and the Purchaser, assisting the Purchaser in connecting, engaging and negotiating with vendors and manufacturers known to the Group, providing office space and equipment for the use of an executive employee of the Purchaser and paying insurance premiums providing coverage ancillary to or connected with the provision of these services as at the date of the Transitional Services Agreement. The Group is to be paid fees for these services, with rates for certain services agreed in the Transitional Services Agreement (for example, the Group will receive a fee of US$50 (approximately HK$387.50) per hour for each employee providing back office and human resources support and payroll services and a fee of US$1,000 (approximately HK$7,750) per month for the provision of office space and equipment for the use of an executive employee of the Purchaser) and rates for others to reflect reasonable prices agreed between the Company and the Purchaser in accordance with use and based on market prices.

Upon Closing, the Purchaser will continue to be an Independent Third Party. In addition, as none of the applicable percentages under Chapter 14 of the Listing Rules for the transactions under the Transitional Services Agreement exceed 5%, the transactions under the Transitional Services Agreement are not subject to announcement or shareholders' approval requirements under Chapter 14 of the Listing Rules.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Disposal are 75% or more, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification, publication and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held for Shareholders to consider and, if thought fit, approve the Asset Sale Agreement and the transactions contemplated thereunder.

As noted above, Mr. Hon Lik has entered into a consultancy agreement with a member of the Purchaser's Group, pursuant to which he will provide certain consultancy services to the Purchaser's Group following Closing, and receive consultancy fees for the provision of such services, conditional upon the occurrence of Closing. As Mr. Hon Lik has a 42.5% interest in Absolute Target Limited, which is the registered holder of 1,672,650 Shares (representing approximately 0.79% of the issued share capital of the Company), Absolute Target Limited will abstain from voting on the EGM Resolution at the EGM.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries:

(a) as at the Latest Practicable Date, save as disclosed in this circular, no Shareholder has a material interest in the Disposal which would require it/him/her to abstain from voting at the EGM; and

(b) the Purchaser and its ultimate beneficial owners are Independent Third Parties.

EGM

The notice of the EGM is set out on pages 40 to 42 of this circular. The EGM Resolution in respect of the Asset Sale Agreement and the transactions contemplated thereunder will be proposed at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and, in any event, not less than 48 hours beforethe time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event the proxy shall be deemed to be revoked.

VOTING BY POLL

Pursuant to rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Chairman of the EGM will therefore demand voting on the EGM Resolution set out in the notice of the EGM be taken by way of poll pursuant to article 61 of the Articles of Association.

On a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy shall have one vote for each Share registered in his name in the register. A Shareholder entitled to more than one vote is under no obligation to cast all his votes in the same way.

RECOMMENDATION

The Directors are of the view that the terms of the Asset Sale Agreement and the transactions contemplated thereunder are fair and reasonable to the Company and in the interests of the Shareholders as a whole. Accordingly, the Directors unanimously recommend all Shareholders to vote in favour of the EGM Resolution to be proposed at the EGM to approve the Asset Sale Agreement and the transactions contemplated thereunder.

As noted above, in light of the consultancy arrangements referred to above between members of the Purchaser's Group and each of Mr. Hon Lik and Mr. Gary Drew Douglas, neither Mr. Hon Lik nor Mr. Gary Drew Douglas has voted on any resolution of the Board to approve the Disposal nor has either of them been counted in the quorum at any meeting of the Board at which such a resolution was approved.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

Yours faithfully,
By order of the Board
Gary Drew Douglas
Managing Director

1. FINANCIAL SUMMARY OF THE GROUP

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2013 are set out in the interim report of the Company which can be accessed on the website of the Company (www.dragonite.com.hk) and the website of the Stock Exchange (www.hkexnews.hk).

The published audited consolidated financial statements of the Group for the years ended 31 December 2010, 2011 and 2012 are set out in the annual reports of the Group for the years ended 31 December 2010, 2011 and 2012 respectively. They can be accessed on the website of the Company (www.dragonite.com.hk) and the website of the Stock Exchange (www.hkexnews.hk).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 July 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the date of this circular, the Group had outstanding indebtedness of a secured bank borrowing of approximately HK$24,679,000 in relation to an investment property in Hong Kong. The current annual interest rate payable is the prime rate in Hong Kong (currently 5.25%) minus 2%, i.e. 3.25%. Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the close of business on 31 July 2013, the Group did not have outstanding at the close of business on 31 July 2013 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Group including the estimated net proceeds generated from the Disposal, available credit facilities and our internally generated funds, the Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

The Remaining Group will continue to engage in money lending, securities and property investments and will focus on sales and production of health care and pharmaceutical products following the Closing.

Securities trading and investment are among the principal activities of the Group. As deposit rates offered by licensed banks in Hong Kong are minimal, the Group invests its surplus cash in listed stocks and debt securities as a treasury function with the aim of capturing any future appreciation in share prices. The Group has engaged a licensed external investment adviser to provide professional advice and analysis to assist the Group in making investment decisions. The Board reviews the Group's investment portfolio and performance at least semi-annually.

The Consideration provides the Remaining Group with additional financial resources to explore suitable investment opportunities in the health care and pharmaceutical sectors and for the subsequent development of such opportunities. The Board believes that development in these business sectors is likely to have a positive effect on the revenue of the Remaining Group in the long term. The Remaining Group is expected to resume sales and production of ginseng products in 2013. As at the Latest Practicable Date, the Remaining Group has not identified any specific new investment projects in the health care and pharmaceutical sectors.

With the goal of seeking to benefit from any future appreciation in share prices and as a treasury function, the Remaining Group will continue to diversify its securities investment portfolio. In addition, the Remaining Group will also further develop its money lending business.

The Remaining Group has fully leased out its property in Hong Kong in order to obtain rental income. If and when suitable investment opportunities arise, the Remaining Group will consider investing in the real estate market to strengthen its property portfolio. As at the Latest Practicable Date, the Remaining Group has not identified any target property for such investment.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

For the year ended 31 December 2010

Financial Results and Business Review

For the year ended 31 December 2010, the Remaining Group recorded a net loss of approximately HK$232,218,000. Turnover of the Remaining Group for 2010 was approximately HK$21,786,000, representing a decrease of 77.68% when compared with the loss of approximately HK$97,586,000 for the previous year.

As for the pharmaceutical business, the continuous increase in prices of raw materials and energy, continuous strategic price reduction of medicine and irrational price competition caused by tendering had a negative effect on our production and operations. Overall sales and gross profits of our pharmaceutical business both decreased when compared with the previous year.

The Remaining Group reduced prices of health care products in order to reduce inventories. However due to the downturn of the domestic market, the effect of this measure was not satisfactory and sales volumes of health care products in the year amounted to only about HK$6,202,000.

The Remaining Group concentrated on capital restructuring exercises and fund raising activities to improve the working capital and financial position of the Group in 2010. Details of the capital restructuring exercises and fund raising activities during the year are summarized in the section headed "Liquidity, Financial Analysis and Capital Structure" below. Prior to the capital restructuring exercises and fund raising activities, the Remaining Group was approximately HK$183,000,000 in debt. After the completion of the capital reorganisation (the "**Capital Reorganisation**") and rights issue (the "**Rights Issue**") in February 2011, the Remaining Group was almost debt free and had a surplus net cash position.

Securities Investment

Before appropriate investment opportunities were identified, the Remaining Group utilized part of the surplus working capital raised through the Capital Reorganization and the Rights Issue for short term investments in the equity market as part of the Group's treasury function. However, as the equity market was unstable in 2010, the market value of the Remaining Group's securities portfolio declined. The total realized and unrealized losses from securities investment trading for the year ended 31 December 2010 amounted to approximately HK$8,296,000.

The Remaining Group continued to invest a portion of its surplus working capital in the equity market whenever opportunities arose. However, it was anticipated that the securities market would remain volatile in the foreseeable future and accordingly management exercised caution and pursued a diversification strategy in conducting the Remaining Group's treasury function. Meanwhile, in order to improve its treasury operations, the Remaining Group strove to make further improvements in the relevant policies and procedures particularly in the areas of risk management, control and monitoring.

Liquidity, Financial Analysis and Capital Structure

As at 31 December 2010, the Remaining Group's net borrowing was HK$9,136,000, all of which represented the liability component of fixed convertible bonds and margin facilities utilized by the Remaining Group. The gearing ratio of the Remaining Group decreased from approximately 319.52% as at 31 December 2009 to approximately 11.81% as at 31 December 2010. This calculation was based on the net borrowings mentioned above and shareholders funds of HK$77,368,000. As at 31 December 2010, cash and bank balances was approximately HK$16,159,000 and total assets was approximately HK$133,688,000. Net current assets of the Remaining Group on the same date amounted to approximately HK$24,277,000. As at 31 December 2010, the balance of inventories amounted to HK$35,378,000, representing a decrease of HK$63,899,000 when compared with the balance of that item as at 31 December 2009.

The Remaining Group recorded total borrowings of approximately HK$152,000,000 which represented the outstanding convertible bonds ("**Convertible Bonds**"). Such amount was originally due for redemption on 31 July 2010, but the default of partial payments due on 30 September 2009 and 31 December 2009 rendered the whole outstanding amount repayable on demand.

In February 2010, the Remaining Group received a conversion notice that the holder of Convertible Bonds in a carrying amount of approximately HK$12,291,000 exercised the conversion rights attaching thereto at the conversion price of HK$0.65 per share. As such, a total of 18,909,832 shares were issued and allotted. The Remaining Group fully settled the balance of the Convertible Bonds (inclusive of default interest) on 17 June 2010.

In order to settle the remaining balance of the Convertible Bonds and improve the financial position of the Group, the Remaining Group sought new funds through various exercises during 2010. The Remaining Group conducted the following fund-raising activities during the year:

1. on 21 March 2010, the Remaining Group placed zero-coupon Convertible Bonds with an aggregate principal amount of HK$250 million, the principal amount of which was subsequently reduced to HK$75 million on 7 June 2010. An aggregate amount of HK$70 million of such bonds was converted to shares and the Company issued 700 million new shares, thereby reducing the outstanding principal amount of the new Convertible Bonds to HK$5 million as at 30 June 2010;

2. on 16 April 2010, the Remaining Group entered into a loan agreement and a facility letter with an independent lender under which the lender agreed to provide to the Remaining Group a one year loan facility in the amount of HK$35,000,000 which was secured by way of a charge over all the shares of Chenlong Group Limited, a wholly-owned subsidiary of the Company;

3. on 3 June 2010, the Remaining Group completed the Rights Issue on the basis of one rights share for every two Shares held on the record date at the subscription price of HK$0.1 per rights share. The Remaining Group raised net proceeds of HK$76.72 million, and 831,802,916 shares were issued;

4. on 11 June 2010, the Remaining Group placed 332,721,166 shares with an independent investor at a subscription price of HK$0.1 per share. The placing was completed on 25 June 2010 and the Remaining Group received net proceeds of approximately HK$33.27 million;

5. 297,696,000 share options were exercised during 2010 raising net proceeds of approximately HK$44.36 million; and

6. in 2010, the Remaining Group proposed to carry out the Capital Reorganisation that involved, among other things, a share consolidation, a par value reduction and a capital reduction. After the completion of the Capital Reorganisation, the Remaining Group carried out a Rights Issue of twenty rights shares for every one adjusted share at a subscription price of HK$0.22 per rights share. The Capital Reorganisation and the Rights Issue were completed on 15 December 2010 and 28 January 2011 respectively and net proceeds of HK$390.65 million were raised and 1,847,245,240 adjusted shares have been issued.

Foreign Exchange Risks

The Remaining Group's operations conducted in the PRC were mainly settled in Renminbi. However, certain corporate activities (i.e. the Rights Issue, placing of new shares and the placing of the Convertible Bonds) were conducted in Hong Kong dollars. Therefore, the Remaining Group was exposed to fluctuations in foreign exchange rates to a certain extent. The operating cash flow and liquidity of the Remaining Group was not subject to any exchange rate fluctuations. The Remaining Group had no formal hedging policies in place. The Remaining Group did not enter into any foreign currency exchange contracts or derivatives to hedge against the Remaining Group's currency risks.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During 2010, Chenlong Group Limited, a wholly-owned subsidiary of the Company, disposed its entire interest in Charm Action Group Limited and its subsidiary ("**Charm Action Group**") to an independent third party for a cash consideration of US$1. The disposal was duly completed on 23 April 2010.

Save as disclosed above, the Remaining Group had no other material acquisition or disposal of subsidiaries and associated companies during the year.

Charge of Assets

As at 31 December 2010, the Remaining Group had no bank deposits pledged to banks to secure banking facilities granted to its subsidiaries.

Pledge of Assets

The Remaining Group entered into a loan agreement under which substantially all of the Group's assets had been pledged to secure the loan facilities. As at 31 December 2010, the loan was fully repaid and no loan facilities were utilized.

At 31 December 2010, margin facilities from regulated securities brokers were granted to the Remaining Group that were secured by the Remaining Group's financial assets at fair value through profit or loss ("**FAFVPL**") of approximately HK$4,809,000. The carrying amount of FAFVPL charged under the utilised facilities to the securities broker was HK$11,113,000.

Contingent Liabilities

As at 31 December 2010, the Remaining Group did not provide any form of guarantees for any outside companies and was not party to any material legal proceedings in respect of which provision for contingent liabilities was required.

Employee Policy

As at 31 December 2010, the Remaining Group employed a total of about 116 employees in the PRC and Hong Kong. The remuneration package of the employees was determined with reference to their performance, experience and their positions, duties and responsibilities in the Remaining Group. In addition, discretionary bonuses were paid to staff based on individual and the Remaining Group's performance.

For the year ended 31 December 2011

Financial Results and Business Review

For the year ended 31 December 2011, the Remaining Group recorded a net loss of approximately HK$306,316,000. Due to realized and unrealized losses on FAFVPL, there was a negative turnover of the Remaining Group amounting to approximately HK$232,907,000 for 2011. The net asset value of the Remaining Group increased from HK$77,368,000 as at 31 December 2010 to HK$248,095,000 as at 31 December 2011, representing a 220.67% increment.

As for the pharmaceutical business, Azithromycin Granules (II)(「阿奇霉素顆粒」) and Rosiglitazone Hydrochloride Capsules(「鹽酸吡格列酮膠囊」) remained as two key products of the Remaining Group for sales during 2011. The continued increase in prices of raw materials and energy, continued strategic price reductions of medicine and irrational price competition adversely affected the performance of pharmaceutical products. Turnover of pharmaceutical products for 2011 was approximately HK$14,419,000, representing a decrease of 22.24% from approximately HK$18,543,000 when compared with the previous year.

Securities Investment

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

The Remaining Group continued to take opportunities to diversify its investment portfolio and to seek to capture future appreciation in share prices. The Remaining Group engaged an external investment adviser to provide professional advice and analysis to the Board to assist the Remaining Group in making investment decisions. Faced with increasing uncertainties in the global economy, the management exercised a cautious approach in securities trading.

Property Investment

The Remaining Group held a positive view towards the prospects of the real estate market in Hong Kong, particularly in the commercial and retail sectors. On 4 May 2011, the Remaining 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 was leased to HON Chinese Medicine Company Limited (the "**Clinic**") at a monthly rent of HK$350,000 for a term of 5 years. Attributable to such rental income, the Remaining Group recorded a segment turnover of approximately HK$1,671,000 for 2011.

Liquidity, Financial Analysis And Capital Structure

As at 31 December 2011, the Remaining Group's net borrowing was approximately HK$92,342,000, consisting of secured bank borrowings and unsecured other borrowings. Such borrowings were denominated in Hong Kong dollars, and thus, there was no exposure to fluctuations in exchange rates. The gearing ratio of the Remaining Group increased from approximately 11.81% as at 31 December 2010 to approximately 37.22% as at 31 December 2011. This calculation was based on the net borrowings mentioned above and shareholders' funds of approximately HK$248,095,000. Cash and bank balances as at 31 December 2011 amounted to approximately HK$66,014,000 and total assets were approximately HK$385,367,000. Net current assets of the Remaining Group on the same date amounted to approximately HK$62,677,000. 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 Remaining Group had no material capital commitments as at 31 December 2011.

In order to improve its financial position, the Remaining Group carried out the following fund raising exercises during 2011:

1. subsequent to the Capital Reorganization in 2010 which involved, among other things, a share consolidation and a capital reduction, the Company allotted and issued 1,847,245,240 shares on 28 January 2011, by way of the 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 which were issued under the Company's general mandate at a subscription price of HK$0.16 per share. The share subscription was completed on 12 April 2011 and the Remaining Group received net proceeds of approximately HK$2,856,000; and

3. on 4 August 2011, the Remaining Group completed a placement of 750,000,000 ordinary shares to independent investors at a placing price of HK$0.1 per share and the Remaining Group received net proceeds of approximately HK$73,000,000.

Foreign Exchange Risks

The Remaining Group's operations conducted in the PRC were mainly settled in Renminbi. However, all corporate activities (i.e. the Capital Reorganization, Rights Issue and the subscription and placing of new shares) were conducted in Hong Kong dollars. Therefore, the Remaining Group was exposed to fluctuations in foreign exchange rates to a certain extent. As at 31 December 2011, the Remaining Group had no formal hedging policies in place. During the year ended 31 December 2011, the Remaining Group did not enter into any foreign currency exchange contracts or derivatives to hedge against the Remaining Group's currency risks.

Material Acquisition and Disposal of Subsidiaries

During 2011, Ruyan International Limited, a wholly-owned subsidiary of the Company, acquired the entire issued share capital of Charm Action Group and its subsidiary from an independent third party for future market development of electronic cigarettes in North America for 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 Remaining 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 Remaining Group's corporate structure.

On 4 May 2011, the Remaining Group acquired the entire issued share capital of and a 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 was leased to the Clinic at a monthly rent of HK$350,000 for 5 years. Upon completion, the Remaining Group entered into an option agreement for the possible acquisition of Apex Corporate Investments Limited ("**Apex**"), the holding company of the Clinic. The exercise price of such call / put options was capped at HK$75 million and the minimum was HK$25 million. The Remaining Group was under no obligation to further invest in either the Clinic or Apex pursuant to the said option agreement. However, the Remaining Group continued to assess fund raising opportunities for developing Apex and the Clinic if and when the Remaining Group acquires Apex.

Save as disclosed herein, there were no other material acquisitions or disposals of subsidiaries during 2011.

Pledge Of Assets

At 31 December 2011, the Remaining 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 from regulated securities brokers were granted to the Remaining Group which were secured by the Remaining Group's FAFVPL with a carrying amount of approximately HK$124,654,000.

Contingent Liabilities

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

Employee Policy

As at 31 December 2011, the Remaining Group employed approximately 273 employees in the PRC and Hong Kong. The remuneration package of the employees was determined with reference to their performance, experience and their positions, duties and responsibilities in the Remaining Group.

For the year ended 31 December 2012

Financial Results and Business Review

For the year ended 31 December 2012, the Remaining Group recorded a net loss of approximately HK$47,467,000. Turnover of the Remaining Group for 2012 was a negative amount of approximately HK$1,551,000. The net asset value of the Remaining Group increased from approximately HK$248,095,000 as at 31 December 2011 to approximately HK$341,301,000 as at 31 December 2012, representing a 37.57% increment.

As for health care products, in 2012, the Remaining Group temporarily suspended production in order to upgrade its manufacturing plant in Shenyang. Following the upgrade, approval was granted in January 2013 for sales and production of Chenlong Baoling Longevity Ginseng products.

As for pharmaceutical products, Azithromycin Granules (II)「(阿奇黴素顆粒(II)」) and Rosiglitazone Hydrochloride Capsules「(鹽酸吡格列酮膠囊」) remained as two key products of the Remaining Group for sales during 2012. Despite the continued increase in prices of raw materials and energy, continued strategic price reductions of medicine and irrational price competition, the Remaining Group managed to exercise tight control of costing of its products. The performance of trading of pharmaceutical products was stabilized. Turnover of pharmaceutical products for 2012 was approximately HK$17,787,000, representing an increase of 23.36% from approximately HK$14,419,000 when compared with the previous year.

Securities Investment

The Remaining Group continued its principal business in securities trading and as a treasury function invested its surplus cash in the Hong Kong securities market with an aim to capture future appreciation in share prices. The net realized and unrealized losses incurred by securities trading substantially decreased to approximately HK$11,104,000 for 2012. The net realized gain on change in FAFVPL amounted to approximately HK$262,000. As deposit rates offered by licensed banks in Hong Kong were minimal, the Remaining Group continued to utilize its surplus funds for short term securities investments and also to grasp the opportunities to diversify its investment portfolio.

Property Investment

The Remaining Group had fully leased out the entire area (except the common area for public access) of the premises situated at the basement, China United Centre, 28 Marble Road, North Point, Hong Kong to the Clinic, generating a monthly rent of HK$410,000. Attributable to such rental income, the Remaining Group recorded a segment turnover of approximately HK$4,680,000 for 2012.

Money Lending

During 2012, the Group utilized part of its surplus cash to provide short-term financing to individual borrowers. Interest income generated from this money lending business amounted to HK$300,000 in 2012. The Remaining Group took legal action against a borrower, and an impairment loss of HK$10,000,000 was recognised during 2012 due to default of repayment.

Liquidity, Financial Analysis and Capital Structure

As at 31 December 2012, the Remaining Group fully repaid its unsecured borrowings, with a remaining secured bank borrowing of approximately HK$25,676,000. Such borrowing was denominated in Hong Kong Dollars, and thus, there was no exposure to fluctuations in exchange rates. The gearing ratio of the Remaining Group decreased from approximately 37.22% as at 31 December 2011 to approximately 7.52% as at 31 December 2012. This calculation was based on the net borrowings mentioned above and shareholders' funds of approximately HK$341,301,000. Cash and bank balances as at 31 December 2012 amounted to approximately HK$60,802,000 and total assets were approximately HK$420,911,000. Net current assets of the Remaining Group on the same date amounted to approximately HK$130,492,000. As at 31 December 2012, inventories amounted to approximately HK$8,555,000. As at 31 December 2012, the Remaining Group had a capital commitment of approximately HK$2,698,000 for the acquisition of assets in the future.

In order to improve its financial position, the Remaining Group carried out the following fund raising exercises during 2012:

1. In March 2012, the Remaining Group completed a Capital Reorganisation which involved, among other things, a share consolidation of every 5 issued shares into 1 consolidated share and a capital reduction. Upon the said Capital Reorganisation becoming effective after 4:00 p.m. on 19 March 2012, the par value of the shares became HK$0.01 each and the authorised share capital of the Company became HK$1,000,000,000 divided into 100,000,000,000 Shares of HK$0.01 each. Subsequently, the Company allotted and issued 1,086,923,000 Shares on 2 May 2012, by way of the Rights Issue at a subscription price of HK$0.1 per rights share on the basis of two rights Shares for every one Share then held. Gross proceeds of approximately HK$108,692,000 were raised; and

2. On 29 June 2012, the Remaining Group completed a placement of 326,076,900 Shares to independent investors at a placing price of HK$0.066 per Share and the Remaining Group received net proceeds of approximately HK$20.4 million. On the date of the entry into of the agreement for the aforesaid placing, the closing price of the Shares was HK$0.07 per Share.

On 31 October 2012, the Remaining Group completed another Capital Reorganisation which involved a share consolidation of every 20 issued Shares into 1 consolidated Share followed by a capital reduction. Upon the said Capital Reorganisation becoming effective after 4:00 p.m. on 31 October 2012, the par value of the Shares remained at HK$0.01 each. As at 31 December 2012, the issued share capital of the Company was 105,974,992 Shares.

Pursuant to the option agreement dated 8 August 2011 relating to the possible acquisition of Apex, the exercise price of the call/put options was capped at HK$75 million and the minimum was HK$25 million. The Remaining Group continued to assess any future fund raising opportunities for investing in Apex and the Clinic if and when the option is exercised.

Foreign Exchange Risks

The Remaining Group's operations conducted in the PRC were mainly settled in Renminbi. However, securities trading and investments, money lending, property investment and all corporate activities such as fund raising activities were conducted in Hong Kong Dollars. Therefore, the Remaining Group was exposed to fluctuations in foreign exchange rates to a certain extent. As at 31 December 2012, the Remaining Group had no formal hedging policies in place. During the year ended 31 December 2012, the Remaining Group did not enter into any foreign currency exchange contracts or derivatives to hedge against the Remaining Group's currency risks.

Material Acquisition and Disposal of Subsidiaries

There were no material acquisitions or disposals of subsidiaries during 2012.

Pledge of Assets

At 31 December 2012, the Remaining Group pledged its investment property to secure its bank borrowing of approximately HK$25,676,000.

At 31 December 2012, margin facilities of approximately HK$64,914,000 from regulated securities brokers were granted to the Remaining Group, which were secured by the Remaining Group's FAFVPL with a carrying amount of approximately HK$129,828,000.

Contingent Liabilities

As at 31 December 2012, the Remaining Group did not provide any form of guarantees for any external party and was not party to any material legal proceedings in respect of which provision for contingent liabilities was required.

Employee Policy

As at 31 December 2012, the Remaining Group employed approximately 99 employees in the PRC and Hong Kong. The remuneration package of the employees was determined with reference to their performance, experience and their positions, duties and responsibilities in the Remaining Group.

For the six months ended 30 June 2013

Financial Results and Business Review

The Remaining Group recorded an unaudited consolidated net loss of approximately HK$52,143,000 for the six months ended 30 June 2013 (the "Period"). Turnover for the Period was a negative amount of approximately HK$23,238,000. The net asset value of the Remaining Group increased from approximately HK$341,301,000 as at 31 December 2012 to approximately HK$392,757,000 as at 30 June 2013, representing a 15.1% increment.

The Remaining Group improved its manufacturing plant in Shenyang during the Period and approval was granted for the sales and production of Chenlong Baoling Longevity Ginseng product. During the Period, the Remaining Group refined the new packaging of ginseng products and is expected to resume sales and production in the second half of 2013.

Azithromycin Granules (II) (「阿奇霉素顆粒(II)」) and Rosiglitazone Hydrochloride Capsules (「鹽酸吡格列酮膠囊」) remained as the Remaining Group's two key sales products during the Period. Trading of pharmaceutical products was stable during the Period. Turnover of pharmaceutical products for the Period was approximately HK$8,241,000, representing a slight decrease of 7.3% from approximately HK$8,891,000 as compared to the corresponding period in the previous year.

Securities Investment

Securities trading and investments remained the principal business of the Remaining Group and as a treasury function, the Remaining Group invested its surplus cash in the Hong Kong securities market with an aim to capture any future appreciation of share prices. The net realized gain on change in fair value of FAFVPL amounted to approximately HK$5,517,000. The net realized and unrealized losses incurred by securities trading increased to approximately HK$30,503,000 for the Period. As deposit rates offered by licensed banks in Hong Kong are minimal, the Remaining Group will continue to utilize surplus cash for short term securities investments and to diversify its investment portfolio.

Property Investment

The Remaining Group has fully leased out the entire area (except the common area for public access) of the premises situated at the basement of China United Centre, 28 Marble Road, North Point, Hong Kong to a Chinese clinic and a western pharmacy, generating a monthly rent of HK$410,000. Attributable to such rental income, the Remaining Group recorded a segment turnover of approximately HK$2,460,000 for the Period.

Money Lending

During the Period, the Remaining Group utilized part of its surplus cash to provide short-term financing to certain individual borrowers. Interest income generated from this money lending business amounted to HK$1,077,000 for the Period.

Liquidity, Financial Analysis And Capital Structure

As at 30 June 2013, the Remaining Group maintained a secured bank borrowing of approximately HK$24,822,000. Such borrowing was denominated in Hong Kong Dollars, and thus, there was no exposure to fluctuations in exchange rates. The gearing ratio of the Remaining Group decreased from approximately 7.52% as at 31 December 2012 to approximately 6.32% as at 30 June 2013. This calculation is based on the borrowings mentioned above and shareholders' funds of approximately HK$392,757,000. Cash and bank balances amounted to approximately HK$74,578,000 and total assets were approximately HK$473,912,000. Net current assets of the Remaining Group on the same date amounted to approximately HK$180,135,000. As at 30 June 2013, inventories amounted to approximately HK$8,209,000, representing a slight decrease of approximately HK$346,000 when compared with the amount as at 31 December 2012. The Remaining Group had no material capital commitments as at 30 June 2013.

In order to improve the financial position of the Remaining Group, the Company completed a rights issue on 7 February 2013 on the basis of one rights Share for every Share held on the record date at a subscription price of HK$1.00 per rights Share. The net subscription price per rights Share was approximately HK$0.961 and net proceeds of approximately HK$101.83 million were raised. The funds raised during the Period were used to strengthen the Remaining Group's financial position and provide working capital for its existing businesses.

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

Foreign Exchange Risks

The Remaining Group's operations in the PRC are mainly settled in Renminbi. However, securities trading and investments, money lending, property investment and all corporate activities such as rights issues are conducted in Hong Kong Dollars. Therefore, the Remaining Group is exposed to fluctuations in foreign exchange rate to a certain extent. Currently, the Remaining Group has no formal hedging policies in place. The Remaining Group has not entered into any foreign currency exchange contracts or derivatives to hedge against the Remaining Group's currency risks.

Material Acquisition and Disposal of Subsidiaries

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

Pledge of Assets

At 30 June 2013, margin facilities of approximately HK$78,995,000 from regulated securities brokers were granted to the Remaining Group which were secured by the Remaining Group's FAFVPL with the carrying amount of approximately HK$165,296,000.

At 30 June 2013, the Remaining Group pledged its investment property to secure its bank borrowing of approximately HK$24,822,000.

Contingent Liabilities

As at 30 June 2013, the Remaining Group did not provide any form of guarantees for any external party and was not party to any material legal proceedings in respect of which provision for contingent liabilities was required.

Employee Policy

As at 30 June 2013, the Remaining Group employed approximately 136 employees in the PRC and Hong Kong. Employee remuneration packages are determined with reference to their respective performance, experience, roles, duties and responsibilities in the Group.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular has not been issued on behalf of, nor have its contents been authorised in whole or in part by, the Purchaser, any member of the Purchaser's Group or any of their respective directors or officers and no such person accepts responsibility for this circular or any part of it.

2. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) **Long positions in the Shares**

Name of Directors	**Capacity**	**Number of Shares**	**Approximate percentage of shareholding**
Mr. Wong Yin Sen	Interest of controlled corporation	1,672,650 *(Note 1)*	0.79%
Mr. Hon Lik	Interest of controlled corporation	1,672,650 *(Note 1)*	0.79%

Notes:

1. These represent the interests in the 1,672,650 Shares directly held by Absolute Target Limited which is controlled as to 46.25%, 42.50% and 11.25% by Mr. Wong Yin Sen, Mr. Hon Lik and Mr. Wong Hei Lin, respectively. Both Mr. Wong Yin Sen and Mr. Hon Lik are executive Directors.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Long positions in the Shares

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Unity Investments Holdings Limited	Interest of controlled corporation	20,020,000 *(Note 1)*	9.45%

Notes:

1. These Shares are held by Great Panorama International Limited which is wholly-owned subsidiary of Unity Investments Holdings Limited, a company listed on the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director or the chief executive of the Company, no person (other than a Director or the chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

4. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company or any of its respective subsidiaries, respectively, since 31 December 2012, the date to which the latest published audited consolidated financial statements of the Group were made up.

(b) There is no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

6. COMPETING INTERESTS

As noted above, Mr. Hon Lik and Mr. Gary Drew Douglas have entered into consultancy agreements with members of the Purchaser's Group, the effectiveness of which is conditional upon the occurrence of Closing, pursuant to which each of them will provide certain consultancy services to the Purchaser's Group following Closing. Upon Closing, the Group will cease to continue the Business, except with the prior consent of the Purchaser's Group. Save as disclosed above, each of the Directors has confirmed that so far as they are aware, none of the Directors or their respective associates has any interest in a business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

7. LITIGATION

As disclosed in the announcement of the Company dated 26 June 2012, the Group has filed complaints for patent infringements in respect of United States Patent No. 8,156,944.

Save as disclosed herein, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) an underwriting agreement dated 7 October 2011 entered into between the Company and Chung Nam Securities Limited in relation to the underwriting arrangement in respect of the rights issue of not less than 1,086,923,000 but not more than 1,326,511,802 on the basis of 2 rights shares for every share held at the subscription price of HK$0.1 per Share (as supplemented by the supplemental agreement dated 3 November 2011 between the same parties);

(b) an agreement dated 27 October 2011 entered into between the Company and Heritage International Finance Limited, an independent third party, regarding the revolving loan facility for an amount of HK$65,000,000 provided by Heritage International Finance Limited to the Company with interest at 5% per annum with the final repayment date within three months from 27 October 2011;

(c) a supplemental agreement dated 3 November 2011 entered into between the Company and Chung Nam Securities Limited in relation to the amendments of certain terms in the underwriting agreement mentioned in paragraph (a) above;

(d) an agreement dated 20 March 2012 entered into between the Company and Heritage International Finance Limited, an independent third party, regarding the revolving loan facility for an amount of HK$15,000,000 provided by Heritage International Finance Limited to the Company with interest at prime rate per annum with the final repayment date within six months from 20 March 2012;

(e) an agreement dated 2 April 2012 entered into between the Company and Chung Nam Finance Limited, an independent third party, regarding the revolving loan facility for an amount of HK$35,000,000 provided by Chung Nam Finance Limited to the Company with interest at 0.2% per month with the final repayment date on 2 July 2012;

(f) a subscription agreement dated 23 April 2012 entered into between the Company and Ms. Yu Man Fung, Alice in relation to the subscription of 78,692,300 Shares at the subscription price of HK$0.138 per Share;

(g) a conditional placing agreement entered into between the Company and Freeman Securities Limited dated 22 June 2012 in relation to the placing of 326,076,900 new Shares at a price of HK$0.066 per Share by the placing agent on a fully underwritten basis pursuant to the terms of such placing agreement;

(h) an underwriting agreement dated 20 November 2012 entered into between the Company and Freeman Securities Limited in relation to the underwriting arrangement in respect of the rights issue of not less than 105,974,992 but not more than 106,084,914 on the basis of one rights share for every Share held at the subscription price of HK$1.00 per Share (as supplemented by the supplemental agreement dated 11 December 2012 between the same parties);

(i) a supplemental agreement dated 11 December 2012 entered into between the Company and Freeman Securities Limited in relation to the amendment of certain terms in the underwriting agreement mentioned in paragraph (h) above; and

(j) the Asset Sale Agreement.

9. MISCELLANEOUS

(a) The registered address of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Room 1101, 11th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary of the Company is Ms. Chan Mee Sze, ACIS, ACS (PE).

(e) The English text of this circular, the notice of the EGM and the accompanying form of proxy shall prevail over their respective Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Room 1101, 11th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two financial years ended 31 December 2011 and 31 December 2012 of the Company;

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(d) this circular.

Dragonite International Limited
叁龍國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 329)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Dragonite International Limited (the "**Company**") will be held on 16 October 2013 at 4:00 p.m. at 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong for the purposes of considering and, if thought fit, passing (with or without modifications), the following resolution ("**Resolution**") as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

"(a) The asset sale agreement dated 14 August 2013 (the "**Agreement"**) entered into among Ruyan Investment (Holdings) Limited, Shenyang SBT Technology & Development Co. Ltd., Beijing Ruyan Technology & Development Co. Ltd. and Beijing SBT Ruyan Technology & Development Co. Ltd. as sellers ("**Sellers**"), the Company as Sellers' guarantor, Fontem Holdings 1 B.V. as purchaser ("**Purchaser**") and Fontem Ventures B.V. as Purchaser's guarantor, (a copy of which has been produced to this meeting marked "A" and initialled by the chairman of this meeting for the purpose of identification), pursuant to which the Sellers agreed to sell, and the Purchaser agreed to purchase, certain assets of the Sellers, free from encumbrances (except certain permitted encumbrances) and pursuant to the terms and subject to the conditions of the Agreement, and the Company agreed to guarantee to the Purchaser the performance by the Sellers of their obligations under the Agreement and the documents entered or to be entered into pursuant to the Agreement, and the terms and conditions therein and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

(b) the board of directors of the Company (the "**Board**") be and is hereby generally and unconditionally authorised to do all such acts and things and execute all such documents as it considers necessary or expedient or desirable in connection with or to give effect to the Agreement and to implement the transactions contemplated thereunder and to agree to such variation, amendments or waivers of matters relating thereto as are, in the opinion of the Board, in the interest of the Company."

By order of the Board
Chan Mee Sze
Secretary

Hong Kong, 26 September 2013

Registered office:
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 1101, 11th Floor
China United Centre
28 Marble Road, North Point
Hong Kong

Notes:

1. A form of proxy to be used for the meeting is enclosed.

2. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxy(ies) to attend and vote instead of such member in accordance with the Articles of Association of the Company. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.

4. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the branch registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

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

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

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